

## The Political Economy of Post-Communist Autocracy: The Continuum Between Dictatorship and Democracy

*Radmilo Pešić and Branislav Boričić* \*

### **Abstract**

*The article deals with the economic behaviour of a hypothetical political leader in the institutionally underdeveloped democratic environment of a transitional society. By using Stigler-Peltzman's model of economic regulation, it has been shown that there is no optimal solution for an autocratic leader. In the long run, wealth transfer to political supporters alone is not sufficient for the autocrat to stay in power. That's why such regimes are generally unstable, and will ultimately be either overthrown or transformed into 'hard' dictatorships. The marginal costs of regime protection and opposition, crucial for the political behaviour of conflicted social groups, can be considered as political turning points responsible for sudden and unexpected social changes.*

**Keywords:** *autocracy, economic regulation, post-communist transition*

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\* Radmilo Pešić, Professor of Economics, Department of Agricultural Economics, Faculty of Agriculture; Branislav Boričić, Professor of Mathematics, Faculty of Economics; both University of Belgrade, Serbia and Montenegro

## **1. Introduction**

Democracy can be delineated by three essential features: 1 regular free and fair elections on the basis of universal suffrage; 2. responsibility of the state apparatus to the elected representatives and 3. guarantees of freedom of expression and association (Huber, et al. 1993). On the other side, a dictatorship can briefly be outlined as the use of repression to stay in power (Wintrobe 1998). According to a broader definition by Friedrich and Brzezinski (1965), a totalitarian dictatorship can be described by six characteristics: 1 dominance of an official ideology; 2 a single party led by an individual; 3 terrorist use of the police force; 4 monopoly of mass communication and media; 5 monopoly of armaments, and 6 state control of the economy. In all of the transitional countries in Eastern Europe and Central Asia that was the case during the age of communism, which gives us a rationale to use Friedrich-Brzezinski's definition in this context.

During the nineties, after, in some cases dramatic political changes, in most of the mentioned countries, a new wave of democratisation has been initiated. In the contrast to the high expectations, the political and economic reality was much harder. Underdeveloped institutions, lack of human capital, and still-strong resistance of the previous system created a state of uncertainty in most of the transitional countries. Only the countries that had inherited substantial levels of human resources with firm memories of democracy and a market economy have succeeded in creating adequate institutions (Slovenia, the Czech Republic, Slovakia, Poland and Hungary). It is not surprising that transition in the mentioned countries can be considered as a great success.

In other emerging democracies, transition was a less successful story. Owing not only to the economic problems, and the so-called transitional instability (Rostowski 1998), in most of the slow-reform countries many problems and uncertainties in the democratic processes are evident. Numerous examples can be found in Serbia, Belarus, Moldova, Ukraine, Russia, Georgia, Turkmenistan, Azerbaijan etc. In order to give a precise image of the underdeveloped democracy we shall compare the existent conditions with the Friedrich-Brzezinski definition.

In all of these transitional societies there is no longer any official ideological background for the classical dictatorship. The Marxist-Leninist ideology has been abandoned. It is surprising that liberal-democratic, even libertarian, ideas are very popular in academic and professional circles, even in very underdeveloped democracies. However, the broad population is frequently overwhelmed with a mixture of nationalism and populist ideas.

In all of the analysed countries there is no longer a single party monopoly. However, the political life is far from being competitive. In many of the transitional countries dominance of the leading party or a group of parties can be seen. All of such quasi-monopolistic parties are linked to an autocratic individual, and very much inclined to the use of repressive means in order to stay in power. Most of such autocrats accept, at least, a formal democracy (accepting political elections at regular time intervals, plus accepting foreign observers in order to create an illusion of fairness and freedom, even accepting a theoretical possibility to loose the elections)<sup>1</sup>. However, they still maintain more or less a monopoly of the media and mass communication, and an absolute monopoly of armaments. They frequently support the illegal use of the police force, and most off all, they strongly support political control over the economy.

In order to stay in power new leaders primarily, but not exclusively, use the instruments of economic regulation and redistribution. Other means of keeping the political status quo, so common to the classical dictators, have a limited significance, owing to the domestic political opposition and international pressures. The new breed of political leaders in the post-communist societies can be called “soft autocrats”, in contrast to the “hard” or classical dictators from the communist era.

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<sup>1</sup> In dealing with the sensitive issue of what policies should be followed toward dictatorship by democratic regimes Ronald Wintrobe (1998) concluded that human rights observance should be the cornerstone of Western policy. Just in order to satisfy at least some basic human right standards, post-communist autocrats have a tendency to accept the necessity of political elections.

In the modern political economy a considerable analysis is devoted to alternative forms of democracy and dictatorship. The continuum that lies between these two pure forms of government has recently been analysed in the form of “King and Council Template” (Congleton 2001). By providing an efficient explanation for the bipolar model of government, Congleton (2001) suggested that a division of policy-making responsibilities between a single executive (king, president, prime minister) and a council (congress, parliament, assembly, committee) offers a durable and universally-applicable political solution.

In most of the slow-moving transitional countries, political power lies much more in the hands of a single executive than in the hands of, in most cases, a newborn and still weak council. In all societies where the single-executive (or “a king”) pattern has a historical supremacy over the “council” pattern, especially where the tradition of parliamentarianism has been weak, a certain time is needed to establish and develop democratic institutions. In such societies, even the possibility of fair political elections will not guarantee that the state apparatus will be responsible to the elected representatives, which is the essential feature of political democracy. On the contrary, the state apparatus will be responsible primarily to the autocratic leader who regulates and controls, punishes or rewards. In order to analyse the political reality of post-communist societies that are less rapid in reforms, or less successful in transition, we are going to apply the “soft autocracy” template.

## **2. The Model**

George Stigler’s work on the theory of economic regulation (Stigler 1971) inspired Sam Peltzman to create an optimal regulation model (Peltzman 1976). Formalising the previous recognition, Peltzman created a more general model, which applies to any situation of political wealth redistribution. In our attempt to analyse the economic behaviour of an autocrat, some of the Peltzman basic assumptions and relations have been used. In our model, a post-communist political leader, no matter how he originally came to power, is confronted with elections at regular time intervals. Assuming that some political elections do exist, without consideration of how fair they

really are, we have introduced the possibility that the autocrat may be overthrown. In our model the autocrat is not in a position to rule endlessly, but as long as he rules, his power is unlimited. There are no possibilities of any political interference by the parliament, or by any other political structure. It is the case of an unlimited regulation power that may be challenged from time to time by the election process.

Ignoring the possibility of political support due to irrational and emotional reactions (like in situations of external threats to the country), we are strictly oriented to economic terms. We assume that the rational political leader is in the position to maximise his political support, by transferring wealth to a group of his followers – which in the broadest sense could include the public in general, although this is less common<sup>2</sup>.

Our analysis is based on the assumption that in most cases political leaders transfer wealth primarily to a more narrow group of supporters. Wealth transfer is an instrumental variable to the autocrat. The amount of wealth transferred to the beneficiary group can appear in many different forms: ownership or tenure of the valuable natural resources, possession of specific administrative allowances, like export or import permits, unlimited access to hard currency, or favourable credit arrangements, etc. All of these options are aimed at giving a monopolistic or privileged position to the nomenclature members, in order to make them support the leader. On the other hand, the political leader expects that a certain portion of the wealth transfer will end in his account, by “voluntary” donations of the nomenclature members to his political campaign.<sup>3</sup>

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<sup>2</sup> Transferring wealth to the entire population can be very expensive. The only way for the political leader to obtain wealth for such a wide public support is from foreign sources. A rare historical case of such political practice was found in President Tito's Yugoslavia from the 1950's to 1980, where the amount of generous help to Yugoslavia was very high and persistent (Prickett et al. 1990). However, there was another specificity of the former Yugoslav case. Although J. B. Tito had started his political career as a totalitarian dictator, he turned out to be the best example of a dictator-timocrat in Wintrobe's sense (Wintrobe 1998).

<sup>3</sup> Actually, the autocrat is also interested to maximise this flow, called “a racket”. Sometimes, when the chances for political changes via elections are weak he is

If we assume that the probability of obtaining international financial support for such a regime is quite low<sup>4</sup>, it becomes logical to conclude that the above-mentioned wealth transfer can be made by impairing the rest of the population. In such a case, the injured parties will create a political opposition and will vote against the autocratic leader.

To put this formally, we will use Peltzman's equation describing the goal function of the regulator. In Peltzman's model, the regulator wants to maximize a majority of votes  $M$ , generated as a difference between political support and political opposition:

$$M = n \cdot f - (N - n) \cdot h \quad (1)$$

where

$n$  - number of potential voters in the beneficiary group

$f$  - (net) probability that a beneficiary will grant support

$N$  - total number of potential voters

$h$  - (net) probability that a voter excluded from the beneficiary group opposes.

In our model the autocrat is also maximizing  $M$ , in order not to stay in power<sup>5</sup>. Both gainers (nomenclature members) and losers (the rest of the population) face transaction and information costs, so  $f$  and  $h$  are between 0 and 1, but never either 0 or 1:

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more interested in the amount of the "racket" than in political support. In other words he may become a kind of a tinpot-dictator (Wintrobe 1998).

<sup>4</sup> Post-communist autocracies are not only unpopular in the democratic world, but some of them have also been exposed to serious international economic sanctions. It may be justifiable to introduce the assumption of a relatively closed economy into the analysis.

<sup>5</sup> To win the elections,  $M$  should be positive. Winning the elections with a low margin, (positive but small  $M$ ) may be theoretically sufficient for the leader to stay in office. However, to remain being an autocrat, a high  $M$  is needed. The higher  $M$  is, the more certain is the political victory of the autocrat, and the influence of the Parliament (including political opposition) is lower.

$$0 < f < 1 \quad \text{and} \quad 0 < h < 1 \quad (2)$$

The probability of support (the probability of voting *for*) depends on the per capita benefit (gain) obtained from the wealth transfer, diminished by per capita amount of the “voluntary” wealth re-transfer, or the “racket”, to the autocrat or his party, plus per capita costs of the regime protection.

The probability of support may be specified as  $f = f(g)$ , where  $g$  is per capita net benefit, or gain, received by a member of the supporting group

$$g = \frac{T - K - C(n)}{n} \quad (3)$$

with

$T$  - total pecuniary amount of wealth transfer to the beneficiary group

$K$  - total amount of the “voluntary” donations to the leader or the “racket

$C(n)$  - amount of the regime protection costs (police, security forces, judiciary institutions).

The probability of opposing the autocrat (or the probability of voting *against*) depends on per capita damage,  $h=h(d)$ . The per capita damage  $d$ , to a member of the non-beneficiary group, is equal to the wealth transfer  $T$ , plus per capita cost of opposition.<sup>6</sup>

$$d = \frac{T + Z(N - n)}{N - n} \quad (4)$$

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<sup>6</sup> In our analysis we have neglected the allocative effects of wealth transfer, from one group to another, assuming that the total amount of gain equals the total amount of loss,  $T$ . This simplification is based on the assumption that both social groups would use the transferred wealth with an equal efficiency.

with

$Z(N-n)$  - total amount of the opposition costs (income sacrificed because of striking, costs of job loss, costs of political organising, all other pecuniary and non-pecuniary costs of resistance).

The probability of support  $f$  is determined by the net per capita benefit  $g$ ; the greater the net benefit is, the higher the support will be. Symmetrically, the probability of opposing the autocrat  $h$ , depends on the per capita damage,  $d$ . The greater the per capita damage is, the higher the probability that opposition will occur. This means that:

$$f_g \geq 0 \text{ and } h_d \geq 0 \quad (5)$$

In keeping with the Stigler-Peltzman model, we also assumed that  $f_{gg} < 0$ ,  $h_{dd} < 0$ , which means that benefits and losses are subject to diminishing returns. These relationships imply that the continued use of wealth transfer for maintaining the political power, will produce diminishing effects<sup>8</sup>.

At the same time, cost functions  $C(n)$  and  $Z(N-n)$  decrease in respect of  $n$  and  $(N-n)$ , which means that the more supporters of the political idea exist, the easier, or cheaper, is to promote it.

$$C_n < 0 \text{ and } Z_{(N-n)} < 0 \quad (6)$$

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<sup>7</sup> Unless specified otherwise, subscripts will denote partial, or where appropriate, total derivatives:

$$\frac{\partial f}{\partial g} = f_g \quad \frac{\partial h}{\partial d} = h_d \quad \frac{\partial^2 f}{\partial g^2} = f_{gg} \quad \text{and} \quad \frac{\partial^2 h}{\partial d^2} = h_{dd}.$$

<sup>8</sup> A similar assumption can be found in the Wintorobe's model of a tinpot regime (Wintorobe 1998:46)

<sup>9</sup> The more supporters the autocrat has, the total regime protection costs  $C(n)$  are more lowered. However,  $C(n)$  could never reach minimum, becoming zero, because it is highly improbable or impossible that all members of the society are supporting the autocrat. Consequently,

In an attempt to optimise the political position, the autocratic leader will try to maximize  $M$ , using the amount of wealth transfer  $T$ , the amount of re-transfer  $K$ , and the size of beneficiary group  $n$ , as instrumental variables. Mathematically we are looking for

$$\max M = n \cdot f \left[ \frac{T - K - C(n)}{n} \right] - (N-n) \cdot h \left[ \frac{T + Z(N-n)}{N-n} \right] \quad (7)$$

The partial derivatives of  $M$ , with respect to  $T$ ,  $K$  and  $n$ , and the corresponding first-order conditions are:

$$M_T = \frac{\partial M}{\partial T} = nf_g - (N-n)h_d = 0 \quad (8)$$

$$M_K = \frac{\partial M}{\partial K} = -nf_g = 0 \quad (9)$$

$$M_n = \frac{\partial M}{\partial n} = f(g) + h(d) - f_g(C_n + g) + h_d(Z_{N-n} - d) = 0 \quad (10)$$

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$$C_n = \frac{\partial C(n)}{\partial n} < 0.$$

A complementary assumption can be made for the opposition costs; the more of the population excluded from the beneficiary group, the lower the costs of political resistance are. However, owing to the fact that it is impossible for all members of the society to oppose the autocrat, the opposition costs could never reach minimum, becoming zero. Consequently,

$$Z_{(N-n)} = \frac{\partial Z(N-n)}{\partial (N-n)} < 0.$$

Combining equations (8) , (9) and (10), for  $n \neq 0$  and  $N \neq n$  , yields the following solutions:

$$f_g = h_d = 0 \quad (11)$$

$$f(g) = - h(d) \quad (12)$$

From the autocrat's standpoint, it can be concluded that the optimal level of wealth transfer is one that equates marginal probability of support (voting *for*) with marginal probability of opposition (voting *against*).<sup>10</sup> At the same time, optimal level is the level that equates both of the marginal probabilities with zero.<sup>11</sup> However, the solution obtained from equation (10), also seen in (12), is in contradiction with the condition in equation (2). Having in mind that both of the probabilities can only be positive, we conclude that there is no solution for equation (12). This means that under the previous assumptions, there is no possibility for the autocrat to maximise a political majority.

Maximisation of the “voluntary” wealth re-transfer or maximisation of the “racket” may be another political goal of an autocratic leader. If he assumes that the political potential for change is low, and that there is no chance for the opposition to win the elections, his primary interest will be focused on  $K$ . Using the inverse function differentiation rule we have:

$$K_M = \frac{\partial K}{\partial M} = - \frac{1}{nf_g} \quad (13)$$

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<sup>10</sup> From equation (8)

<sup>11</sup> From equation (9)

However, owing to the fact that  $-1/nf_g$  can never be zero, and  $K_M \neq 0$ , we conclude that there is also no chance for the autocrat to maximize the “racket”.

The impossibility of optimising either  $M$  or  $K$ , as a goal function, reveals the political instability of the autocrat’s position if he relies only on wealth transfer to his supporters. This gives him a choice either to use other means of keeping power, typical for totalitarian dictators, or, sooner or later, to lose the elections.

Let us turn our attention to other members of the society. A potential voter *for*, or a member of the beneficiary group, will try to maximise his per capita net benefit, or  $g$ :

$$\max g = \frac{T - K - C(n)}{n} \quad (14)$$

The corresponding first-order condition is as follows:

$$\begin{aligned} g_n = \frac{\partial g}{\partial n} &= -\frac{1}{n^2} [T - K - C(n)] - \frac{1}{n} C_n = -\frac{1}{n} (C_n + g) = 0 \\ \text{i.e. } g_{opt} &= -C_n \end{aligned} \quad (15)$$

Because of (6), it is clear that  $g > 0$ , meaning that the optimum for a beneficiary group member is equal to the negative value of the marginal regime protection costs.

On the other side, a member of the opposition group will try to minimize his per capita damage:

$$\min d = \frac{T + Z(N - n)}{N - n} \quad (16)$$

From the first order condition

$$\begin{aligned}
d_{N-n} &= \frac{\partial d}{\partial(N-n)} = \frac{-1}{(N-n)^2}(T + Z_{N-n}) + \frac{Z_{N-n}}{N-n} = \\
&= \frac{1}{N-n}(Z_{N-n} - d) = 0 \\
\text{we obtain: } d_{\text{opt}} &= Z_{N-n}
\end{aligned} \tag{17}$$

From (17) it becomes obvious that the optimum for an opposition member (the minimal per capita damage) is equal to the marginal opposition cost.

### 3. Conclusion

In order to explore the political reality of post-communist societies, a model of “soft autocracy” has been developed. The model is based on experiences from a number of East European and Central Asian countries characterised by the slow pace of transition, underdeveloped institutions, and the lack of democratic traditions. A very significant role for an individual political leader and a quite minor role for collective governance institutions is a common feature of such countries. In the contrast to the totalitarian dictators, from the age of communism (Stalin, or Chausescu), new autocratic post-communist leaders (Milosevic, Sevarnadze, Lukasenko) are more oriented toward economic regulation. Although much of the classical totalitarian instruments of power keeping can be found in their arsenal, the new autocrats are primarily oriented on wealth redistribution in favour of political supporters, in exchange for their loyalty. From the model we have developed, two conclusions can be made.

*First:* In a hypothetical post-communist society, there is no optimal solution for the autocratic leader. Relying solely on wealth transfer to the supporters does not guarantee staying in office in perpetuity. A possible way of staying in power is either to revoke the elections, or to counterfeit the election results. This means that the previously developed model of so-called “soft autocracy” will ultimately be transformed into a “hard dictatorship”, with no elections, and no legally-permitted opposition. However, in the contemporary world, such a course of events is not probable, and the durability of such a

regime would be highly questionable. The end of autocracy seems to be a more probable outcome.

In the model, there is also no optimal solution for the “racket” maximization. This means that if the autocrat decides to act as a tinpot, in order to satisfy his personal and political demand for wealth, he will ultimately be transformed into a plunderer, robbing, in the terminal phase of his government, not only members of the opposition, but members of the beneficiary, or nomenclature, group too<sup>12</sup>. This will trigger a shift in their political preferences and can be considered as “sparks that will lead to prairie fires” in Timur Kuran’s (1989, 1991) sense.

*Second:* In economic terms, the marginal costs of regime protection and marginal costs of opposition determine both of the social groups’ optima. This reveals the significance of the costs imposed either on the beneficiary group (regime protection costs), or on the opposition group (costs of resistance). When beneficiary group members conceive the regime protection costs to be too high, they will change their political preferences and their alienation from the dictator will be increased<sup>13</sup>. However, when opposition group members conceive resistance as too expensive, their political behaviour may become less radical. Those moments can also be considered as political turning points in Kuran’s (1995) sense. Such turning points, caused by the individual perception of marginal political costs, may be crucial for understanding the sudden changes in political behaviour.

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<sup>12</sup> This is in accordance with Mancur Olson’s (1991: 153) statement that an insecure autocrat is likely to plunder the society.

<sup>13</sup> This may be an example of an “unpleasant experience with the government” which can cause “a slight shift in one individual’s threshold” (Kuran, 1991: 122). Such preference shifts are vividly described in Tim Marshall’s chronicle of political changes in Serbia (2002).

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