16. Democracy and low-income countries*

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1 DEVELOPMENT SUCCESS AND FAILURE

Although collective decisions made by voting promise neither justice nor efficient outcomes, democracies can be tempered by constitutions and, we would hope, by ethical norms. There is no controversy that life for a population at large in general is better in democracies than in autocracies. Is democracy, however, a necessity of economic development? There are few cases where success has been achieved without the accountability of democratic institutions. The prominent case of successful economic development under autocracy is Singapore. The state in Singapore placed paternalistic restrictions on individual behavior to implement what Tremewan (1994) has called ‘social control’, and also used industrial policy including directed credits to guide and regulate investment. Growth took place with high income equality and private property was protected. It was the mainstay of normative models outside of the public choice framework that government is a benevolent dictator. In Singapore, this was the reality. Paternalistic regulation was, however, quite extensive, and included restraints on individual choice such as banning of long hair on males and disallowing chewing gum. There can be debate about justifications for disallowing long hair on males (ostensibly to avoid sexual confusion but also to preempt public demonstration of teenage rebellion) and whether the discomfort of sitting on other people’s chewed gum warrants a ban on chewing gum. The ‘social control’ was, however, directed at emphasizing education and self-discipline, and establishing a culture of respect for others, and self-reliance.

Singapore has been the exception rather than the rule for development outcomes in autocracies. A general theory of development success and failure however encompasses and explains all observations. High growth was also achieved in Taiwan and South Korea with institutions of governance that at times had attributes more akin to autocracy than to democracy. In China, high growth occurred without the competing political
parties of democracy, and with considerable regional diversity and income inequality.

Development failure has been most extensive autocracies in sub-Saharan Africa. The extensive development failure took place despite the efforts of the World Bank, the International Monetary Fund, and other donors to provide resources for economic development. The development failure was against a background of corruption, both of the low-level bureaucratic type and also at higher levels of government.

Throughout history, there have been ‘good’ kings and ‘bad’ kings. The ‘good kings attract attention, expressed in a long heritage of folk songs that attest to how unusual the good kings were. In economic analysis, ‘good’ and ‘bad’ autocratic rulers are distinguished by income appropriated for personal benefit: public spending under the bad ruler is reduced by personally appropriated budgetary revenue (Mueller, 2003). Or ways are found outside of the budget to use the authority of the state for personal benefit, through regulation or protection, or other means of creating and extracting rents.

Yet, if the ruler takes a share of the national income, why should the ruler not choose efficiency-enhancing policies that maximize the value of total income? That is, why does the ruler not act in the all-encompassing manner ascribed by Thomas Hobbes to his leviathan? With reasoning similar to Hobbes, McGuire and Olson (1996) proposed the principle of encompassing interest as the basis for a prediction that autocratic rulers will seek efficiency. An autocrat as residual claimant or taking a share of national income should have an ‘encompassing interest’ in internalizing all benefits from public spending and economic growth or development. Using other terminology (Olson, 2000), we can ask why do autocratic rulers not behave with extended time horizons of ‘stationary bandits’ but rather as ‘roving bandits’ who have short time horizons?

Institutions are in part endogenous (the part not embedded in culture). Since the autocrats control the society, why do they not, as was done in Singapore, choose the institutions that will increase national income? That is, why is Singapore not the model for autocratic rulers?

There are, moreover, reasons why autocracy can have advantages over democracy in the quest for economic growth. An autocratic ruler can apply his own time preference to intertemporal allocation and investment, and, being personally satiated in present consumption, might invest more than the population at large would want. There have been cases where present generations have been altogether sacrificed for the future, or at least for hopes for the future. Autocracy can also have an advantage over democracy in the quest for economic growth, because in a democracy policies that result in growth but distribute benefits unequally can be rejected by a majority of voters.
These considerations suggest no reason for the observed general association between autocracy and low growth. Rather, on the contrary, in being free of the constraints of democracy, the autocratic ruler can override the preferences of the population and achieve higher growth than would be achieved in a democracy. Growth can provide unequal benefits that a majority of the electorate if there were democracy might reject.

Our question is thus, since the self-serving autocrat should have an interest in maximizing the size of national income or the tax base for government revenue from which he takes his share through personal appropriation, why have the efficient policies and high growth that are predictions of the theory of encompassing interest not been realized, outside the exception of Singapore? Or why have the predictions of the principle of encompassing interest in general failed to be realized?

2 CONTESTABILITY AND THE ENCOMPASSING INTEREST

Hobbes’s leviathan rules without contestability by assumption, and by reason of the ruled who perceive their interest in avoiding exposing themselves to each other’s base instincts. Regime stability and security are ensured, and resources are not used in contesting the position of the ruler. Within the monarchic systems that existed in most places for most of recorded human history, succession through divine right was similarly intended to set in place disincentives for quests to supplant the monarchs.

However, dynastic monarchies fall, as do autocratic regimes. Rent-seeking theories explain how rents of privileged office attract resources, and minds and abilities, to supplanting incumbents (Tullock, 1989). Incumbents at the same time use abilities and resources in rent-protecting activities.

If successfully challenged, deposed autocrats are rarely permitted to retire peacefully to their estates. Their wealth and their memories of past power pose a continued threat to the new incumbent. The ousted autocrat flees if he can, and places assets abroad in anticipation of the necessity of fleeing.

The encompassing interest is thus compromised by the rents of office and the means of contestability of autocratic government. Loss of the personal authority of government is in general loss of all domestic wealth. The requisites of survival and the dire consequences of displacement tend to make autocrats unpleasant unkind people.

An incumbent can reduce the incentives of challengers by reducing the rents of office. McBride (2005) has proposed that policy ‘reforms’ in sub-Saharan African autocracies are explained by incumbents making challenges to the regime less attractive. The incentive for efficiency-enhancing policies
predicted by the principle of encompassing interest is in that case self-preservation.

Threats to the regime under autocracy need not, however, result in responses that are efficiency enhancing. The consequence of contestability can be increased repression. Economic growth is then impeded because of the use of resources for repression, and the effect of repression, on personal incentives of the repressed to be productive.12

We have a first reason for failure of the prediction of development success based on the encompassing interest. Attributes of contestability of autocracy expressed in institutions do not allow deposed autocratic rulers claims to property (and perhaps life).

Without appropriate institutions, discovering new natural resources can be socially undesirable.13 The contestability of natural resource wealth can be accompanied by great cruelty, in particular when the members of contending sides are tribally or ethnically distinct and identifiable.

In oil autocracies, personal wealth of the rulers consists of proceeds from past extracted natural resources plus the oil wealth that waits to be extracted. Personal property rights to the extracted wealth are not secure in the face of a change of regime, and property rights to the non-extracted wealth are not all protected, should there be a regime change.

3 CORRUPTION

Reasons beyond contestability of government under autocracy explain the failure of the principle of encompassing interest. Before proceeding to these additional reasons, background regarding corruption is useful.

3.1 Endogenous Ideology

As noted, ‘ideology’ and institutions can be endogenous. Lee Kuan Yu in Singapore chose private property distributed among the population. Friedrich von Hayek pointed out (The Road to Serfdom, 1944) that autocracy requires the means of control over others. An autocratic ruler has reason to accept, with fervor and enthusiasm, an ideology that centralizes economic and political control. ‘Socialism’ was correspondingly widely accepted by proclamation as the path to development by the ‘strong men’ of post-colonial Africa, and also elsewhere in other locations where development failed.14 Socialism is the most adept system for obtaining personal income from corruption (since all basic economic decisions in life, personal income, employment, accommodation and access to resources depend on decisions of other people). The principle of encompassing interest might
predict avoidance of corruption as an ‘endogenous’ or discretionary policy, because of the incentives for rent extraction and rent seeking when corruption provides incomes that can be unproductively sought. Why then choose an economic system that facilitates corruption or theft within government? If bribes within different levels of government bureaucracy are informal substitutes for formal taxation, why allow corruption rather than choosing private property and market incentives, and behaving as a ‘leviathan’ government to maximize formal tax receipts?

3.2 Corruption and Income Distribution

The distinction between high- and low-level corruption is important. Bureaucratic or low-level corruption is disadvantageous for corrupt higher-level government officials. Yet low-level corruption is tolerated, or allowed or encouraged in autocratic societies because corruption is a form of income distribution whereby rulers increase incomes of others who are then supportive of the regime that allows their gains from corruption.

A norm underlying the political culture is often that each member of the cabinet or council of ministers has a domain of control that is the source of personal income through the authority of the state. The motivation to achieve high-level office is to receive the financial rents that are associated with the office in government, and also the ego-rents. With such norms of political behavior, there are feelings of neither guilt nor shame in being corrupt. There is rather pride in success. The pride is demonstrated in ostentatious and conspicuous consumption that is evident to all as inconsistent with official incomes.

In such circumstances, corruption impedes the realization of the prediction of the principle of encompassing interest, because of the inhibiting effects of corruption on growth. The corruption sustains regime security, through loyalty of the beneficiaries of corruption.

3.3 Democracy and Corruption

In democracies, being a ruler does not usually ensure great personal wealth. There is a substantial middle class, and the people are in general well off, and in different degrees those unable to provide for themselves benefit from tax-financed welfare programs of the state. Democracies curtail corruption and political venality through the accountability of political competition and a free press. It is a sign of an honest society when politicians are in jail. In autocracies, with few exceptions, rulers are rich and the people are poor, and there is no substantial indigenous middle class. In autocracies, also, it is opposition leaders who are in jail.
Democracy does not ensure absence of corruption. Gains from corruption can be contested through political competition. For example, in Pakistan political competition became a contest between elitist family alignments with geographically concentrated support, and with at times dynastic succession (which has also been present in the democracy of neighboring India). In another example of coexistence of democracy and corruption, democratic change of government, uncommon on the African continent, did not change the self-serving objectives in the government of Kenya. In some states of the former Soviet Union also, corruption coexisted with political competition.

The question is then not so much whether there are democratic institutions and political competition but rather whether the political culture allows personal material reward through government of office.

### 3.4 Nietzschean Hierarchies

When corruption is pervasive and open, the terminology of ‘corruption’ seems inappropriate. Corruption suggests an illegal activity that is punished, if revealed, through the legal system. Income from corruption is therefore expected to be furtive and not ostentatiously displayed. Yet, as we have observed, ruling elites and high-level bureaucrats often take pride in ostentatious displays of the income from ‘corruption’.

When everybody is corrupt, those who seek to displace corrupt incumbent rulers are themselves corrupt, and will continue to be corrupt if successful in replacing incumbents. In such circumstances, the state is not the instrument of the rule of law. The conditions are present of what I have termed a ‘Nietzschean society’ (Hillman, 2004a). In a Nietzschean society, personal behavior is devoid of ethics. Whether an act is moral or just is of no consequence for personal behavior. Outcomes are determined solely by whether a person is strong or weak, according to what can be imposed on others and what can be resisted.

There is injustice in a Nietzschean hierarchy of strong and weak. Associated incentives also make the society inefficient. The incentive of the weak in a Nietzschean society to be productive is diminished by the likelihood that the strong will take their output. At the same time, the strong are distracted from productive activities by the likelihood that they will find weak people who have chosen to be productive, and whose output or income they can take. The weak have incentives to convince the strong that they are lazy, and that, if they do work, they do not produce very much. Limits on social mobility ensure that the children of the weak will also be weak. Parents then have incentives for cultural transmission of means whereby how utility can be achieved through non-appropriable leisure activities.
The inefficiencies of a Nietzschean hierarchy are diminished if the strong adopt the time horizons of stationary bandits who have an interest in the survival of the prey into the future, or have an interest in efficiency because they take from the weak repeatedly over time. The encompassing interest is to act as a stationary bandit. If the strong nonetheless face challenges, from others who are strong, then the incentive is to behave as a roving bandit. Another source of compromise of the encompassing interest is thus through incentives not to behave as stationary bandits.

3.5 Nietzschean Transmission through Migration

The weak can escape through emigration, as refugees seeking respite from the strong. Nietzschean hierarchies then influence Western societies. A local society can confront an immigrant society that retains former norms of behavior including, as in the Nietzschean hierarchies that were left behind, diminished incentives for self-reliance and appeal to magnanimity of the strong, who are perceived as the wealthy high-income indigenous society. If, in the previous Nietzschean society from which emigration took place, there was a culture of reliance on episodes of magnanimity of the strong, in the new Western society the substitute is the conception of the magnanimous welfare state. Perhaps there is a perception that all people, not just the immigrants, are beneficiaries of the magnanimity of the state, and that the state selectively disadvantages the immigrants – or the state may be perceived to disadvantage immigrants’ children, who, although offered free-access education, do not succeed scholastically.

The Nietzschean hierarchy is transplanted to local neighborhoods where the physically strong, organized in groups to increase their strength, rule the streets and apartment complexes. Nietzschean principles of physical strong and weak come to apply to the form of protest. Crime or destruction of property is a Nietzschean act.

4 AID AND THE HOSTAGE PROBLEM

It is a natural inclination, and a moral obligation, to help people on whom misfortune has fallen. Aid can be given domestically in high-income countries to local and immigrant populations that have not been successful in integration into local labor markets. Aid is also given to ‘poor countries’.

The local aid to immigrant populations can sustain dependence on the state. For foreign aid, the evidence is that aid has overall been ineffective in increasing incomes of poor people in poor countries.
Foreign aid can have the same adverse consequences through rent seeking as discovery of natural resources. Aid resources might be used for investment and future consumption, if the rule of law were present to provide recognized property rights and to make being strong and weak of no consequence for identity of beneficiaries of the aid. With appropriation not recorded in the national accounts, there is no recorded gain from aid. The aid disappears in unrecorded consumption, or through capital flight. The aid at the same time decreases growth through the resources used in contesting claims to aid resources.

The evidence is consistent with the prediction that we would make about aid to the poor provided through the channel of Nietzschean government. We expect the aid to be taken by the strong rather than finding its way to the weak.

There is an associated hostage problem (Hillman, 2002). The poor (or weak) are hostages, held by the strong who control the distributional channels of government. The poor are kept poor, so that aid resources provided for the poor will continue.

We might view appropriation of aid as a tax imposed by the strong on the aid agencies seeking to help the weak. The international aid agencies have displayed a willingness to pay the tax. In some cases, the value of the tax has been computed. It was a claim of the successor to the Suharto government in Indonesia that the tax should be deducted from the debt owed to the World Bank, on the grounds that the tax (or ransom) was knowingly paid by the World Bank to the former ruling family and was therefore not part of the state debt.

‘Shocks’ can upset development intentions. Van de Walle (2001) concludes from a detailed study of policy implementation in Africa that shocks have been endogenously contrived by governments so as to maintain the need for foreign aid and to avoid the continuation of obliged ‘reforms’ that were underway before the shock occurred. The poor remain hostages, and pointing to the shocks is the means of explaining why aid resources have been ineffective.22

Aid of course reaches beneficiaries, in particular when there is close on-the-ground monitoring of project aid.23 The Nietzschean strong cannot take all the aid and expect more aid to be forthcoming.

The hostage problem requires corruption to preempt the poor becoming self-reliant. There are also direct benefits of corruption, through appropriation of funds for the new projects financed through aid.

The poor as hostages also preempts the growth of a middle class. The principle of encompassing interest predicts productive investment in infrastructure and in human capital of the population through health care and education. The foundations for a middle class would then be put in place.
The middle class would demand political accountability through democratic institutions. Fear of a middle class is therefore an impediment to the realization of the predictions of growth and development based on the ‘encompassing interest’.  

5 EDUCATION

There is a case based on self-interest for the rich to finance the education of the children of the poor. By being made self-reliant, the children of the poor will in the future contribute to budgetary revenue rather than require welfare payments (Hillman, 2003, ch. 5). Hence, although public education can be inadequate compared to exclusive private schools, there is in general intent in democracies of providing quality education in government schools. Because of the links among education, economic development, a middle class and democracy, the same incentives to provide universal quality education are not present for the rulers of poor countries. Again, the principles of encompassing interest fails.

5.1 Self-financed Education

In different instances, parents in poor countries seek to self-finance quality education for their children. The parents respond to an absent or inadequate government school system by paying school fees. The fees might consist of payment in kind, such as food for the teacher or assistance in maintenance of the school.

Whether parents pay to educate their children depends on demand as well as supply considerations. The supply side is expressed in whether quality government-provided free-access education is available. Willingness to pay for private education also depends on the demand for education, reflected in the evaluation of the benefits of the alternative of child labor. Child labor should, of course, be illegal but is another aspect of failure to provide pre-conditions for development in poor countries.

Demand for education differs for boys and girls. There is a gender bias against girls in many poor countries. Also, girls and sometimes children more generally do not attend school because of the need to care for parents with AIDS, or to care for orphaned siblings.

Where the government has failed to provide quality schooling and the demand is present, payment of user prices or school fees is a means of providing children with an education, and circumventing the government disincentives, or reluctance, or lack of means (since past education policies will have produced poor teachers) to provide quality free-access education.
We find expressions of opposition to private payment for education by poor families in poor countries. Oxfam, one of the more prominent non-governmental organizations, has for example taken the position that poor parents in poor countries should not be permitted to pay privately for the education of their children because education is the responsibility of government. A market option for education is thereby denied poor families (but not rich families). With autocratic governments not providing quality education, denial of the market option is denial of educational opportunities for children of poor families.

5.2 Social Mobility and Education

Social mobility affects demand for education. Parents perceive little gain from investing in the education of their children, if the education that their children receive is not accompanied by social mobility. The objective of sustaining dominance of the ruler however stands in the way of social mobility. A Nietzschean hierarchy of course impedes social mobility.

5.3 The Content of Education

The content of education also affects economic development. Education that is confined to rote learning of dogma does not provide the attitudes, skills and receptiveness to new ideas and technology required for economic development. Where government has failed to provide quality free-access education, non-government alternatives do not necessarily provide the requisites for economic development. If children are taught that their beliefs and ways are superior by divine authority, that successes in this world that are due to them have been usurped by others, and that there are rewards from retribution in this world provided in the next world and this is believed we should not expect successful economic development.

5.4 Skilled Emigration

We have previously noted consequences of migration of unskilled populations to Western countries. Emigration of skilled people from poor countries is often lamented as disadvantageous for development. It has been noted that returns to human capital in richer foreign countries provide the incentive for investment in education, where possible, in poor countries with little internal social mobility. The ‘brain drain’ is then beneficial for the people whose education allows legal emigration as a skilled self-reliant person. The autocratic rulers, for whom the presence of an educated population threatens regime stability, also benefit.
6 KNOWLEDGE AND GROWTH

There is reverse causality. Education increases income but also demand for education increases with income. As income increases, the returns to education increase, and learning externalities underlie further growth and increased income. The process of endogenous growth based on education cannot begin when the incentives of government under autocracy are to impede rather than to promote quality education among the population.

Lack of quality formal education prevents technological advances from entering production processes. Transmission of technological change and knowledge is a personalized process, through people learning new ideas and understanding new processes. In the absence of necessary basic educational foundations, the population is not prepared for acquisition and application of advanced new knowledge. Evidence confirms that countries with poor formal education have low incomes and low growth (see Easterlin, 2004).

The conduit for knowledge can be the technical assistance of aid programs. However, aid programs often do not survive the departure of the foreign experts.

Knowledge can also arrive through expatriates who are needed because of the unavailability of local people with requisite knowledge or training. Where basic formal education remains lacking, local people cannot be trained to replace the expatriates.

The expatriates are in general not a threat to the regime. Still, in other cases, when if they stay long enough, or their families arrived generations previously, expatriates do come to be regarded as a threat to the regime, in particular if they continue to educate their children in private or foreign schools. The expatriates may then be expelled and their assets or land appropriated.

In Zimbabwe white farmers stayed in furtherance of a vision of a multicultural society where they, like other minority tribes, could be part of the broad society. They lost their farms under a claim of rectification of an unfair or unequal wealth distribution. The white farmers' properties appear in the main to have been taken by members of the ruling elite and not by poor people. At the same time as the white farmers were being evicted from their properties, the makeshift houses of the poor were being destroyed and the people dislocated, in a process termed a 'clean-up operation' but directed against tribal groups that had challenged, by democratic means, the rule of the presiding autocrat. The behavior is Nietzschean. The white farmers are evicted by force through the arrival of the strong on their properties. The homes of the defenseless dissident poor population are destroyed by force.
When the white farmers leave their properties, production falls off considerably or ceases altogether. Why do the farms not continue to be productive under the new owners who have appropriated the farms? Those who appropriated the farms seemingly did not have the requisite knowledge. We might also wonder why the new owners through appropriation did not offer the white farmers contracts to stay on and manage the farms.

7 HEALTH CARE

Different models can be applied to the role of government in health care. There are nonetheless responsibilities of government that are independent of the model of health-care provision. In democracies, governments sponsor and certify immunization of children against standard diseases and protect the public against diseases carried by animals. Contagious and infectious diseases are monitored and controlled as far as possible. In poor countries government often fails to perform such basic functions. The ruling family and the family of the elites may have access to good personal health care (if required, through evacuation), although they also succumb when public health policy has failed. AIDS, TB and malaria take their toll at all levels of society.

In contradiction to all scientific evidence, a government in Africa declared that HIV is not the proven antecedent to AIDS. Medications against AIDS provided at reduced prices to governments of poor countries have been found re-exported to richer countries. There are dire consequences for young girls in a Nietzschean society when men believe that sexual relations with a virgin will cure them of AIDS.

Malaria is a scourge in some poor countries. In Mozambique, BHP-Billiton, a private publicly traded corporation, eliminated malaria in the region where an investment project is located. Why did the government, which has responsibility for public health, not succeed in eliminating malaria with the external assistance available, while a private foreign company succeeded in doing what the government should have done?

8 THE SUM OF THE PARTS: THE UNITED NATIONS

Consideration of the United Nations is a logical extension of the theme of encompassing interest and personal behavior of rulers and elites in low-income countries. High-level corruption has been revealed at the United Nations. Of course, there should be no inference that everyone in the UN bureaucracy is corrupt. However, people bring with them
personal behavioral norms predicated on the political culture of the country that sent them to be part of the United Nations bureaucracy. The composition of UN membership makes corruption within the United Nations bureaucracy predictable. The sum of the parts is the whole. Corruption could only be absent in the United Nations, only if a Thomas-à-Becket effect could be relied upon to prevail.

The World Bank and the International Monetary Fund, which allocate large sums of money, are also international agencies. Yet is rare in these organizations corruption. We might speculate on the outcome, were disbursement of funds at the World Bank and the International Monetary Fund decided on the basis of the same collective decision rules and ethos of leadership as in the General Assembly or in the committees of the United Nations.

9 TERMINOLOGY

Terminology is important. One can refer to ‘government’ as an institution. ‘People in government’ acknowledges personal objectives. We speak of ‘countries’ as aggregates, because of the nation-state and the availability of national accounts and national statistics. However, we could not identify the hostage problem and other internal incentives that inhibit growth and development, if we were not to distinguish the poor or weak from the rich or strong within countries that are in per capita terms on aggregate poor.

Poor countries were once called ‘underdeveloped’. The terminology changed to ‘less developed’, and then to ‘developing countries’. The word ‘developing’ suggests that improvement is taking place and that perhaps aid resources are being put to good use and should be increased. The terminology belies the instances of persisting development failure.

10 CONCLUSIONS

We have considered why the principle of encompassing interest fails. Conclusions also take us in a number of other directions. We could ask about expectations from more resources provided to the autocratic regimes of poor countries. Or we might ask what we might expect from debt forgiveness: Easterly (2001), after a review of the evidence, has noted a tendency for a ‘steady-state’ level of debt to be sustained, so, after an episode of debt forgiveness has taken place, the level of debt increases back to the constant long-run level, with in general no economic growth or improvement in the lives of the poor. The effect is the same as that of direct aid: debt
forgiveness is of course also aid. The question perhaps is not what we expect from more aid or debt forgiveness, but why aid and debt forgiveness have continued for autocratic regimes in poor countries.

We have observed that an autocratic ruler faces severe personal losses if displaced from office. Since successful rebellion rarely originates from the poor (see Tullock, 1987), regime security is an incentive to keep the poor in persistent poverty. Through the hostage problem, the continuation of aid and ‘debt relief’, provides another incentive to keep the poor in poverty. The benefits of preempting a middle class provide further incentives. Autocratic government therefore keeps people poor. Autocratic governments do not deliver quality education and do not provide quality health care. Roads may not be maintained because new aid-financed roads or road reconstruction will provide new opportunities for bribes to government officials, but also maintained roads facilitate the access to markets that increases incomes and initiates the development of a middle class. A middle class that is educated, in good health, and that pays substantial or the major part of taxation, will seek political participation in how taxes are spent and decisions of government are made.

In the end, we come unavoidably to the issue of regime change. Yet democracy, if achieved, is fragile when political support is regionally based or when ethnic and tribal identities determine the political party that voters support. Sustained democratic institutions require political competition based on competing political platforms of social and economic policies, and not voting outcomes based on a predetermined headcount determined by the size of tribal, ethnic or religious groups, where a minority knows in advance that it will be excluded from government and will in all likelihood be exploited through the ‘majoritarian commons’. The complexity of introducing and sustaining democracy can be overwhelming if the minority displaced from power had previously been an elite exploitative faction in the autocracy.

Avoidance of aggression and terror has been the basis for a case for democracy. Democratically elected governments do not initiate aggression and do not willingly harbor terrorists. There is also a case for democracy based on economic growth. The principle of encompassing interest does not give rise to economic growth, and does not result in broad increases in income for the population under autocracy. With the exception offered by Singapore, autocracy is corrupt, imposes a Nietzschean hierarchy, and keeps the broad population poor. High-income private-property egalitarian Singapore complicates our conclusions, but not unduly, when we note that the choice of institutions includes a choice between Nietzschean hierarchies and ethical civil societies.

We could proceed to compare China and India, one a single-party state and the other a democracy where government changes. Both have achieved
high growth with the beneficiaries however selected parts of the population. That comparison is another topic that requires reference to the institutions of the two societies. As noted, in India democracy impeded growth because of electoral concern about the distribution of benefits of growth. In single-party China, the principle of encompassing interest appears to have applied. The future will tell if wide dispersion of the benefits of growth will be consistent with absence of the accountability of democracy.

NOTES

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1. For an introduction to problems of voting, see Hillman (2003, ch. 3).

2. Per capita income in Singapore in 2004 was around $27,000 and in excess of that of Italy.

3. In Singapore the ‘outlier’ behavior is tied to one person, Lee Kuan Yu. In Spain, King Juan Carlos is interesting in having voluntarily relinquished power after having been brought up by the Caudillo (Franco) with the intent of restoring the monarchy. When Franco died, his close associates turned to Juan Carlos as the intended heir and believed that they could retain the power that they had had under Franco. Once he became king, Juan Carlos introduced democracy to Spain.


5. On the low productivity in poor countries, see, for example, Hall and Jones (1999) and for the account of personal experiences as a World Bank development economist, see Easterly (2001).

6. See Tanzi (2000), and Abed and Gupta (2002). Corruption is in turn an expression of ‘political culture’, which determines the nature of the personal benefits from political office (Hillman and Swank, 2000). In democracies the benefits principally take the form of ‘ego-rents’ (that is, the personal satisfaction of partaking in political decisions and holding office within the institutions of the state). In autocracies, the ego-rents are supplemented by personal income and personal wealth from corruption (Aidt, 2003).

7. For the case of good king Wenceslas, for example, see www.songpeddler.com/Georgecat/GoodKingWenceslas_GSkworcew.asp.

8. See Acemoglu and Robinson (2000). An example is the outcome of elections in India in 2005 where a prior opposition party with more populist appeal defeated a government that had presided over high growth.

9. In some autocracies (North Korea, Syria, various states of Africa) we have seen elements of dynastic rule (which we also observe in some democracies). Dynastic elements are also present in Singapore.

10. In the former Soviet system where personal benefits and personal misfortune were personally designated, a ruler such as Stalin could survive through ‘purges’ that from time to time systematically eliminated from contention and from life) those seeking to position themselves to challenge the ruler’s incumbency.

11. In the case of a true socialist system, domestic private assets cannot at all be accumulated.

12. Bar-El (2006) formulates a decision problem where the autocrat rationally considers how to assign resources to self-consumption, to improving the well-being of the population and so increasing popularity to reduce support for an opposition, and resources for repressing the opposition.

13. There are exceptions of countries that defy regional norms, such as Botswana.

14. On the ‘strong’ men of Africa, see Rowley (2000). We shall presently consider consequences of Nietzschean societies where roles are defined by ‘strong’ and ‘weak’.
15. On corruption more generally as a form of taxation, see Shleifer and Vishny (1993).
16. Anti-corruption policies in Singapore introduced in the 1990s included efficiency wages, intended to attract the best and the brightest to the public sector. (‘Efficiency wages’ refers to high wages that are paid as an incentive to retain the position that provides the wages; the ‘efficiency-wage hypothesis’ formally explains unemployment as due to Nash equilibrium wages paid by employers in excess of competitive market-clearing wages, to provide employed workers with disincentives to shirk or apply low effort.) Economic theories of ‘yardstick competition’ propose that neighboring jurisdictions influence the choice of institutions and the behavior of local politicians (for an overview see Hillman, 2003, ch. 9). Political competition was absent in the region when Singapore was achieving its initial economic progress. In neighboring countries, governments were corrupt and the mass of the population remained poor.
17. We can recall the admonition of the late Mobuto Sese Seko, former president of Zaire (now once more the Congo), that ‘everyone can steal, but no one should steal too much’.
18. Among the benefits of having been under British colonial rule was the intent of the British to leave behind democratic institutions. The intent was not realized everywhere. Success in sustaining democracy seems, for some reason or other, correlated (albeit not perfectly) with the popularity of the game of cricket. Good cricketing nations have been democratic, while the other post-colonial states, principally in sub-Saharan Africa, were not.
19. Political liberalization when a culture of rent seeking is sustained increase social losses from incentives for unproductive activity. There is increased unproductive competition. See Hillman and Ursprung (2000).
20. For elaboration, see Hillman (2004a).
21. For reviews of the empirical evidence, see Doucouliagos and Paldam (2006).
22. See also Chauvet (2002) on the relation between instability and donor aid responses.
23. When the monitors go home, projects providing benefits to the poor are, however, often not sustained.
24. See Weltzman (2005). If the middle class succeeds in introducing democracy, the franchise in general becomes universal and all citizens vote. Mueller and Stratmann (2003) test John Stuart Mill’s hypothesis that participation of uneducated or poor parts of the population in the process of collective decision making will reduce the quality of policies and find that, contrary to Mill’s concern, political participation of the poor improves outcomes as measured by economic growth.
27. As described in theories of endogenous growth, more educated people are more productive when working with other more educated people. Over time the population becomes more productive as better teachers produce better students who in turn become even better teachers.
29. For more detailed discussion, see Hillman (2004b).
30. Also perhaps predictable is the failure to intervene in the Khmer Rouge killing fields, the exit of the United Nations force from Rwanda to allow an unencumbered genocide to proceed, the procrastination that left the indigenous people in the region of Darfur to a plight of murder and rape by agents of the government of Sudan, and more that can be listed, including participation of UN forces in rape.
31. On the Thomas-à-Becket effect, see Hillman (2003, ch. 3). The idea is that respect for the office changes prior principles of behavior of incumbents. So, for example, when King Henry III of England appointed his friend Thomas à Becket to be Archbishop of Canterbury, he expected support from the archbishop. However, Thomas à Becket elevated himself, and changed himself, to abide by the higher principles of the position that he was given to occupy. In the end the king was rid of the ‘meddlesome priest’. The Thomas-à-Becket effect is often applied to explain why central bankers can be trusted to behave benevolently, or why government bureaucrats may not follow personal optimizing behavior of budget maximization.
When evaluations are made of World Bank or International Monetary Fund policies, corruption is not an issue.

REFERENCES


