

Political Regime, Economic Structure, and Political-Economic Empowerment
By

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Abstract (145 words)

In this paper I develop a most simple model that determines equilibrium of political and economic empowerment in dependence of prevailing inequality of economic opportunities, economic actors' political organization, and the structure of the economy. Assuming that income inequality can be high or low, political organization democratic or authoritarian, and the economic structure predominantly rent-extracting of primary resources or rent-creating in secondary and tertiary economic sectors, I compare the various equilibriums. The model confirms the natural intuition that equality, democratic organization, and capital-accumulation-based rent-creation is ultimately most favorable for equilibrium of high political-economic empowerment. However, the model also shows that democratic organization does not generally lead to greater political-economic empowerment. If an economy is rent-extracting and confronted with high inequality of economic opportunities, democratic organization becomes less meaningful and political-economic empowerment may be greater in an authoritarian society based on rent-creation and little redistributive conflict.

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1. Introduction

There is a great variety of the economic performance of autocracies and democracies. Although most autocracies have a record of impoverishing oppression, especially in Sub Saharan Africa and, to a lesser extent, the Middle East and North Africa, some autocracies, mostly in East Asia, have accomplished considerable economic development. Similarly, democracy does not guarantee economic miracles and political consolidation as the democratization experiences in Latin America and the Caribbean and the former Soviet Union suggest. Stable democracies are mainly found among OECD countries.

Providing a theoretical model allowing for the explanation of empowering and disempowering autocracies and democracies is the goal of this draft. My model is built around three exogenous factors: Distribution of primary resources (equal vs. unequal), structure of the economy (rent-extracting vs. rent-creating), and political organizationability of the citizenry (autocratic vs. democratic).

Recently, the relationship between political regime and economic performance has become a very dynamic research field in social sciences and there seems to evolve slowly interdisciplinary consensus that the introduction of democratic structures does not necessarily guarantee economic empowerment while autocratic structures do not necessarily prevent them. Apparently, the devil is in the details as Persson and Tabellini (2006), a researcher team that substantially has influenced political economy research in the last decade, note in a recent NBER working paper with respect to democracies.

Others such as Tilly (2003) argue that there are not only high- and low-capacity democracies but also high- and low-capacity undemocratic regimes. Similarly, Acemoglu and Robinson (2005, p.1) discuss in their book *Economic Origins of Dictatorship and Democracy* four political development paths. The first is “from non-democracy gradually but inexorably to democracy,” for which Britain serves as an example. The second is one of bumpy democratization, where political development oscillates between democratization and democratization reversals, for which the authors picked Argentina as an example. The third path is one of constant non-democratic rule, which Acemoglu and Robinson subdivide into two cases. “In the first of these, democracy is never created because society is very egalitarian and prosperous and this makes the nondemocratic political status quo stable. The system is not challenged because people are sufficiently satisfied under the existing political institutions. Singapore is the society whose political dynamics we characterize in this way. In the second of these non-democratic paths the opposite situation arises. Society is highly unequal and exploitative. This makes the prospect of democracy so threatening to political elites that they use all means possible, including violence and repression, to avoid it.” Many countries in Sub-Saharan African seem to qualify for this path.

Apparently, the fact that democracies and autocracies can create different scenarios of political-economic empowerment depends on equity, exploitative opportunities, and the organizationability of the citizenry. In this draft, I am trying to blend those factors in a simple model.

2. Model

The basic idea is that economic empowerment causes political conflict, whose resolution depends on the organizationability of the citizenry and the responsiveness of the political system. Political conflict is about negative technological externalities and access to equal economic opportunities. The responsiveness of the political system depends on the citizenry's ability to identify, articulate, and communicate its preferences for public goods. However, even if the people's aggregate preference function is known to the political leadership, political capture may still keep it from maximizing it.

The transmission mechanism from economic empowerment to political conflict, to demand for political action, and eventually to political responsiveness depends on three exogenous variables. They are:

- The primary distribution of resources, P . The greater P , the more unequal is the primary distribution of resources, $0 < P < 1$.
- The structure of the economy, which can be rent-extracting or rent-creating, c . The greater is c , the more is the economy rent-creating in secondary and tertiary sectors rather than rent-extracting of the primary sector, $0 < c < 1$.
- The organizationability of the citizenry, d . The better is the organizationability, the more democratic is collective action articulated, $0 < d < 1$.

2.1. Redistribution

Economic empowerment, Y , by its very nature, reduces inequality of economic opportunities, I . It is what Sen (1999) coined development as freedom. At each level of economic empowerment, however, income inequality resulting from economic activity will be greater when rent creation opportunities are more abundant in the first place. If rent creation opportunities are absent, economic activity barely will get started, much less create inequality of income.

Classical economists first sensed implicitly that the existence of and equal access to economic rents allows countries to grow wealthy. The marginalist revolution and subsequent microeconomic foundations allowed then for modeling this relationship explicitly within formal models of competition and welfare analysis. The importance of abundant rent creation opportunities was further felt by the so-called unbalanced development strategists, such as Hirschman (1958), who argue that government must deliberately unbalance the economy in order to start economic development. Once the economy is unbalanced, entrepreneurial instincts will be awakened and thus attract investment in economic activities that generate the highest returns. Subsequent competition for supernormal profits will then erode differences of economic incomes. Consequently, the more rent-creating the structure of the economy is in the first place, the greater is the potential for economic empowerment and development. I model the relationship between inequality resulting from economic empowerment and the structure of the economy simply as

$$(1) \quad I = \frac{c}{Y}$$

I assume further that the transmission of actual inequality into demand for redistributive action depends on the organizationability of the citizenry, whereas I equate higher organizationability of the citizenry with greater, explicit or implicit, democratic rule, d .

Thus,

$$(2) \quad RD = d \cdot I$$

By implicit democratic rule I refer to cases when dictators face political opposition that threatens their survival. Dictators may then become responsive to citizens' demands in order to avoid being overthrown. Explicit democratic rule, on the other hand, refers to collective action responding to some kind of active voting.

Yet, whether redistributive demand translates into factual income-redistributing economic empowerment depends on the responsiveness of the political leadership. I assume that this depends on the distribution of primary resources, P . If this distribution is unequal, political capture will be built into the political system from the very beginning, always favoring the have-mores, no matter whether the regime is democratic or autocratic.

As economic empowerment becomes more widespread, the initial distribution of primary resources and the income generated from it becomes less relevant, which, in turn, helps to

explain political resistance to income-redistributing economic empowerment. David Ricardo's fight against England's Corn Laws protecting the incomes of the landed aristocracy and slowing down the economic and political rise of the new class of industrialists is probably the best known example in this regard. However, many variations of this basic Ricardian theme are still rampant in developing countries, where local elites holding economic and political key positions, typically in the form of governmentally protected monopolies, are not willing to respond to citizens' demand to redistribute income through the creation of more equal access to economic opportunities. Redistributive political empowerment, RPE, in dependence of redistributive demand, RD, can thus be simply written as

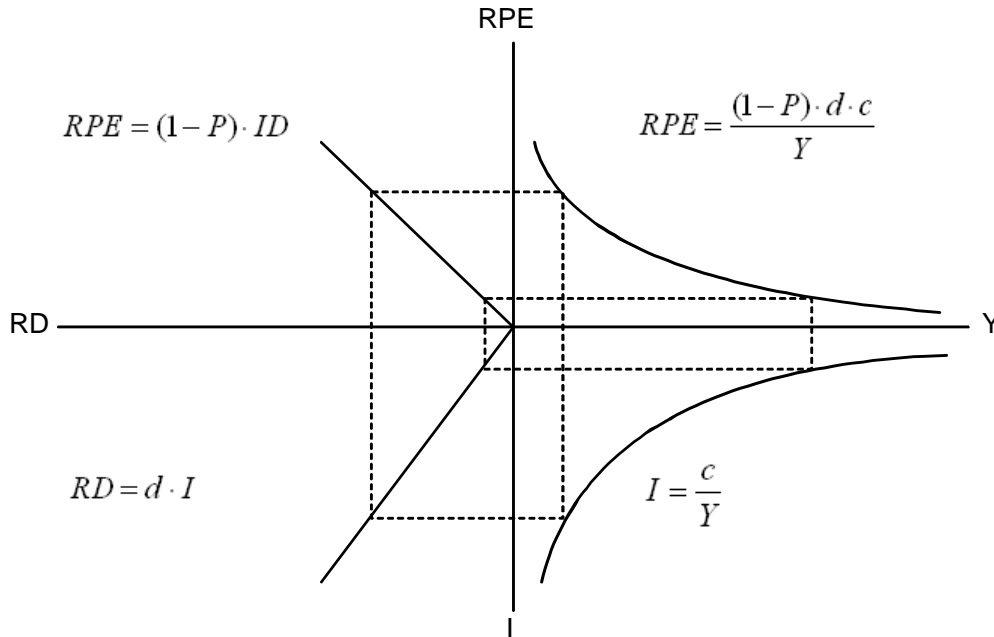
$$(3) \quad RPE = (1 - P) \cdot ID$$

The geometric location of all combinations of economic and redistributive political empowerment (Figure 1) is given by

$$(4) \quad RPE = \frac{(1 - P) \cdot d \cdot c}{Y}$$

RPE is the equilibrium trajectory of demand for redistribution and its political implementation holding constant P, d, and c. It shows that as the citizenry gains greater access to income redistributing economic opportunities, political demand for redistribution and governmental responsiveness to it will diminish.

Figure 1: Redistributive Political Equilibrium



2.2. Internalization

Economic empowerment, Y , also creates negative technological externalities, E . Those externalities are greater when the primary distribution of resources, P , is unequal. To understand the intuition, assume economic empowerment begins with a group of feudalists and a group of disenfranchised where the asymmetric distribution of primary resources makes the feudalists the sender of negative externalities and the group of disenfranchised their receivers. Social costs then will be barely internalized because the assumptions of equal bargaining power implicit to the Coase theorem are not met. I thus conclude that

$$(5) \quad E = P \cdot Y$$

Regarding the transmission of externalities into demand for internalization, I argue that externalities must be internalized universally. Support for this assumption can be found in evolutionary economics, which has its origin in Ludwig v. Bertalanffy's (1968) General System Theory (GST). A fundamental law of GST has become the law of requisite variety, described by Ashby (1956). It states that self-organizing systems survive in the long run only if they immunize themselves against all external shocks and disturbances. Many economists, especially in the tradition of the Austrian and Chicago Schools, felt very comfortable with GST as a metatheory of economics. They see "Competition as a Discovery Procedure" (Hayek, 2002) and the internalization of externalities through the enrichment of decentralized and tradable property rights the consequent application of the law of requisite variety to economic systems. Thus, I simply write the relationship between internalization demand, ID, and externalities as

$$(6) \quad ID = E$$

Lastly, I assume again that internalization-wise political empowerment is greater if inequality of primary resources is low. The argumentation is similar to the case of redistributive empowerment. In fact, internalization-wise political empowerment responds to the redistribution of the burden of social costs whereas redistributive political empowerment refers to the redistribution of new opportunities. Either way, the greater is inequality of primary resources, the less responsive will be the political regime to any kind of redistribution that eventually weakens the political power of the feudalists. Thus,

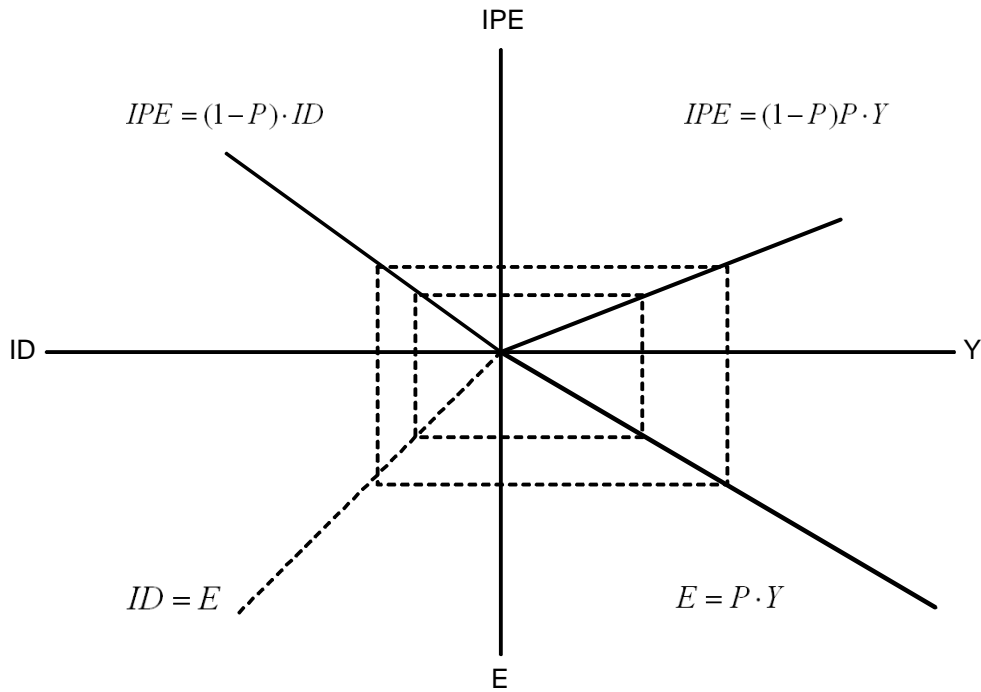
$$(7) \quad IPE = (1 - P) \cdot ID$$

The geometric location of all combinations of economic and internalization-wise political empowerment (Figure 2) is given by

$$(8) \quad IPE = (1 - P)P \cdot Y$$

IPE is the equilibrium trajectory of demand for the internalization of negative technological externalities and its political implementation holding constant P , d , and c . It shows that as the citizenry gains greater access to economic opportunities, political demand for the internalization of negative technological externalities and governmental responsiveness to it increases.

Figure 2: Internalization-Wise Political Equilibrium



2.3. General Equilibrium

A general equilibrium occurs when the trajectory equating governmental response to citizens' demand for access to income-redistributing economic opportunities meets the trajectory equating governmental response to citizens' demand for the internalization of negative technological externalities (Figure 3). Equating equations (4) and (8) and solving for equilibrium economic empowerment, Y^* , yields

$$(9) \quad Y^* = \sqrt{\frac{dc}{P}}$$

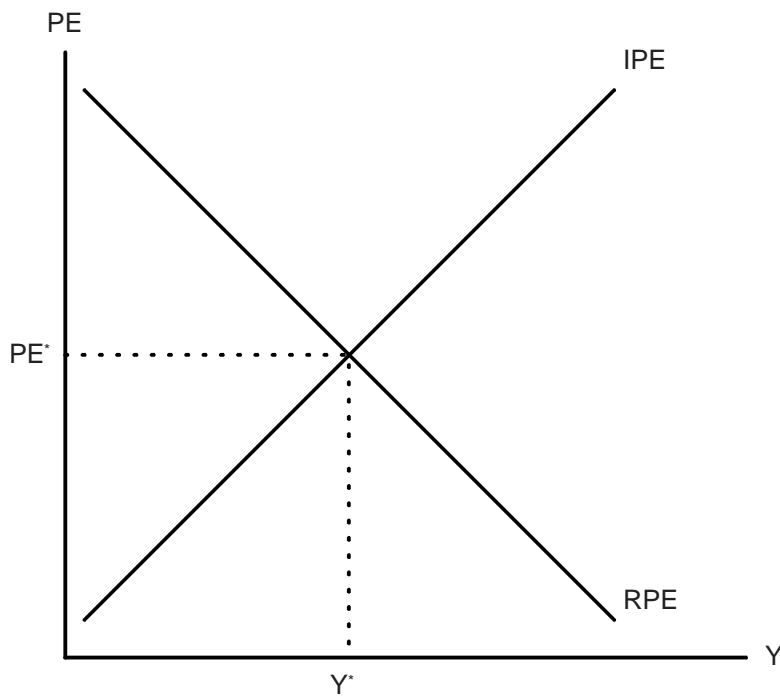
with $Y_p < 0$, $Y_d > 0$, $Y_c > 0$

The optimum political empowerment level, PE^* , is then

$$(10) \quad PE^* = (1 - P)\sqrt{Pdc}$$

with $PE_p < 0$, $PE_d > 0$, $PE_c > 0$

Figure 3: Political-Economic Equilibrium



Thus, democratization and rent creating economic structures are favorable to both political and economic empowerment while high inequality of primary resources work against the two forms of empowerment.

3. Small Simulation

The implications of the previous model are best illustrated conducting a trivial simulation. Allowing each dimension of the three exogenous variables primary income inequality (P), political organization (d), and rent creation (c) to take only the value of ‘high’ or ‘low,’ I calculate the equilibrium of all eight possible combinations. For the high and low values, I use 0.9 and 0.1, respectively. Table 1 summarizes the results.

Table 1: Simulation Result (Numerical)

Scenario	Primary Inequality (P)	Democratic Organizationability (d)	Rent Creation (c)	Income (Y)	Political Empowerment (PE)	Political-Economic Empowerment (Y)+(PE)
1	0.9	0.9	0.9	0.95	0.09	1.03
2	0.9	0.9	0.1	0.32	0.03	0.34
3	0.9	0.1	0.9	0.32	0.03	0.34
4	0.9	0.1	0.1	0.11	0.01	0.11
5	0.1	0.9	0.9	2.85	0.26	3.10
6	0.1	0.9	0.1	0.95	0.09	1.03
7	0.1	0.1	0.9	0.95	0.09	1.03
8	0.1	0.1	0.1	0.32	0.03	0.34

As Table 1 illustrates, the simple model generates only four equilibrium income levels (0.11, 0.32, 0.95, and 2.85), four political empowerment levels (0.01, 0.03, 0.09, and 0.26), and four combined political-economic empowerment levels (0.11, 0.34, 1.03, and 3.1). All numbers are rounded to the second decimal. In order to simplify the analysis, I use “Low” and “High” to describe the dimensions primary inequality, democratic organizationability, and rent creation. For the different empowerment levels, I refer only to ‘Low,’ ‘Medium,’ ‘High,’ and ‘Very High.’ Table 1 would then read as follows.

Table 2: Simulation Result (Verbal)

Scenario	Primary Inequality (P)	Democratic Organizationability (d)	Rent Creation (C)	Income (Y)	Political Empowerment (PE)	Political-Economic Empowerment (Y)+(PE)
1	High	High	High	High	High	High
2	High	High	Low	Medium	Medium	Medium
3	High	Low	High	Medium	Medium	Medium
4	High	Low	Low	Low	Low	Low
5	Low	High	High	Very High	Very High	Very High
6	Low	High	Low	High	High	High
7	Low	Low	High	High	High	High
8	Low	Low	Low	Medium	Medium	Medium

Verbally, the simulation results send a clear message. The lowest political-economic empowerment is singularly reserved for economies with high inequality of the distribution of primary resources, low democratic organizationability, and high reliance on rent-extraction. The highest political-economic empowerment, on the other hand, is singularly reserved for economies with low inequality of the distribution of primary resources, high democratic organizationability, and high reliance on rent-creation. Thus, if all exogenous variables receive most favorable ratings (low primary income inequality, high democratic organizationability, and high reliance on rent-creating economic activity) then political-economic empowerment is greatest. If they all receive the worst ratings, political-economic empowerment is lowest. Of course, this is well in line with what one would expect. However, the picture is a little bit fuzzier between the two extremes.

If an economy receives among the three exogenous variables twice the least and once the most favorable rating, then the political-economic empowerment in equilibrium will be always medium. Similarly, if the economy receives among the three exogenous variables

once the least and twice the most favorable rating, then the political-economic empowerment in equilibrium will be always high.

Implications of the above model with respect to democratic organizationability can be summarized as follows:

1. Democratic organizationability never falls below the political-economic empowerment level 'Medium.' It yields once 'Very High,' twice 'High,' and once 'Medium.'
2. The expected value of political-economic empowerment of a democratic regime (calculated from Table 1) is greater than the one of a non-democratic regime (1.38 versus 0.46). The expected political-economic empowerment of the democratic and non-democratic regime, translated into the verbal ratings, fall between 'High and Very High' and 'Medium and High,' respectively.
3. Non-democratic organizationability never falls above the political-economic empowerment level "High." It is once 'High,' twice 'Medium,' and once 'Low.'
4. The likelihood that a randomly selected economy with democratic organizationability outperforms a randomly selected economy with non-democratic organizationability is 68.75%, for a tie it would be 25%.

5. A non-democratic regime may outperform a democratic regime as the comparison between scenario seven and scenario two illustrates. The likelihood for this, however, is only 6.25%.

4. Conclusions

This is an initial draft to contribute to a better understanding of the concept of political-economic empowerment, taking into consideration inequality of the distribution of primary resources, different organizationabilities of the citizenry, and different structures of the economy. Attributing adverse effects of an unequal distribution of primary resources to political responsiveness and the evolution of negative technological externalities, low democratic organizationability to the articulation of citizenry's preferences, and low potentials for rent-creation to the stimulation of economic activity in general, the model predicts the following.

First, an unequal (equal) distribution of primary resources, low (high) political organizationability, and a predominance of rent-extracting (creating) economic opportunities create the least (most) favorable political-economic empowerment level. Second, between the two extremes of political economic empowerment, various constellations of the exogenous variables inequality of the distribution of primary resources, organizationability, and structure of the economy arrive at identical political economic empowerment level. For example, a scenario in which democratic organizationability is low, rent-creating economic opportunities are abundant, and

inequality of the distribution of primary resources is low will lead to greater political economic empowerment than the scenario with high democratic organizationability, little rent-creating economic opportunities, and high inequality of the distribution of primary resources.

The model may explain why certain regions arrived at different political-economic equilibriums. Take, for example, a stylized comparison between East Asian and all other developing areas. In East Asia, rent-extracting opportunities are more limited, appropriate land reforms often resolved redistributive conflicts regarding the primary distribution of resources, and democratic organizationability was initially low because of low socioeconomic fractionalization. All other developing areas, on the other hand, have more rent-extracting economic opportunities, still live with greater redistributive conflict regarding the primary distribution of resources, and although higher socioeconomic fractionalization favored greater democratic organizationability, political responsiveness is typically low.

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