

How to understand, and deal with dictatorship: an economist's view*

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Abstract. This paper explains in simple English some of the main ideas about autocracy first developed elsewhere (e.g., in my book, *The Political Economy of Dictatorship* (Cambridge University Press, 1998). I use rational choice theory to explain the behavior of dictatorships and develop policy toward them. Issues discussed in this paper include: How do successful regimes stay in power? What determines the repressiveness of a regime? Which type of regime redistributes more, dictatorship or democracy? Can dictatorships be good for economic growth and efficiency? The starting point of my analysis is The Dictator's Dilemma—the insecurity every dictator necessarily experiences about how much support he really has. Because of this, the dictator finds that the tool of repression is not enough to maintain his regime, and successful dictators typically rule with the loyal support of at least some groups of subjects (while repressing others). The levels of repression and support and the nature of the groups that give their support (labor, business, ethnic group, etc.) determine the character of the dictatorship. Among other results discussed, I show that some types of dictators – tinpots and timocrats – respond to an improvement in economic performance by lowering repression, while others – totalitarians and tyrants – respond by raising it. Finally I discuss optimal policy by the democracies toward dictatorships and I show that a single standard-aid or trade with a progressively tightening human rights constraint- is desirable if aid or trade with dictatorships of any type is to lower, not raise, repression.

Key words: dictatorship, autocracy, power

JEL classification: O1, H0, K2

* The arguments made in this paper are developed at greater length in my book, *The Political Economy of Dictatorship*, (Cambridge University Press, 1998).

1. Introduction

Despite the end of the cold war, much of the world still lives, today, as always, under dictatorship.¹ Debate still rages over the policies that should be followed towards regimes such those in China, Cuba, Iraq, Iran, Burma, or Nigeria. On one side, it is suggested, with respect to Cuba, for example, that the Castro regime, at least initially, did many good things for its people (in health and education, for example). Its bad behaviour and the deterioration of the Cuban economy are blamed, at least partly, on the American embargo, and it is noted that Castro was initially extremely popular and, if he is not popular today, he is still in office despite decades of American opposition. This side recommends the lifting of sanctions and “constructive engagement” with the regime. The other side stresses the economic failures of Communism everywhere it has been implemented, and promotes stiffer sanctions, suggesting that it was, at least in part, American opposition to Communism that brought about its downfall, and will ultimately do the same in Cuba. With respect to China, a similar debate exists between those who believe that human rights should be insisted on as a precondition of establishing and deepening trade relationships, and those who believe that only constructive engagement, trade, and the promotion of private enterprise will result in the regime’s liberalization.

Both of these viewpoints are incorrect, as I hope to show in this article. To the extent that the U.S. and other countries in “the West” trade freely with totalitarian regimes, these regimes are likely to become *more*, not less repressive. And making the observance of human rights a precondition of trade relationships with dictatorships of any stripe is simply an ineffectual policy.

The problem with both these points of view is that they are not based on an understanding of the behaviour of autocratic regimes. Indeed, this lack of understanding is one reason why the debate over policy towards them rages so fiercely.

Our ignorance is partly due to the fact that dictatorships tend to be closed societies, and information on them is hard to obtain. Another reason is that they are typically so disliked and feared that most research on them has focused on how they arise, with the view that once this is understood we can prevent further instances, and comparatively little has gone into trying to understand how these regimes actually function. Finally, when these regimes have been researched it has often been done from the point of view that they operate by repression and command. Policies are decided at the top – by the dictator, with the help of a small group of advisers and then imposed on a hapless population. The population acquiesces either through fear, or through brainwashing, indoctrination, and thought control. The problem with adopting this point of view is that techniques like these remain as mysterious and little understood in modern social science

¹ Freedom House has prepared annual estimates of the levels of political freedom and civil liberties for many countries around the world since 1978, and other estimates are sometimes made for earlier periods (for the behavior of these variables over the last 50 years or so in Huntington (1991). According to their 1996 report, only 20% of the world’s population lived in “free” societies. Another 40% were classified as “partly free”, while the remaining 20% were “not free”.

as they are to the average person. And after the fall of Communism, we have a lot less reason to think they are at all successful. No one has produced any evidence of brainwashing even after exposure for over 50 years to Communist propaganda. So to suggest that these regimes survive through their capacity to indoctrinate their populations does not add much to our understanding of how these regimes work.

In this article I try to understand the behaviour of dictatorships from the point of view of an economist. This means that I assume that the people within them – the ruler and the ruled – operate no differently than people in democratic societies; they are self-interested, and rational in the economic sense, that is, whatever their goals are, they try to achieve them as best they can, and are always alert to opportunities to do better. I use this approach to look at a number of issues, and try to summarize the arguments on them made in my book in simple English: (1) How do dictators stay in power?; (2) Is dictatorship superior to democracy in promoting economic growth, efficiency, preventing corruption, and eliminating rent seeking?; (3) What foreign policies should the democracies adopt to deal with dictatorships if they are interested in promoting freedom?

2. Understanding dictatorship

The dictator's dilemma

Our starting point is what I like to call the Dictator's Dilemma – the problem facing any ruler of knowing how much support he has among the general population, as well as among smaller groups with the power to depose him. It is true that a dictator has power over his subjects, much more than a democratic ruler. But this very power over them breeds a reluctance among the citizenry to signal displeasure with the dictator's policies. This fear on their part in turn breeds fear *on the part of the dictator*, since, not knowing what the population thinks of his policies, he has no way of knowing what they are thinking and planning, and of course he suspects that what they are thinking and planning is his assassination. The problem is magnified when the dictator rules by repression, i.e., through fear. The more his repressive apparatus stifles dissent and criticism, the less he knows how much support he really has among the population. For example, consider the case of Mobutu, who was deposed in mid-1997 as ruler of Zaire, and who died a few months later. Here is an extract from a confidential dispatch to him from his secret service on the state of affairs under his rule in 1988: "All the people work in joy, doubling their energies thanks to the continuity of the new regime."²

Did dispatches like this make Mobutu feel more secure? Or less? Another way to see this point is to compare the situation of the dictator to that of a leader of a democratic country. Democratic institutions such as freedom of speech and freedom of information, elections, a free press, organized opposition parties and

² Schatzberg (1988), p.47

an independent judiciary all provide means whereby dissatisfaction with public policies may be communicated between citizens and their political leaders. The dictator typically dispenses with these institutions, and thus gains a freedom of action unknown in democracy. But there is a cost: the loss of the capacity to find out just how popular his policies are (and therefore how safe he really is). The Chinese Communists only found out how unpopular the collectivization of agriculture was when they abandoned it. Pinochet was assured by his advisers that he could win a free and fair election. As a consequence, the most likely personality characteristic possessed by dictators is *paranoia*, and many of the “Great Dictators” of human history have in fact been consumed by this form of anxiety, including the Roman Emperors Tiberius and Commodus, and in our own time Stalin and Mao-Tse-Tung. Many lesser dictators are afflicted as well: the diaries of Ferdinand Marcos, for example, are shot through with these symptoms. The point is that there is a real basis for the paranoia: ironically, the typical dictator is less secure in office than a democratic leader.

Even the dictator who is not afraid but afflicted with hubris still faces a problem: To the extent that he has real enemies, repression is necessary to prevent them from shortening his tenure in office (and possibly in this world). But repression is costly, and resources spent that way are not available for other purposes, such as redecorating the palace. How much in the way of resources must be used in order to survive in office?

From a theoretical point of view, the Dictator’s Dilemma originates from the lack of an enforcement mechanism in politics. It is advantageous for the dictator to “buy off” some of his constituents, especially those who may be too powerful to repress, and those whose demands are easily satisfied. So a simple trade of rents or policies for support would solve the dictator’s dilemma, and also allow his subjects to rest easily. But there is no mechanism analogous to legal contractual enforcement which would enforce this trade. Another way to put it is that the dictator and his subjects have a mutual *signalling* problem. The problem arises in political life generally. In democracy, politicians make promises, hoping for support (votes) in exchange. But how is this exchange enforced? The problem is particularly severe in dictatorship, because the institutions of democracy such as elections, a free press and an independent judiciary all provide means whereby dissatisfaction with public policies may be communicated between citizens and their political leaders. In dispensing with these institutions, the dictator gains a freedom of action unknown in democracy, but at a cost: the loss of the capacity to find out just how popular (and therefore how safe) he really is.³

The dictator’s dilemma is not insoluble. Dictatorships with any permanence are those that discover and institutionalize mechanisms that “automatically” both reward their supporters and monitor their support. They fund these programs through taxation and systematic repression of the opposition. Thus, one solution to the problem of obtaining support is to distribute rents, that is, to “overpay”

³ Timur Kuran refers to the disjunction between the *private beliefs* and *publicly expressed opinions* of the citizens of an autocracy (Kuran (1995), and suggests that revolutions are, for this reason, fundamentally unpredictable.

supporters. A dictator “buys” the loyalty of a group when he gives them more than they can expect to obtain under a different regime. Hitler was popular among the German doctors, partly because blood was the basis of the Nazi regime and doctors considered themselves valuable experts in this matter, partly because the doctors were eager to grab patients from the Jewish doctors, who were de-licensed by the Nazis early on in the regime. The apartheid regime in South Africa was strongly supported by unskilled white workers, whose wages would never be as high if their jobs were opened to blacks. Capitalists also did well under the regime, since the apartheid laws also generated a pool of cheap black labour. In general, the easiest way to overcome the problem of obtaining support is to “overpay” supporters, that is, to pay them more than they are worth. The support of workers can be obtained through paying them excessive wages, of capitalists by giving them monopoly privileges, of particular regions by locating manufacturing facilities in places where they don't really belong but where they are politically valuable, of ethnic groups by giving them special privileges and so on. Similar practises are widely practised in democracy – in the United States the word invented to describe them is “pork barrel politics”. These are often decried as a failure of democracy. But if democracy may be likened to a pork barrel, the typical dictatorship is a warehouse or temple of pork!! In other words, these practises appear to be much more widespread under dictatorship than under democracy.

In sum, while there is always a class of people who are repressed under a dictatorship, there is also, in any successful dictatorship, another class – *the overpaid*. As far as the people in the middle are concerned, the sad thing is that they can side with either group. The general population may be repressed in that their civil liberties may be taken away, but other aspects of the regime may compensate for this as far as they are concerned.

The other tool used by dictators to stay in power is repression, the use of which is the hallmark of dictatorships of all stripes. Thus dictators typically impose restrictions on the rights of citizens to criticize the government, restrictions on the freedom of the press, restrictions on the rights of opposition parties to campaign against the government, or, as is common under totalitarian dictatorship, the outright prohibition of groups, associations, or political parties opposed to the government. To be effective, these restrictions must be accompanied by monitoring of the population, and by sanctions for disobedience. The existence of a political police force and of extremely severe sanctions for expressing and especially for organizing opposition to the government such as imprisonment, internment in mental hospitals, torture and execution are the hallmark of dictatorships of all stripes.

However, *the use of repression does not mean that dictators are unpopular*. Indeed, it sometimes appears from the historical record that the more repressive they were, the more popular they became! All the evidence indicates that Hitler was very popular. Communism's current comeback in Eastern Europe is an illustration of how *popular* it was at one time; when it became unpopular, the regimes fell. Reports in the newspapers suggest that Castro and Saddam Hussein

are popular with their peoples.⁴ But the fact that many of them are popular, and that almost all of them are more popular than is commonly believed, implies that repression is not the only instrument of dictatorial rule.

That dictatorships use two instruments – repression and loyalty or popularity – to stay in power suggests a useful classification of regimes. This classification may be thought of in three ways. On one level, the regimes simply represent different combinations of the variables loyalty and repression. I define four types: tinpots (low repression and loyalty), tyrants (high repression, low loyalty), totalitarians (high levels of both), and timocrats (low repression, high loyalty). Thus, totalitarian regimes combine high repression with a capacity to generate loyalty. Under tyranny, the regime stays in power through high repression alone and loyalty is low. A tinpot regime is low on both counts. And timocracy implies that loyalty is high even at low levels of repression.

The second point of the classification is not merely taxonomy,⁵ but to illuminate behaviour: the regimes differ in their response to economic change. Suppose, for example, that an increase in economic growth raises the dictator's popularity. Tinpots and timocrats both respond to an increase in popularity by lowering the level of repression; tyrants and totalitarians, by raising it.

A third way to think about the regimes is that they simply represent different solutions (levels of loyalty and support) to the same general model. Thus, I assume that all dictators are interested in wealth or personal consumption (for purposes of this paper we will lump these two objectives together), and most are interested in accumulating power, either for its own sake, or because they wish to impose their ideas of the common good on society.⁶ So the dictator's utility is a function of both consumption and power. The tinpot ruler then represents the special or "corner" solution where the sole aim is to maximize consumption. On the other hand, the leaders of tyrannies and totalitarian regimes represent the opposite extreme of dictators who maximize power. Finally, timocracy⁷ represents the case of benevolent dictatorship, where the dictator's objective is the welfare of his people. While many if not all dictators profess this objective, it is hard to

⁴ See, for example, John Deutsch, "Options: Good and Bad Ways to Get Rid of Saddam" *The New York Herald Tribune*, February 24, 1999 p. 8 on Hussein's popularity.

⁵ In Chapter 1 of my book, I suggest that these four types or *images* have tended to recur over and over in the literature on dictatorship.

⁶ The model does not distinguish between the desire for power for its own sake (as an end in itself) and the desire for power as a means to implement some other objective, e.g., in order to implement some personal or party preference as government policy. Some believe that dictators pursue power in order to implement a vision of society, e.g., Nazism with respect to racial objectives or communism with respect to equality. Wittman emphasized the same point with respect to politicians in a democracy: that they are interested in ideological objectives as well as being elected (Wittman (1983)). In my book I did not rule out other objectives for dictators besides power and consumption, but I tried to see how far one could go with this simple and basic public choice perspective. Of course, sometimes an ideology interferes with the pursuit of power; this could be incorporated into the model in the same way as consumption benefits already are. However, ideology is in part a tool (often incorporated in propaganda) to accumulate power, so the pursuit of power and that of an ideological objective are often difficult to distinguish in practise.

⁷ The Greek root of timocracy is *Thymos*- to love. The term is borrowed from Plato's *Republic*.

think of an instance where it explains much about their behaviour.⁸ In this paper, I will discard this notion of altruism on the part of dictators.

2.1. *Is dictatorship good for the economy?*

Much research asks which is better for the economy, democracy or dictatorship? One reason is that there always seem to be some autocratic regimes which appear to outperform the democracies : in the 1930's, Hitler's Germany and Stalin's Russia; in our own time, Pinochet's Chile, South Korea under the generals, and, most spectacularly, China and its "free market Communism." The answer, however, is complex, mainly because the economic systems under autocracies vary so much. Those who believe there is some simple formula for distinguishing the economy of dictatorship from that of democracy should compare, for example, the economies of Nazi Germany, Apartheid South Africa, Papa Doc's Haiti, Pinochet's Chile and the former Soviet Union.

2.1.1. Democratic inaction

One general proposition which is true of all these systems is that dictators have a greater capacity for *action*, good or bad. If a dictator wishes to raise taxes, declare war, or take tough measures vs. crime, he may have to deal with some opposition to these policies among his advisers, but by and large he can do so. Democracies, on the other hand are often mired in *inaction*.⁹ The basic reason is that democratic leaders can only act when they can build support for their policies and there may be no consensus as to what to do. Even on problems where there is agreement that something should be done, there may be no agreement on *what* should be done. In extreme cases, the political system of a democratic country may become paralyzed by conflicts or opposing viewpoints.¹⁰ In these

⁸ In my book I suggest the example of the Age of the Antonines, following Gibbon's description of this time as "the happiest the world has ever known," in his *Decline and Fall of the Roman Empire* (1981).

⁹ Some formal conditions for the existence of equilibrium inaction, as well as the circumstances under which this is inefficient, are discussed in Howitt and Wintrobe (1995) and in Wintrobe (1998), chapter 11.

¹⁰ A large literature in political science associates the historical breakdown of democracy in various countries with precisely these variables: inaction, lack of credibility, and their mutually reinforcing effects. Alan Cassels (1975) cites the "inactivity" and "lack of leadership" of the post-World War I central government in Italy as instrumental to the rise of Mussolini. Karl Bracher (1970, 1995), Harold James, ("Economic Reasons for the Collapse of the Weimar Republic" in Kershaw (1990), see especially pp. 46ff) and Carl-Ludwig Holtfrerich, "Economic Policy Options and the End of the Weimar Republic" in Kershaw (1990), among many, many others, analyze the breakdown of the Weimar regime in these terms. Juan Linz (in Linz and Stepan (1978)) summarizes the findings of a large, multi-author project on the breakdown of competitive democracies in Europe and Latin America in terms of government incapacity, polarization and mistrust. As far as the role of ethnicity is concerned, Adrian Karatnycky, the President of Freedom House and the Coordinator of Freedom House's annual *Survey of Freedom*, summarizes the main results of the 1995 *Survey* as follows: "Of the 54 countries that are Not Free, 49 – over 90% – share one or more of the following characteristics:

circumstances, politicians often prefer to do nothing, to shroud their positions in ambiguity, or to pretend to be on all sides of an issue. The result is that the population can become cynical, and lose trust in the promises of any politician. This can set in motion a downward spiral, since the more this happens and trust is lost, the harder it becomes for politicians to do something by forging a compromise. This is more likely to happen when the pressures for political action on an issue are particularly conflicting, when positions are far apart, when issues are particularly divisive, when the population is divided along racial or ethnic lines, and when there is relatively little trust in politicians by the citizens.¹¹

To put it another way, while there may be freedom to speak in democracies, sometimes no one is listening. And in general, there is a tradeoff: the more points of view are represented by the political system, the smaller the system's capacity for action. This is one source of the allure of dictatorship. Dictators possess the capacity to repress opposition to their policies, and this means they can act in circumstances where democratic rulers cannot. The classic example is the Weimar Republic, where the democratic leadership did nothing about political violence in the streets or about the unemployment problem caused by the Great Depression. Hitler promised to do something about unauthorized political violence, and he promised a job for every German. And he promised a way for the young to rid themselves of the sins of the old, for both to rid themselves of the menace of Communism, and for Germans to become proud of being German again.

2.1.2. War

The greater capacity for action on the part of dictators, combined with the dictator's dilemma together provide a simple explanation of the greater propensity of dictators to engage in war compared to democratic leaders.¹² First, the dictator has more to fear from other regimes than a democratic leader. Dissidents within his own regime can ally with external forces; communications media in other countries can counteract the dictator's propaganda; perhaps most importantly, the dictator's promise *not to attack them* is less credible than a similar promise from a democratically-elected leader would be. The democratic leader's promise will have been formally ratified between the executive and legislative bodies of the democracy, which in turn makes it binding on the executive. The dictator has no similar way of making his promise to a foreign leader credible. Secondly, there is perhaps no surer way to inspire loyalty from one's people than with the glory

(a) they have a majority Muslim population and frequently confront the pressures of Fundamental Islam; (b) they are multi-ethnic societies in which power is not held by a dominant ethnic group, i.e., a nation that represents more than two-thirds of the population; (c) they are neo-Communist or post-Communist transitional societies. Frequently, the Not Free countries have two or three of these characteristics" (Karatnycky 1995, p. 7).

¹¹ See e.g., Huntington (1976) or Sartori (1976). Powell (1986) sheds some doubt on the general thesis. Using empirical data from Western European democracies in the 1970s, he suggests that it is "system alienation" and not political polarization, which is associated with political turmoil.

¹² Michael Brecher (1999) provides some evidence that a state is more likely to escalate a foreign policy crisis to violence when it is ruled by a nondemocratic regime.

and the booty from foreign conquest. In this way, possibly unlike any other, a dictator can displace his own fear on to those who would attempt to remove him from office. Finally, war is a controversial and difficult decision, and in any democracy undoubtedly some groups and forces will oppose it. Because of this, democratic societies can be plagued by inaction over this issue. Dictators, on the other hand, do not need to forge a consensus in favor of war to be able to engage in it.

2.1.3. Redistribution

But if dictators are more capable of action than democracies, who benefits from these actions? This question leads naturally to a second proposition: There tends to be greater *redistribution* (of income, wealth, or the means to earn it) under dictatorship than under democracy. To see why, ask the following question: In a democracy, what is it that stops the majority, or a minority which gains hold of the reins of government, from picking out some minority and expropriating all of its wealth? This is an old question, and many things could be mentioned, but certainly among the most important is the resistance which the taxed group will put up against being treated in this way. Now, dictators have ways to deal with that resistance, much fewer constraints on their ability to stamp it out, and are much more capable of hiding what they do while the operation is progress and after it is over. So the dictator's capacity for repression also entails a greater tendency to redistribute income or wealth, compared to democracies. The benefits to the group which wins power are a second, more obvious, source of the allure of dictatorship.

Who the redistribution is for and its consequences for economic growth and efficiency depend partly on who controls the regime. It is worth considering a few different possibilities here. For example, some historical regimes can be thought of as serving labor's interests. The apartheid regime in South Africa is an interesting case. Under the apartheid constitution, the South African political regime was divided into two sectors – a black sector which was denied political rights (“coloreds” and Asians were given limited political rights in 1985) and a “white” sector, characterized by freedom to organize political parties, (more or less) democratic elections and independent bureaucratic and judicial systems. Politically, therefore, it is useful to consider the regime a dictatorship¹³ of whites

¹³ Some have objected to the use of the term dictatorship to describe the apartheid regime and prefer to describe it as (in the words of an anonymous referee) a ‘democracy with a limited franchise’. The problem in deciding whether democracy or dictatorship is the more appropriate label is that there is no really satisfactory definition of dictatorship. For example, Webster's refers to it as “A government in which a single leader or party exercises absolute control over all citizens and every aspect of their lives”. The South African regime fits this definition imperfectly, but so does the former Soviet Union or the Nazi regime: no regime has ever achieved absolute control over its citizens, nor repressed all of its citizens equally. One key to whether a regime is autocratic which is often used in practise is its level of repression. On this score, the apartheid regime certainly appears dictatorial. As is well known, the South African regime made extensive use of political repression against South African blacks (and against many whites and coloreds who allied themselves with black political forces).

over blacks. Economically, many think the essence of the regime was that it exploited black labor for the benefit of white labor, and some institutions of the regime – job reservation in particular – undoubtedly worked in this way. However, others benefitted capital. In particular, under the “pass” system, a black worker who lost his job also lost his pass, and therefore the right to work in the manufacturing sector. This gave white employers a tremendous capacity to discipline black labor: a white employer could, in effect, threaten employees not just with dismissal, but with dismissal from the entire (white-owned) manufacturing sector. So the apartheid regulations made it possible for white capitalists to hire black labor at low wages.

2.1.4. Communism

Another possibility is Communism in the former Soviet Union, which took power in the name of workers and removed private property from the productive system. Party direction and control over the economic system may be thought of as substituting for the legally enforceable property rights characteristic of a market system. The Party rewarded those who worked loyally for the system’s goals and punished those who did not. So long as the Party was powerful, individuals within the system were not merely reduced to “obeying orders” but would exert effort and even innovate in order to rise in the Party hierarchy and avail themselves of the legendary privileges of the *Nomenklatura*. However, without markets, there was no way of finding out what people’s wants or economic needs were. In addition, there was the question of how to manage enterprises once capital’s rights were expropriated. The solution adopted under Communist regimes was the substitution of a massive central bureaucracy for management by capital owners on their agents. Bureaucracies are not inherently inefficient (after all, there have been and are today many giant firms and other organizations which are superbly managed). But they have a central flaw, which is that over time loyalty to the top tends to deteriorate, and to be replaced by alliances among the bureaucrats themselves, which bureaucrats use to line their own pockets, do favors for friends, distort information travelling up the hierarchy to make themselves look better, and in other ways to benefit themselves at the expense of the goals of the organization. So, to remain effective, bureaucracies need to be “shaken up” periodically, as happens in businesses when they are taken over, and in democratic governments when a new party takes office.

Repressive laws included the Suppression of Communism Act of 1950, the Riotous Assemblies Act of 1956, the General Law Amendments Acts of 1962 and 1963 and the Internal Security Act of 1976 and their amendments. These gave the government, even before the implementation of the 1985 State of Emergency, extraordinary powers. Thus, according to an authoritative text on the regime during the apartheid era (Thompson and Prior (1982)), “This mass of coercive legislation gives the government and its agents, including the police, vast powers to arrest people without trial and to hold them indefinitely in solitary confinement without revealing their identities and without granting access to anyone except government officials.” (p.212). In sum, they described the system as “a system of legalized tyranny comparable to that in the Soviet Union” (p. 214) and “a police state in the true sense of the phrase” (p. 217).

The only mechanism possessed by the Communist Party for this purpose was the Party Purge, most famously employed by Stalin to gain dominance over the Party and to ensure loyalty from the bureaucracy. However, it turned out that this technique was itself flawed. Its flaw lay in its *uncertainty*: for example, under Stalin (and under Mao during the Great Cultural Revolution) the process was only completed when those who did the purging were themselves purged, so that the perpetrators of the process ended up being counted among its victims, something which is not uncommon in societies which operate without the rule of law. After the death of Stalin, no successor arose with the same confidence and capacity for ruthlessness needed to carry out this operation, resulting in a generation of bureaucrats who were to grow old in their posts and ultimately formed the *Nomenklatura* into a closed caste. Gorbachev came along and tried to shake up the system with Glasnost and Perestroika, but the measures he took to decentralize the system in the absence of functioning market institutions simply devolved more power onto this group. In the end, he too had to count himself among the victims of the process he initiated, along with the Communist system itself. So, while Communism was capable of substituting for private property rights in underpinning the economy in some ways, it lacked the self-renewing capacity provided by democratic elections in the political sphere and by the capital market, takeover bids and other institutions associated with transferable, legally enforceable property rights in private markets.

The alliance or networks among bureaucrats which contributed to the ossification of the Soviet regime also possessed implications for the transition. In Russia, for example, enterprise managers had become so powerful that even after the Soviet Union collapsed it was felt their interests had to be taken into account in the design of the privatization program under Yeltsin, and the upshot was that they acquired those firms at rock-bottom prices (“Sale of the Century”, according to *The Economist* magazine (1994)), effectively consolidating huge rents in their hands more firmly than they had been under Communism, and hobbling the transition to a genuine market economy.¹⁴

2.1.5. Capitalist-authoritarian regimes

In general, labor-dominated regimes appear to be at a disadvantage from the economic point of view, as they tend to raise the price of labor, hence driving away capital investment in one way or another and therefore reducing the capacity of the system for economic growth. It is not obvious how a future, labor-oriented dictatorship will be able to solve this problem, which can only be expected to become increasingly important as capital becomes more mobile. On the other hand, a dictatorship which serves the interests of capital-owners faces no such difficulty. Moreover, the reduction in the price of labor and the imposition of

¹⁴ Boycko, Shleifer and Vishny (1996) describe the privatization program. McFaul (1995) contains a good account of the consolidation of power of the old elite. Richardson (1997) is a good account of the consequences for the Russian economy.

labor discipline devices which are the hallmarks of these regimes serve to attract capital, raising the productivity of labor and therefore real wages in the long run. Real wages tripled in South Korea over the period 1970-86.¹⁵ So the system may be bad for the workers politically, but it has been good for them economically, and dictatorships of this type face a relatively bright future.

This provides an alternative to the popular explanation for the success of many developing countries with authoritarian political systems such as South Korea or Singapore – namely that the authoritarian governments there redistribute less (see for example, Stephen Haggard (1990) or Bardhan (1990)). I suggest that *all* dictators can be expected to redistribute more than democracies do. As far as the facts are concerned, I know of no systematic evidence on this question, but it is well known that there is massive redistribution in totalitarian dictatorships, and that most left-wing dictatorships tend to be redistributive in nature. It might appear more controversial to contend that the analysis applies also to “capitalist authoritarian” dictatorships, but I believe that it applies to these countries as well. The point has been missed, in my view, because of the “fallacy of the free market,” i.e., the common assumption in this literature that markets operate costlessly, so that to have free markets, it is only necessary for the government to get out of the way. How well markets work depends on how contracts and property rights are specified and enforced, a lesson which the experiences of Russia, where mass privatization was undertaken, but institutions of law and contract enforcement remain underdeveloped has perhaps driven home in a most conclusive way.¹⁶

Dictatorships such as Pinochet’s Chile or South Korea under the generals essentially redistribute by shifting the rights of labor to management backed by the state, raising the cost of job loss to workers, removing or not allowing collective bargaining rights, and in other ways generating a labor force willing to work for low wages. Thus, Dornbusch and Park (1987), examining the success of Korea on the verge of some political liberalization, argued that the regime’s economic success was due to Korean wages being kept exceptionally low by international standards, given the skill level of the labor force.¹⁷ Pinochet at first banned unions and union activity, and then severely restricted their freedom of action with the labor code promulgated in 1979 (the first of the “Seven Modernizations”). Related reforms in health care, social security, and other areas all had the effect of raising the cost of job loss to workers (when democratic government was (more or less) restored, the area where it *did* make significant changes was to this labor code, and it did this shortly after it assumed office). Other measures redistributed more directly. Moreover, political measures such as the widespread planting of spies in factories and the resulting “culture of fear” – to use Constable and Valenzuela’s (1991) phrase – re-enforced the rights of employers over workers and linked their enforcement with the state. Of course, not *all* capitalists

¹⁵ Dornbusch and Park (1987).

¹⁶ See for example, John Richardson, “Weird Russian Capitalism”, *New York Review of Books*, March 27, 1997.

¹⁷ Dornbusch and Park (1987), p. 391.

benefitted; small, domestically-oriented firms (part of the old, import-substitution coalition) were severely damaged through the removal of tariff and exchange-rate protection. The chief beneficiaries of the regime's policies were initially the large firms and the military.

Dictators whose support is based on capital (either domestic or international) have an obvious reason to be future oriented, since the future returns to capital are capitalized into its price, and an increased prospect of economic growth which raises those returns increases the wealth of capital owners in the present. Moreover, to the extent that these regimes successfully discipline labor, and attract capital investment, the marginal product of labor is raised, possibly bringing long-run increases in real wages as well. This is a simple explanation of the economic success of these countries, and one that provides an alternative to the idea that their success is due to an absence of redistribution.

2.1.6. Military regimes

A third interest group which may and often has controlled dictatorship is the *military*. The strange thing about military governments is that they tend to be short-lived, and that they often end with the military voluntarily handing over power to a civilian regime. This seems odd, since if the military are good at anything, it should be repression, and, if this is the primary instrument used by dictatorships to stay in power, one would expect military regimes to be relatively "successful," that is, stable and long-lasting.

To explain this puzzle, start with the idea that the military are self-interested. It follows that their main objective in seizing power is to raise the pay and budget of the military. There is nothing unusual about this – labor-dominated governments raise the price of labor, capitalist dictatorships raise the return to capital (privatization is a nice way to do this), and so forth. One additional point is that the military tend to be a closed elite, and to dislike the anarchy of political parties and other political organizations. As a result, they are not particularly good at buying the loyalty of other groups, which is a subtle process. Their comparative advantage is in repression, and they tend to use this instrument to stay in power. The dilemma facing military governments is that in the process of rewarding their supporters, they tend to raise the costs of repression, the primary instrument used to stay in power. If, for example, they doubled the pay scales of the military personnel, it will cost twice as much to stay in power as before! So, the peculiar thing about military dictatorships is that in the process of rewarding their supporters, they tend to weaken rather than strengthen their own capacity to govern. In other words, to borrow a phrase, they tend to sow the seeds of their own destruction. It is therefore no surprise that military governments often hand the reins of government over to a civilian authority after some period of time. Having raised their pay scales, the chief objective of this regime is realized; and in the process, they become incapable of governing. So the rational strategy is to exit with suitable guarantees of immunity from prosecution for the crimes

committed by the regime and with constitutional protection for their increased pay scales and budgets.

2.2. *Rent seeking*

2.2.1. A difficulty with the rent seeking model

Even if we are right in arguing that there tends to be more redistribution under dictatorship than democracy, there could still be relatively more *rent seeking* under democracy. And it is often asserted that the waste due to rent seeking is a flaw of democracy, one which might be curable with a little bit of authoritarianism. Finally, rent seeking has probably become the most significant contribution of public choice to the economist's standard tool kit. For all these reasons, it seems worthwhile to devote a separate section to the subject of rent seeking under democracy vs that under dictatorship.

The standard model makes two crucial assumptions:

- a) *The resources used in bidding are completely wasted.* In the classic formula, money is spent hiring lawyers to lobby politicians to give their client the rent. Since the activities of lawyers are always pure waste in economics, putting the assumption this way makes it particularly easy to swallow.
- b) *It makes no difference who gets the rent.* That is, no public benefit will accrue, in any form, if one of the contestants wins; the contest does not sort out the good from the bad nor does the necessity of competing for the rents induce greater efficiency on the part of the contestants, or cause them to modify what they would do in any way that might affect the public. In the standard formulation it follows that if there are 10 firms bidding for a prize of \$100,000, each firm will spend \$10,000 on lawyers, leading, in the simplest version, to economic waste equal to the size of the rent.

The central problem with this formulation, which to my knowledge has never been pointed out, is that a rent-seeking contest which conforms to this description is *irrational* from the point of view of *politicians*. Why would politicians organize it this way? Why wouldn't they attempt instead to profit from the bidding process? The simplest way to do this is to suggest to the competitors that they should offer cash payments instead of wasting the time of politicians through their lobbying activities. In this way the politicians could themselves collect all the rents, eliminate the waste and profit directly from the bidding process. But if bribes instead of lobbying were used, the money which is received in bribes by the politicians is not waste, but a pure transfer to politicians from interest groups which represents no *social* waste or deadweight loss at all.

2.2.2. Democracy vs dictatorship again

To see some other ways in which the rent seeking process can be organized, consider what typically happens under dictatorship. Dictators, at least of the

more “successful” (i.e., relatively long-lived) variety, often know how to organize things so that they get a substantial return out of the process of rent-seeking. Indeed, under many regimes the distribution of rents reached legendary proportions. Examples would include the Marcos regime in the Philippines [for details see Hutchcroft, or, for a more extensive treatment, Wurfel (1988)], Ghana [see Herbst (1993)], and the military regimes in Latin America in the 1970's and elsewhere, whose most concrete and lasting achievement has been to increase military salaries and the military budget [Nordlinger (1977), Remmer (1989)]. The simplest explanation for the legendary “shortages” characteristic of Soviet type systems is that the shortages create rents, the distribution of which is controlled by the Communist Party and which can therefore be used to garner political support. The South African system of apartheid provided job reservation for white workers, and the institution of the pass for the benefit of white capitalists (black workers in the white manufacturing sector could only remain in that sector with a “pass.” A black worker who lost his job lost the right to work in the white sector. So the system lowered black wages in the white sector). Finally, the creation and distribution of rents on ethnic grounds in a dictatorship like Nazi Germany can be mentioned simply to complete the list. One example will suffice: that of the medical profession, whose membership was disproportionately Nazi. German doctors and medical officials took the lead (i.e., they did not wait for “orders” from senior party officials) in expelling Jewish doctors from the profession, and taking over their practices [see Michael Kater]. One might think that, as highly educated professionals, they could be expected to oppose the use of such nonsensical criteria as blood, skull type, etc., as indices of human worth. Instead, they largely took the attitude that they were experts on such matters, and if they were to be the basis for regime policy, they wanted to be in the forefront of policy implementation.

In all of these systems, resources are not wasted bidding for the rents of the public sector. Rents are given out, and the dictator receives political support or money payments or other things in return. In other words, there is *no waste*, in the economic sense. One explanation for the difference in the way rents are distributed under dictatorship vs. under democracy is that dictators typically impose restrictions on entry into competition for the rents given out by the state. Sometimes the rents are reserved for specific groups, as is obviously clear from the examples we have been referring to: the “Chicago Boys” under Pinochet were not interested in the pleas of the old urban coalition (Constable and Valenzuela (1991)). Blacks were obviously restricted from competing with whites in South Africa: the job reservation system could obviously not have been converted into a program for overpaying blacks if they bid hard enough. Gypsies, Homosexuals, Jews and Communists could not have gained special preferences under the Nazis; they were the victims of the regimes' repression, and, even if they might have offered more, they were simply not allowed to compete for rents. In part the reason for this is obvious: if free competition for rents were allowed, then, since rent seeking results in net *losses*, dictators would lose support by distributing rents through an openly competitive process!

How does democracy differ? The restrictions on entry into bidding processes for rights and privileges or goods and services distributed by the state, which are characteristic of authoritarian governments, are clearly inconsistent with the very notion of democracy. A well functioning democracy will try to put into place rules which make the process of bidding as open as possible, and which make it likely that the winning bid is selected on the basis of criteria involving net benefit to the public such as the worth of the project, costs, etc., and not on the political connections, race, ethnicity, status and so on of the bidders.

The inefficiency of democracy, according to the rent-seeking model, is now exposed. All of these conditions imply that more resources will be wasted under the bidding process in democracy. In short, *democracy is a much more wasteful system than dictatorship*.

However, before embracing conclusions like these, note that there are serious problems with the theory. The main problem is that the existence of losses from pure rent seeking implies that there are gains from trade between politicians and rent seekers. To the extent that trade between these groups takes place (through bribery, corruption, extortion, etc) the waste in the process will be eliminated. Consequently, if transactions costs between these groups are low, the equilibrium will not be as described in the rent seeking model, but the “corruption” equilibrium, with no waste, but a defrauded public. On the other hand, suppose that these transactions are prevented, because the rules against influence peddling, bribery and extortion (the existence of which are characteristic of democracy everywhere) are well-enforced by alert and powerful independent authorities. This gives a second possible equilibrium, in which fair competition among bidders is enforced. If this bidding results in rents being distributed to those who bid the lowest, or who offer the public the most in the way of benefits, then this process produces something useful. The natural name to give this equilibrium is “strong democracy”.

The rent-seeking model rules this outcome out by assuming that it makes no difference who wins the contest, and that no social benefits result from the bidding process. Combining these assumptions with the assumption that the rules against corruption and the enforcement of them are so powerful that corruption is eliminated gives the rent seeking equilibrium: waste. A more appropriate name for this equilibrium is “irrational” because it implies that political institutions are fundamentally irrational in design: they are there to ensure the persistence of waste. As the Coase Theorem implies, one should be skeptical of such equilibria.

At this point, the reader may be tempted to ask, “What difference does it make? Suppose that the losses from rent seeking are not genuine waste in the economic sense, but “merely” unauthorized (in effect, fraudulent) transfers to politicians and bureaucrats. It is true that these are not waste in the sense of economic theory, but they are certainly not what the cost-benefit analysis promised! If the proper equilibrium involves corruption, not rent seeking, isn’t that bad enough?”

One reason for insisting on the distinction between corruption and rent seeking is that the solutions to these two problems can be vastly different. In par-

ticular, it is easy to imagine that a “little bit of authoritarianism” might possibly reduce rent-seeking (which after all is a form of political competition). It is much more difficult to believe that autocracy is the solution to corruption. Under autocracy, there are fewer or no constraints on the practice of rent distribution by independent courts or an inquisitory free press. Political dictatorships have a significantly larger capacity to organize the distribution of rents in order to maximize their own “take” in the case of bribes, or to generate the most political support. Moreover, the dictator is capable of sanctioning nonrepayment directly, solving this enforcement problem inherent in rent-seeking trades in a way that no democracy is capable of.

From this perspective, the basic aim of democratic institutions – openness and competition in bidding for public projects – is entirely sensible, and reduces waste, fraud, and misallocation of resources in the public sector. If, as alleged, the contract for the airport in Toronto was obtained through bribing the Prime Minister of Canada (Cameron (1995)), if, as the investigation known as Mani Pulite (“Clean hands”) seems to have demonstrated, public contracts in Italy have over a period of many years been routinely obtained through bribery and corruption, if there is widespread corruption in the post-Soviet Russian political system, a) these are not instances of “democracy in action” but a perversion of it, b) the public welfare would in all these cases be improved, not worsened if the bidding process were open and not corrupted. Finally, c) the situation would worsen if the system were less democratic.

3. Dealing with dictatorship

What policies should be followed toward dictatorship by democratic regimes? Suppose we assume that the sole interest of the democracies is to promote freedom. This sort of question was brought into sharp relief by the analysis of Jeanne Kirkpatrick, a political scientist who became ambassador to the United Nations under Ronald Reagan. She classified dictators into two types: totalitarians and traditional autocracies. In her way of thinking, dictators rule by repression alone, and so the main difference between the two types is in the level of repression. The first type – “totalitarianism” is characterized by massive government intervention into the economic and social lives of citizens. The second type is what Kirkpatrick, following the political scientists Friedrich and Brzezinski calls “traditional autocracies” and which I called “tinpot” dictatorships above (denoting their small scale ambitions). In these regimes, the level of repression is low.

In Kirkpatrick's model, dictators rule by repression alone, so what differentiates the two types is just the level of repression. She recommended that the United States and other countries interested in promoting democracy should follow a “double standard” towards the different types, taking a relatively relaxed attitude toward tinpots, and imposing sanctions on totalitarians. However, in my analysis, there are two instruments for building power, repression and loyalty. Her framework can be translated into mine by simply assuming that tinpots are

characterized by low levels of these variables, totalitarians by high levels. But then it becomes immediately obvious that there is a category which is ignored – what I called *tyrants*—regimes with high repression but little support or loyalty. Many of the regimes which were labelled “traditional autocracies” – turned out, on measures of repression like numbers jailed or tortured – to be no less repressive than totalitarian regimes. The most obvious cases are the military regimes of Brazil and that of Pinochet in Chile. A general empirical test of the theory was performed by Mitchell and McCormick (1988). They constructed two measures of human rights violations for a large number of countries – one measuring the frequency of use of torture and the other the number of political prisoners taken, and found that military regimes and traditional monarchies actually used torture more frequently than totalitarian (Marxist) governments (although they used imprisonment less often). And when repression was operationalized as an aggregate index incorporating both imprisonment and torture, they found no significant difference between the two types of regimes. So the world didn’t divide up as neatly as Friedrich and Brzezinski and Kirkpatrick might have liked.

3.1. Aid: A single standard

What policies should be followed towards dictatorship by democratic regimes interested in promoting freedom? Suppose, idealistically, that the only goal of Western policy is to reduce repression. Of course, historically, the democracies in the West regimes have not been preoccupied with this goal and it is not completely obvious why they should be on grounds of self interest. However, if, for example, it is true that wars occur predominantly between dictatorships or between dictatorships and democracies—that is, that democracies do not fight each other – this fact alone, combined with the enormous cost of war would give the democracies a powerful motive to try to rid the world of dictatorship. At any rate it is useful to ask just what the optimal policies to promote freedom would be if the democracies chose to pursue this goal as they so often profess. The “weapons” in our arsenal are sanctions, trade agreements, imposing human rights constraints, and aid packages. Let us start with the issue of aid. Take a classic example of a tinpot dictator like Ferdinand Marcos. Should we have given aid to his regime? Suppose Marcos’ only goal was to consume as much as possible – in his case, this meant buying shoes for his wife Imelda. What limited his consumption? Why did he not spend all of the GNP of the Philippines on shoes for her? The constraint is that he had to stay in office, so he could not allow his power to fall so low that he was in danger of being deposed. So the levels of both repression and loyalty under his regime were just high enough to stay in office.

Suppose first that the tinpot is safely in office, which, at one point, according to accounts of the regime, Marcos felt he was. Then there is no point in giving him aid, because all he will do with the money is to buy more shoes. On the other hand, suppose he is in danger of being deposed. Then the aid simply props

up the regime. So, in neither case does the aid reduce repression. An alternative policy would be to insist on human rights observances as a condition of receiving the aid. But if the levels of repression and loyalty were previously just sufficient to stay in office, Marcos will simply be deposed if he lowers repression. So he would have refused this offer, and the policy is ineffectual.

On the other hand, suppose the aid is tied to human rights observances in a particular way. In order to keep receiving the aid, repression must be steadily relaxed over time. Then the dictator has an incentive to use the aid to improve the welfare of his people. The reason is that if their welfare improves, and he can claim credit for this, loyalty or support for him will tend to increase. As a result, he can afford to relax repression, and still buy the same number of shoes for Imelda as before.

Now look at totalitarian regimes or tyrannies, defined as regimes whose rulers are uninterested in consumption, but in power. Should we aid them? Again, suppose that, as the result of the aid, economic growth improves. This gives the rulers an opportunity to accumulate more power, and since power is the only thing they care about, they take this opportunity, in the same way that a businessman who is already rich will grab an opportunity to make more money. So, for these regimes, aid which is untied to human rights observances is not merely wasted, but counterproductive – repression *increases* when the economy improves. This is what happened under Hitler and Stalin: the more popular they were, the more they took these opportunities to put the screws to all those elements of the population whose absolute loyalty was uncertain. In the same way, the enormous economic growth in China has resulted in not the slightest degree of relaxation in the level of repression there.

It might seem obvious that we would not aid these regimes, since the aid money would be spent on accumulating more power over the population, including repressing them. But, again, if the aid is tied to a human rights constraint, which becomes progressively more stringent over time, the policy will work in the right direction. If the economy improves as a result, support increases, and the rulers can afford to relax repression and still have the same level of power as before. The human rights observance constraint is absolutely necessary if this is to lead to a fall in repression and not an increase.

So we have a very simple guide – a *single standard* – to the policies which should be pursued by foreign governments interested in reducing repression. This is to make human rights observance the cornerstone of Western policy. Aid to any type of regime can be expected to produce beneficial effects provided it is accompanied by a long term human rights constraint, one which becomes progressively more stringent over time. Without the human rights standard, the effects of aid will be ineffectual or perverse.

3.2. Sanctions

Historically, the most important alternative to a policy of aid to motivate dictatorships to behave is to use sanctions to punish those that do not. However, it is

vital to realize that sanctions are not just the reverse of aid, and that policies like those pursued by the United States and the United Nations vis-à-vis regimes like Castro's Cuba, Saddam Hussein's Iraq or Milosevic's Serbia may superficially resemble those described here, but in fact they work very differently. In all these cases, the U.S. or the UN imposed sanctions, and offered to lift them as a reward for better behavior. For example, the Americans have, as of mid-1997, continued to block Belgrade's admission to world institutions such as the IMF and the World Bank, demanding that Milosevic first "open a dialogue" with his political opponents and allow more political freedom. Such policies are not necessarily wrongheaded, but they do not work in the manner of those advocated here. The reason is that the sequence is reversed: the regime has to liberalize *first*, i.e., before the sanctions are lifted, trade allowed to resume and aid to flow. This means that the regime has no chance to use the benefit of aid or trade to build loyalty prior to liberalization, as with the policies advocated here. So the dictator who agrees to liberalize puts himself in immediate danger of being deposed, and it is no surprise that Castro, Hussein and Milosevic have all been reluctant to do so. The policies work only if they succeed in coercing or bullying the dictator into submission. There is nothing necessarily ethically wrong with this, since all these leaders oppress their peoples. It's just that the policies have failed; the U.S. has bullied Castro for 30 years, after which time he is, as of this writing, still in power, and his regime is according to Freedom House reports (Freedom House, 1996), as oppressive as ever. Coercive strategies have also failed, as of this writing, to dislodge or liberalize Saddam Hussein's regime.

Finally, it is worth mentioning some other problems with sanctions: their use may perversely stimulate nationalistic support for the dictator (the "rally round the flag" effect), and actually strengthen his hold on power. They isolate the regime from Western influence. And their use requires coordination of policy among the sanctioning countries and enforcement in order to prevent business from non-sanctioning countries or countries where the sanctions are loosely monitored from moving in to pick up the opportunities available from evading the sanctions. Aid agreements have none of these problems. Of course, sometimes sanctions and even stronger measures, including a declaration of war, may have to be used. But toppling an entrenched dictator is seldom easy.

The policies advocated here give the dictator the opportunity to substitute building loyalty for repression as a means to stay in power, and therefore have a greater chance of being acceptable to the dictator. They do carry a real danger in that the dictator will accept the aid and promise liberalization down the road only to renege when the time comes. But that just means the agreements have to be monitored and enforced. Given the will to do so on the part of the U.S. or the UN, the policies advocated here have a much greater chance of success, simply because they appeal to the dictator's self-interest and try to accommodate it, while maintaining the UN's commitment to human rights.

3.3. Trade

Another policy dilemma is whether to trade with dictatorships. Trade policy is a bit more complicated than aid. We can distinguish the following effects:

1. Trade may be expected to increase national income of the target regime, as productivity there will rise due to the availability of imported inputs at a lower price, and the demand for the target's exports increase. To the extent that the regime can successfully claim the credit for this improvement in welfare, loyalty to the regime may be expected to increase.
2. The rise in income will also increase tax revenues, giving the dictator more resources at his disposal. These may be used either for his own consumption, or to further his hold on power through increased expenditures on either repression or loyalty.
3. Since the richer people are, the more they tend to demand liberty, the increase in income tends to reduce loyalty to the dictatorship as people increasingly demand their rights (Bilson (1982), Londregan and Poole (1996)). However, note that the estimated size of this effect is very small. Thus, as Londregan and Poole conclude their analysis of this effect in non-European countries, "Those expecting income growth to promote the development of democratic institutions must be very patient indeed". (p.22-23)
4. The increase in trade creates further links to foreign businesses and among domestic producers, possibly resulting in the development of independent power bases within the target regime. This is particularly likely when the trade is not organized through the central government (as it is in Cuba, for example). Thus, in China, regional governments in particular have built up substantial connections with outsiders and with the private sector, and are much more independent of the central government for revenue than they were before Deng launched his "social market" revolution. To the extent that this happens, loyalty to the regime may fall. On the other hand, it has been argued, most forcefully by Huntington (1996), that trade between different types of civilizations actually increases mistrust, as the increased intensity of contacts simply breeds hostility. He points out, for example, that World War I occurred at precisely the last peak of the "openness" of the international system. In that case, while there may be a short-run fall in loyalty due to the initial increase in contacts, in the longer run, further contacts simply breed nationalism and possibly *increased* support for the dictatorship in the target regime.

To disentangle the implications for policy, suppose first that the net effect of these changes, is, as seems likely, that support for the regime increases as the result of the trade agreement. Suppose also that the ruler is a tinpot. Then it can be argued that, with increased support, the tinpot (e.g., Marcos) will be himself motivated to relax repression (so that he can buy more shoes for his wife), and there is no need for a human rights constraint. But note that, even in this case, the human rights constraint does no harm; it simply asks the dictator to do what he

would do in any case, and therefore it should be acceptable to him. On the other hand, if, on balance, loyalty to the regime were to decrease, the tinpot would want to raise repression in order to stay in office, and the human rights constraint is absolutely necessary for the trade agreement to lower, not raise, repression.

Suppose now that we are dealing with a totalitarian dictator. Again, if loyalty were to increase, on balance, as the result of the trade agreement, the dictator would tend to raise repression, and the binding human rights constraint is necessary to prevent a loss of freedom. The only case for a trade agreement with a totalitarian regime is where the opposite happens, and loyalty to the regime decreases from the trade agreement. In that case, repression falls as well. *This is the only case where trade with a totalitarian regime makes sense.* But note that, the totalitarian leader, in pursuing this trade agreement, cannot fail to be aware of the likely consequences of the trade agreement for his hold on power; namely, that his capacity for repression, the loyalty to him of the citizenry, and his power will all diminish as a result of his signing up. So, if this analysis were correct, it requires us to believe that the totalitarian is either unaware of, or deliberately acting contrary to, his own long run interest.¹⁸ It is noteworthy also that all the totalitarian regimes which have collapsed historically did so as the result of falling, not rising real income, and that the increase in income in China has resulted in not the slightest relaxation of repression there after almost two decades of reform and spectacular economic growth. The case for trade with totalitarian regimes, therefore, is particularly weak.¹⁹

Finally, suppose that the human rights constraint cannot be implemented, either because the target regime is too powerful, or because no agreement can be reached among the countries involved in implementing the policy. Then there is a difficult choice between a policy of sanctions, on the one hand, and trade agreements with no human rights constraint, on the other. Of course, the actual choices are never this stark, and the actual policies followed will be a mixture of trade and sanctions, but the basic principle involved in the choice remains one of engagement or isolation. In that case, the analysis here implies that the least harm is likely to come from a trade agreement with a tinpot regime, the most harm from trade with a totalitarian, with tyranny an intermediate case.

These policies are strictly “second best” in the economist’s terminology. Note that an analogous set of second best policies exist for aid as well – aid in the absence of a progressively tightening human rights constraint will probably do less harm to a tinpot’s subjects (in the sense that it will just be wasted, rather than actually increasing the level of repression) than to those living under tyranny, and less harm to the citizens of tyranny compared to those in a totalitarian regime. The single standard, however, based on the progressive human rights constraint, remains the first best policy, and indeed the only one which is unlikely to cause

¹⁸ Note that the situation is very different for a tinpot, for whom the relaxation of repression following a trade agreement serves his interest, rather than acting contrary to it, as is the case for a totalitarian.

¹⁹ The analysis of the effects of trade on tyranny is identical to that for totalitarian regimes; the only difference is that the magnitude of the change in the supply of loyalty is smaller.

harm. The analysis also suggests that the key to unravelling the dictator's hold on power is to attack the instruments that are used to maintain his hold on the population, namely repression and loyal support. Other policies can be used for this purpose, even where agreement and coordination among the democracies is weak. One example is to provide external support for dissidents and for resistance movements inside the regime, as was done in South Africa, but is often neglected in the case of China. Perhaps even more important, the message here is that dictators survive on the basis of the support of segments of the population, and attacking these bases of support is an important tool to undermine the regime. Finally, it is worth emphasizing that all of these conclusions are based, not on the principle that we should do things that make us "feel good" but simply on the idea that dictators are for the most part rational, and respond to incentives, and these policies provide them with an incentive to relax the degree of repression under their regimes.

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