Dictators, Their Viziers, Courtiers, and Enemies: Agency Problems in Dictatorships*

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Theory of Dictatorships

From this we can conclude that $\alpha_{GB} = 1$ and $\alpha_{BG} = 1$. Therefore, $V_{BG} = -D$ and $V_{GB} = -D$. We can also find the expected utility of $B$ having just defeated $G$. It can be found as

$$U_{BG} = Y + \beta (Y + \beta ((1 - p_{BG}) U_{BG} + p_{BG} D - r_{BG} C)).$$

This yields

$$U_{BG} = \frac{Y (1 + \beta) - \beta^2 p_{BG} D - \beta^2 r_{BG} C}{1 - \beta^2 (1 - p_{BG})}.$$  (7)

Now consider the case where $G$ defeats $G$. The winner’s utility equals $U_{GG} = \max(U_{GG}^E, U_{GG}^S)$, where

$$U_{GG}^E = Y + \beta (Y + \beta ((1 - p_{GG}) U_{BG} + p_{GG} V_{BG} - r_{BG} C)),$$  (8)

because he earns bad reputation, and in the next period faces someone with a good reputation, and

$$U_{GG}^S = Y + \beta \max((1 - p(\theta)) U_{GG} + p(\theta) V_{BG} - r(\theta) C).$$

The value for $V_{BG}$ is known to be $-D$. To find $V_{GG}$ we can write

$$V_{GG} = (1 - \alpha_{GG}) \beta ((1 - p_{GG}) V_{BG} + p_{GG} U_{GG}) - \alpha_{GG}. $$

From this we can conclude that

$$V_{GG} = \frac{(1 - \alpha_{GG}) \beta p_{GG} U_{GG} - \alpha_{GG} D}{1 - (1 - \alpha_{GG}) \beta (1 - p_{GG})}.$$  (9)

the constant part or the increasing part, we need to find intersections bisector. The intersection with the constant part is trivial: it equals

$$X^E = \frac{Y (1 + \beta) - \beta^2 p_{BG} D - \beta^2 r_{BG} C}{1 - \beta^2 (1 - p_{BG})}.$$  (10)

As for the upward-sloping part, it is equal to

$$X^S = \frac{Y - \beta p(\theta^* (\alpha_{GG}))}{1 - (1 - \alpha_{GG}) \beta (1 - p_{GG})} - \beta r(\theta^* (\alpha_{GG})).$$

It is easy to prove that if $X^E < X^S$, then it is more profitable to split if $X^E > X^S$, then the winner should execute the loser ($U_{GG}^E > U_{GG}^S$).

As for the case where $G$ wins over $B$, the proof is as follows. Assume the opposite, i.e. that $U_{GB}^E \leq U_{GB}^S$. In that case, $U_{GB} = U_{GB}^S$, which implies $U_{GB}^S = \frac{Y - \beta rC - \beta^2 pD}{1 - \beta^2 (1 - p)}$, and therefore

$$U_{GB}^S = Y + \beta \left( (1 - p) \frac{Y - \beta rC - \beta^2 pD}{1 - \beta^2 (1 - p)} - pD - rC \right).$$

On the other hand, we know that $V_{BG} \leq -D$. Therefore, $U_{GB}^E \geq Y + \beta (Y + \beta ((1 - p) U_{BG} + pV_{BG} - rC))$.

Similarly, from $U_{BG} = U_{BG}^E = Y + \beta (Y + \beta (1 - p) U_{BG} + pV_{BG} - rC))$ we find that

$$U_{BG} \geq Y + \beta (Y + \beta ((1 - p) U_{BG} + pV_{BG} - rC)) = \frac{Y (1 + \beta) - \beta^2 rC - \beta^2 pD}{1 - \beta^2 (1 - p)}.$$  (11)

Hence, $U_{GB}^E \geq Y + \beta \left( (1 - p) \frac{Y (1 + \beta) - \beta^2 rC - \beta^2 pD}{1 - \beta^2 (1 - p)} - pD - rC \right).$ Let us prove that

$$Y + \beta \left( (1 - p)^{Y (1 + \beta) - \beta^2 rC - \beta^2 pD}{1 - \beta^2 (1 - p)} - pD - rC \right) > (1 - p)^{- \beta rC - \beta pD}{1 - \beta^2 (1 - p)}.$$  (12)

If we relocate all terms to the left of the equation sign and finding the common denominator, we get

$$\frac{(pD + rC)(1 - \beta) + yp}{(1 - \beta^2 (1 - p))(1 - \beta (1 - p))} > 0,$$

which is obviously true. From this we conclude that $U_{GB}^E > U_{GB}^S$ which contradicts our assumption.

If the dictator can choose any $\theta$, the proof is similar to the previous case. This completes the proof. □
What Is History?
General Motivation

- Dictatorship is a common form of government
- Modern dictatorships are worse in long run
  - Why?
  - But Mancur Olson’s ‘Stationary bandit’?
- Why would not dictators write best laws and carry out best policies?
  - dictator acts through agents rather than directly and face incompetence and betrayals
Starting from A Small Problem

- International negotiations
  - 1982: Haig – unbiased mediator between Gen. Galtieri (Argentina) and UK
  - 1999: Chernomyrdin – biased mediator between Milosevic (Yugoslavia) and NATO

- Kydd (2002): biased mediator was more successful, because he was credible

- Economist’s questions:
  - why would not an unbiased mediator pretend to be a biased mediator?
  - if so, how a dictator may trust any mediator?
A Real Problem…

Don Corleone: *He [the enemy] will set up a meeting with somebody whom you absolutely trust, ... and at that meeting you’ll be assassinated*
Betrayal

- Sesosiris (1965 BC): ‘be on your guard against all subordinates, because you cannot be sure who is plotting against you’

- Since 1965 BC, ...

- Even in democracies
  - all elected vice-presidents in Russia participated in plots to remove their superiors
  - what is betrayal in democracy?
Incompetence

- Why would dictator have absolutely loyal people?
  - because they dumb

- Dictators hire mediocre advisors
  - Gregory: mediocrities around Stalin
  - Lewis: mediocrities around Salazar
  - Speer: ‘negative selection’ around Hitler

- Good advisors are frequently ignored
  - or ignore dictator
Is that true?

... that dictators hire mediocrities
We live, deaf to the land beneath us,
Ten steps away no one hears our speeches,
All we hear is the Kremlin mountaineer,
The murderer and peasant-slayer.

His fingers are fat as grubs
And the words, final as lead weights, fall from his lips,
His cockroach whiskers leer
And his boot tops gleam.

Around him a rabble of thin-necked leaders -
fawning half-men for him to play with.

The whinny, purr or whine
As he prates and points a finger,
One by one forging his laws, to be flung
Like horseshoes at the head, to the eye or the groin.

And every killing is a treat
For the broad-chested Ossete.

Osip Mandelshtam, 1933
Max Hayward, translation
... Around him a rabble of thin-necked leaders - fawning half-men for him to play with...
What is competence?

ability to distinguish different states of the world
Dumb Vizier
Still a Dumb
A Little Bit Smarter...
Smarter...
Very Smart
Ideal Competence
Competence
The Theory

- Dictators hire mediocre, not competent advisors

- Competent advisor can better distinguish strong enemy from weak one,
  - which makes him/her more efficient for dictator
  - which makes betrayal easier for him/her

- Natural trade-off between loyalty and competence
Some Economics Methodology

- Why strategic analysis?
  - take into account motives and beliefs
  - focus on incentives and institutional design

- Why rational actors?
  - other do everything

- Why equilibria?
  - what else?

- Why formulas?
  - verifiability and transferability
Timing

1. Dictator chooses agent
   - agent has certain competence
   - dictator sets policy (what to do in what circumstances)

2. Agent learns information about potential enemy, potential rewards and then chooses course of actions

3. Plot unfolds, outcome is determined
   - dictator, if survives, learns everything
Commitment

- Dictator and agent cannot sign a contract regarding payoffs
  - expected rewards is a parameter describing dictatorship
- Dictator can punish only conditional on his own survival
- Promises are not credible
  - dictator cannot commit to certain level of punishment
Optimal Competence

- Dictator trades-off loyalty vs. competence
  - Competent advisor
    - knows whether enemy has good chances to win
  - Incompetent
    - fears that he mistakenly betrays dictator

\[ U_D \]
Equilibrium

- Optimal agent is less competent if
  - Strong enemy is likely
  - Stakes are high

- Optimal agent is more competent
  - if punishment is high

- Optimal agent is more competent, if potential affinity between enemy and advisor is low
  - e.g. advisor belongs to particular ethnic group
Godfather’s Wisdom

Michael [new don] sighed. "The Don instructed me. Barzini [the enemy] will set me up through somebody close that, supposedly, I won't suspect."

Hagen [consigliore]. "Somebody like me."

Michael smiled back. "You're Irish, they won't trust you."

"I'm German-American," Hagen said.

"To them that's Irish," Michael said. "No, it will be Clemenza, Tessio or Carlo Rizzi."
Tessio [vizier]: ... *I can arrange security; on my territory.*
Hagen [consigliore]: ... I have always thought it would’ve been Clemenza [dumb vizier].

Michael [new don]: ... It is a smart move. Tessio was always smarter.
Incentives? Easy!

- There will be no betrayals, if punishment is severe enough
  - if it is capital punishment (infinite disutility?), then most competent are absolutely loyal
- In democracies, it is not that easy
  - what is betrayal in democracy?
Self-Selection

- Best agents don’t apply
  - what is so good to be a vizier, if punishment for betrayal is so high?
- For strong punishment, dictator is constrained by applicants’ pool
- Dictator cannot commit to mild punishment
  - definition of dictatorship?

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The diagram illustrates the relationship between punishment and availability, with an optimal competence line indicating the dictator’s best choice.
Why Courts?

- Information aggregation
Trust

- ‘Trust’ (ability to coordinate on equilibrium)
- More trust between agents leads to less competent advisors
- Dictator wants fewer betrayals
  - wants agents who don’t trust each other
    - purges of early supporters
    - frequent rotations
    - factions of various national/religious origin
- Information disadvantages
Succession

- Ideal leader should be able to ensure succession, but be not willing to
  - worst case is the opposite
  - Charles I, Louis XIV, Nikolai II
Real Dynamics

- Dictators in constant fight
- Winner determines fate of loser
  - Kill and face some quiet time; but expect to be killed when lose
  - Spare and expected to be spared if lose
- Beliefs are critical
  - it is important for dictator what future contenders would think of him because of his current actions
- Multiple equilibria
Conclusion

- Theory of endogenous loyalty vs. competence

- Vizier is less competent if
  - Dictator is weak (enemies are strong)
  - Stakes are high (for dictator or enemy)
  - Enemy can commit to reward agent
  - Protection against enemy is cheap
  - Succession is desirable, but problematic
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