Ruling Party Institutionalization and Autocratic Success

Scott Gehlbach
University of Wisconsin, Madison
E-mail: gehlbach@polisci.wisc.edu

Philip Keefer
The World Bank
E-mail: pkeefer@worldbank.org

March 2007

Abstract

We argue that a key difference among non-democracies is the extent to which autocratic leaders create institutionalized ruling parties as a way of making credible commitments to investors. We show that to be effective in this role, institutionalized ruling parties must satisfy two constraints. The expropriation constraint requires that the autocrat prefer to only partially expropriate party members and avoid collective action, rather than to expropriate all party members; this implies that parties must be small enough for full expropriation to be unattractive. The investment constraint requires that party members prefer to invest; this implies that parties be large enough that expropriation is an unlikely event for any party member. The conditions for these constraints to hold, and for the autocrat to prefer creating an institutionalized ruling party, help to explain variation in political institutions and economic performance in non-democracies.

Paper prepared for presentation at the Eighth International Scientific Conference of the Higher School of Economics, Moscow, April 2007.

1 Introduction

A large literature has sought to explain the conditions under which democracies should perform better than autocracies. The main focus of this literature is the impact of democratic institutions rather than on institutional variation among non-democracies. However, there is substantial variation among non-democracies, with consequences for economic performance (e.g., Bueno de Mesquita et al., 2003; Desai et al., 2006; Egorov et al., 2006; Haber, forthcoming; Wintrobe, 2000). We argue that a key difference among autocracies is the extent to which autocratic leaders create institutionalized ruling parties as a way of making credible commitments to investors.

Our focus is the behavior of a single autocrat who has the capacity to expropriate investors. In principle the threat of collective action by expropriated investors may discourage expropriation; the anticipation of this can lead to increased investment. However, information

and coordination problems among investors make collective action difficult. Institutionalized ruling parties help to resolve these problems by providing information to party members about who has been expropriated, and by making it easier for party members to coordinate on a common course of action.

To be effective in this role, however, institutionalized ruling parties must satisfy two constraints. The expropriation constraint requires that the autocrat prefer to expropriate a small number of party members and avoid collective action, rather than to expropriate all party members; this implies that parties must be small enough for full expropriation to be unattractive. The investment constraint requires that party members prefer to invest; this implies that parties be large enough that expropriation is an unlikely event for any party member. The conditions for these constraints to hold, and for the autocrat to prefer creating an institutionalized ruling party, help to explain variation in political institutions and economic performance in autocracies.

2 Model

Consider a model with two sets of players: an autocrat, and a continuum of identical investors of mass one. Investors are indexed by i. At the beginning of the game the autocrat chooses some subset of investors to be party members, where s is the fraction of all investors who are named members. As discussed below, party membership helps investors to overcome collective-action problems in two ways: party members know how many other members have been expropriated, and party members can signal their expropriation to non-members through protest.

Following choice of s by the autocrat, each investor i chooses an investment level $e_i \in \{0, \hat{e}, \bar{e}\}$. Investment choices are observed by the autocrat and by other investors. An investment of $e_i = 0$ provides a payoff of zero to both the investor and the autocrat. In contrast, an investment of $e_i = \hat{e}$ produces a benefit to the investor of $\hat{g}$ and to the autocrat of $\hat{h}$. One useful interpretation of $\hat{h}$ is that investment raises the marginal return to labor, so that wages in the economy increase. Such wage spillovers may relax a political constraint if the autocrat's power is conditioned on guaranteeing a certain level of well-being to owners of labor. Similarly, an investment of $e_i = \bar{e}$ produces benefit to investor i of $\bar{g}$ and to the autocrat of $\bar{h}$. An investment of $e_i = 0$ is costless, whereas an investment of $\hat{e}$ or $\bar{e}$ costs the investor $\hat{c}$ and $\bar{c}$, respectively. We assume $\bar{g} > \hat{g} > 0$, $\bar{h} > \hat{h} > 0$, $\bar{c} > \hat{c} > 0$, and $\bar{g} - \bar{c} > \hat{g} - \hat{c}$. Thus, the efficient level of investment is $\bar{e}$. We denote the mass of members who choose $\hat{e}$ and $\bar{e}$ as $\hat{v}_m$ and $\bar{v}_m$, respectively, and denote the mass of non-members who choose $\hat{e}$ and $\bar{e}$ as $\hat{v}_{-m}$ and $\bar{v}_{-m}$. We define $\hat{v} \equiv \hat{v}_m + \hat{v}_{-m}$, $\bar{v} \equiv \bar{v}_m + \bar{v}_{-m}$, $v_m \equiv \hat{v}_m + \bar{v}_m$, $v_{-m} \equiv \hat{v}_{-m} + \bar{v}_{-m}$, and $v \equiv \hat{v} + \bar{v} = v_m + v_{-m}$.

Following investment choices, the autocrat decides for each investor who has chosen $e_i \neq 0$ whether or not to expropriate a fixed amount $\tilde{g} < \hat{g} (< \bar{g})$ of the investor's benefit. Expropriation of any party member is observed by all other party members, but not by non-members. Expropriation of any non-member is unobserved by all other investors. We assume that the level of expropriation is the same for large and small investments for analytical convenience:

this assumption implies that we need keep track only of the number of members and non-members who are expropriated. We denote the mass of members and non-members who are expropriated as x_m and x_{-m}, respectively. We define $x \equiv x_m + x_{-m}$, and use x_m^*, x_{-m}^*, and x^* to refer to the equilibrium choice of x_m, x_{-m}, and x, respectively. (For notational convenience, we rely on context to indicate whether or not other variables represent equilibrium choices.)

Investors who are expropriated may choose to contest the expropriation, where $p_i = 1$ indicates contestation, and $p_i = 0$ indicates acquiesence in the expropriation. In particular, expropriated party members decide simultaneously and independently whether or not to contest expropriation, following which all non-members decide simultaneously and independent whether or not to contest. We assume that there is an individual cost of contestation $d > 0$ if the mass of investors who choose $p_i = 1$ is less than or equal to k, whereas the cost of contestation if zero if more than k investors choose $p_i = 1$. Contestation results in the investor's recouping proportion $1 - q$ of the $\tilde{g}$ seized by the autocrat. However, contestation destroys proportion $1-r$ of the investor's gross private benefit, so that depending on whether $e_i = \hat{e}$ or $e_i = \bar{e}$ is chosen, an expropriated investor's private benefit after contestation is $r(\hat{g} - q\tilde{g})$ or $r(\bar{g} - q\tilde{g})$, while the autocrat retains $r\tilde{g}$. We assume $d > (1-q)\, r\tilde{g}$, so that an investor would never choose $p_i = 1$ unless he expected at least mass k of investors to contest expropriation.

We further assume $\hat{g} - \hat{c} < \tilde{g}$, so that investors prefer $e_i = 0$ if they expect expropriation with certainty but do not anticipate sufficient contestation by other investors to justify $p_i = 1$. In addition, we assume

$$r(\hat{g} - q\tilde{g}) - \hat{c} > \max\left[0, r(\bar{g} - q\tilde{g}) - \bar{c}\right],$$

which implies that investors choose $e_i = \hat{e}$ if they expect expropriation and sufficient contestation by other investors to justify $p_i = 1$. Finally, we assume $k < rq$, so that if *all* investors choose $e_i \neq 0$, then the autocrat prefers full expropriation with contestation to partial expropriation with no contestation.

Summarizing, the timing of events is:

1. Party choice: The autocrat chooses s investors to be party members.
2. Investment: Each investor chooses $e_i \in \{0, \hat{e}, \bar{e}\}$.
3. Expropriation: For each investor who has chosen $e_i \neq 0$, the autocrat chooses whether or not to expropriate a fixed share of the investor's private benefit.
4. Contestation: Expropriated party members choose $p_i \in \{0, 1\}$, after which expropriated non-members choose $p_i \in \{0, 1\}$.

In the discussion to follow, we use the term "expropriation game" to refer to subgames that begin after investors have made their investment choices.

3 Analysis

Optimal party choice and investment behavior depend on expectations of what will happen in the expropriation game. However, for many investment choices the expropriation game has multiple equilibria. Contestation is optimal for expropriated investors only if they expect at least k other investors to contest. These expectations are determined in part by beliefs about how many other investors have been expropriated. Because members do not observe the expropriation of non-members, and non-members do not observe any expropriation other than their own, multiple beliefs are possible off the equilibrium path, i.e., for observations of expropriation inconsistent with the autocrat's equilibrium strategy. In addition, even if all expropriated investors believed that at least k other investors had been expropriated, it is optimal to contest expropriation only if enough other expropriated investors also do so.

To simplify matters, we focus on a subset of sequential equilibria that restricts actions and beliefs in the expropriation game.

Definition 1. *An **equilibrium** is a sequential equilibrium in which:*

1. *The autocrat selects x_m members and x_{-m} non-members at random to expropriate.*
2. *For observations of x_m off the equilibrium path, party members believe $x_{-m} = x^*_{-m}$.*
3. *Each expropriated member protests if and only if $x_m > k - x^*_{-m}$, and each expropriated non-member i protests if and only if he believes $x_{-m} > k - p^m$, where p^m is the number of members who chose $p_i = 1$.*

Condition 1 simplifies the analysis so that we need only specify beliefs about how many members and non-members are expropriated. Note in particular that Condition 1 implies that if $x^*_{-m} > 0$, then for any non-members who have chosen $e_i \neq 0$, all observations of expropriation and no expropriation are on the equilibrium path.

Condition 2 says that members should not change their beliefs about the expropriation of non-members if they observe an x_m different than they expect. This condition is "neutral" in the sense that it requires that members neither adjust their beliefs upward or downward about the level of expropriation of non-members (which they do not observe) in response to an unexpectedly high or low level of expropriation of members.

Condition 3 focuses on equilibria in which expropriated investors coordinate on the optimal protest choice. To see that this behavior is sequentially rational, consider the choices of both non-members and members:

- If $x^*_{-m} > k - p^m$, then given equilibrium strategies, each expropriated non-member expects more than k investors to choose $p_i = 1$, so that it is optimal to choose $p_i = 1$. In contrast, if $x^*_{-m} \leq k - p^m$, then given equilibrium strategies, each expropriated non-member (if any) expects not more than k investors to choose $p_i = 1$, so that it is optimal to choose $p_i = 0$.

- Given equilibrium strategies of non-members and the requirement of Condition 2 that members believe $x_{-m} = x^*_{-m}$ for observations of x_m both on and off the equilibrium path, any member expects that if more than $k - x^*_{-m}$ members choose $p_i = 1$, then

x^*_{-m} non-members will choose $p_i = 1$. Consequently, it is a mutual best response for all expropriated members to choose $p_i = 1$, so long as the number of expropriated investors $x_m > k - x^*_{-m}$; otherwise $p_i = 0$ is optimal.

In the discussion to follow, we often use the term "collective action" to refer to the case where expropriated investors coordinate on $p_i = 1$.

Given the definition of equilibrium, in certain cases the autocrat can credibly commit not to fully expropriate party members. Expropriation of party members is observed by other members, so that members might react to an expectedly high level of expropriation by joining in collective action.[1] However, because the expropriation of non-members is privately observed, the autocrat can always profitably deviate from some x^* such that $x^*_{-m} < v_{-m}$ to some $x_{-m} > x^*_{-m}$ without changing investors' beliefs about how many non-members have been expropriated. As a consequence, in any equilibrium the autocrat always fully expropriates non-members.

Lemma 1. *In any equilibrium, the autocrat fully expropriates non-member investors.*

Proof. Assume otherwise, i.e., assume that there is an equilibrium x^* such that $x^*_{-m} < v_{-m}$. For any x^*, the autocrat has an incentive to deviate to some x such that $x_m = x^*_m$ and $x_{-m} > x^*_{-m}$. To see this, note that because expropriation of non-members is unobserved, members continue to believe $x_{-m} = x^*_{-m}$. (Condition 2 of the equilibrium definition plays no role here.) Moreover, for the case where $x^*_{-m} > 0$, for any non-member expropriation is consistent with the belief that the autocrat has chosen x^*_{-m}. Thus, by deviating the autocrat can secure gains from additional expropriation without changing the protest behavior of investors. (Note that if $x^*_{-m} = 0$, then depending on the beliefs of non-members off the equilibrium path, a deviation by the autocrat to some x such that $x_m = x^*_m$ and $x_{-m} > x^*_{-m}$ might result in expropriated non-members' choosing $p_i = 1$. However, because members would continue to believe $x_{-m} = x^*_{-m}$, the behavior of members would be unchanged.) *Q.E.D.*

Lemma 1 implies that if the autocrat refrains from full expropriation of all investors, it must be because he refrains from full expropriation of members. Such restraint can only be optimal if $v > k$ and $v_{-m} \leq k$, as it is only then that the autocrat could expropriate enough investors for collective action to be possible, but the mass of non-member investors who have chosen $e_i \neq 0$ is sufficiently low that not fully expropriating members can prevent collective action. As the following lemma establishes, in that case the autocrat refrains from full expropriation if what he retains in the event of full expropriation and collective action ($rqv\tilde{g}$) is small relative to what he can expropriate without provoking collective action ($k\tilde{g}$).

Lemma 2. *In any equilibrium:*

1. *if $v \leq k$, then the autocrat fully expropriates all investors, and all investors choose $p_i = 0$.*

[1] Observe that this might not be the case if party members and non-members decided simultaneously whether or not to contest expropriation. Members would have no opportunity to signal their expropriation to non-members, so that expropriated non-members would not respond to the unexpectedly high level of expropriation; this in turn might discourage members from contesting expropriation.

2. *if $v_{-m} > k$, then the autocrat fully expropriates all investors, and all investors choose $p_i = 1$.*
3. *if $v > k$ and $v_{-m} \leq k$, then:*
   (a) *if $rq < \frac{k}{v}$, the autocrat expropriates all non-party members and $k - v_{-m}$ party members, and all investors choose $p_i = 0$;*
   (b) *if $rq > \frac{k}{v}$, then the autocrat fully expropriates, and all investors choose $p_i = 1$; and*
   (c) *if $\frac{k}{v} = rq$, then either the autocrat expropriates all non-party members and $k - v_{-m}$ party members, and all investors choose $p_i = 0$, or the autocrat fully expropriates, and all investors choose $p_i = 1$.*

Proof. Consider each case in turn:

1. Because $v \leq k$, for any level of expropriation investors choose $p_i = 0$. Consequently, the autocrat's best response is to fully expropriate.

2. By Lemma 1, in any equilibrium the autocrat fully expropriates non-members, so by Condition 3 of an equilibrium all expropriated investors choose $p_i = 1$ regardless of x_m. Thus, the autocrat's optimal choice is to fully expropriate all member as well non-member investors.

3. First note that there is no equilibrium in which $x^* < k$ or $k < x^* < v$. In the first case the autocrat can increase x without triggering protest, while in the second case protest does occur but the autocrat can increase the gains from expropriation by choosing a higher x. Thus, in any equilibrium either $x^* = k$, which given Lemma 1 implies $\left(x_m^*, x_{-m}^*\right) = (k - v_{-m}, v_{-m})$, or $x^* = v$. Consider each possibility in turn:

   (a) $\left(x_m^*, x_{-m}^*\right) = (k - v_{-m}, v_{-m})$, which results in all investors' choosing $p_i = 0$ and a payoff for the autocrat of $k\tilde{g}$. By an argument analogous to that just above, the best possible deviation is to $x = v$, which results in all investors' choosing $p_i = 1$ (members participate because $x_m > k - x_{-m}^*$, so that $p^m > k - x_m^*$, prompting non-members to participate) and a payoff to the autocrat of $rq\tilde{g}v$. This deviation is not profitable if $k\tilde{g} \geq rqv\tilde{g}$, or $\frac{k}{v} \geq rq$.

   (b) $x^* = v$, which results in all investors' choosing $p_i = 1$ and a payoff to the autocrat of $rqv\tilde{g}$. By Lemma 1 the autocrat would never deviate to some x such that $x_{-m} < v_{-m}$. Thus, the best possible deviation is to $(x_m, x_{-m}) = (k - v_{-m}, v_{-m})$, which results in all investors' choosing $p_i = 0$ and a payoff to the autocrat of $k\tilde{g}$. (To see that this is the best possible deviation, recall that for any observations of expropriation off the equilibrium path, party members believe that $x_{-m} = x_{-m}^*$, so that $x_p = k - v_{-p}$ is the maximum level of expropriation such that investors choose $p_i = 0$.) This deviation is not profitable if $rq \geq \frac{k}{v}$.

Q.E.D.

The equilibrium behavior in the expropriation game specified in Lemma 2 determines the payoff to an investor, conditional on his own investment choice and those of other investors. The optimality of an investment choice thus depends on the expected behavior of other

investors, so that there are multiple equilibria of the full game. The first proposition establishes that there are "coordination-failure" equilibria, in which each investor chooses $e_i = 0$, expecting all other investors to do so. In this equilibrium, each investor anticipates that deviation to some $e_i \neq 0$ would result in his expropriation, and that with no other investors having chosen $e_i \neq 0$, contestation would be prohibitively costly.

Proposition 1. *There exist equilibria in which all investors choose $e_i = 0$, regardless of the party chosen by the autocrat.*

Proof. In any such equilibrium, each investor receives a payoff of zero. By Lemma 2, a deviation by any investor i to some $e_i \neq 0$ results in that investor's expropriation, with the investor's choosing $p_i = 0$. Thus, deviating to $e_i = \hat{e}$ gives a payoff of $-\hat{c} < 0$, and deviating to $e_i = \bar{e}$ gives a payoff of $-\bar{c} < 0$: . *Q.E.D.*

In Proposition 1, fear of expropriation prevents any investment. Below we discuss how creation of an institutionalized ruling party can promote high levels of investment by a narrow elite. But for any party choice by the autocrat, there is an equilibrium in which all investors undertake moderate investment, understanding that they will be expropriated but reassured that there will be sufficient strength in numbers to contest that expropriation.

Proposition 2. *There exist equilibria in which all investors choose $e_i = \hat{e}$, the autocrat fully expropriates, and all investors choose $p_i = 1$, regardless of the party chosen by the autocrat.*

Proof. To show that such equilibria exist for any choice of party by the autocrat, consider the following two cases:

1. The autocrat names a party of size $s < 1 - k$. Then $v_{-m} > k$, and by Lemma 2 the autocrat fully expropriates all investors and all investors choose $p_i = 1$. The payoff to any investor is then $r(\hat{g} - q\tilde{g}) - \hat{c}$. In contrast, if any investor i deviated to $e_i = 0$, he would receive a payoff of zero, which by assumption is less than $r(\hat{g} - q\tilde{g}) - \hat{c}$. Moreover, if any investor i deviated to $e_i = \bar{e}$, then the autocrat would still fully expropriate and the investor would choose $p_i = 1$, giving a payoff of $r(\bar{g} - q\tilde{g}) - \bar{c}$, which by assumption is less than $r(\hat{g} - q\tilde{g}) - \hat{c}$.

2. The autocrat names a party of size $s \geq 1-k$. Then $v > k$ and $v_{-m} \leq k$, and by Lemma 2 it is an equilibrium of the expropriation game for the autocrat to fully expropriate all investors, and for all investors i to choose $p_i = 1$, if $k < rq$, which is an assumption of the model. Then by the argument in the previous case, no investor has an incentive to deviate to some $e_i \neq \hat{e}$.

Q.E.D.

In contrast, there are no equilibria in which all investors choose $e_i = \bar{e}$. By assumption, the cost of $\bar{e}$ is justified only if an investor expects not to be expropriated (more precisely, to be expropriated only with sufficiently low probability). But it is optimal for the autocrat to fully expropriate if all investors choose $e_i \neq 0$, even though full expropriation leads to contestation.

Proposition 3. *There are no equilibria in which all investors choose $e_i = \bar{e}$.*

Proof. By an argument analogous to that in Proposition 2, if all investors choose $e_i = \bar{e}$ the autocrat fully expropriates and all investors choose $p_i = 1$, giving a payoff to any investor of $r(\bar{g} - q\tilde{g}) - \bar{c}$. But then any investor could profitably deviate to $e_i = \hat{e}$ and receive a payoff of $r(\hat{g} - q\tilde{g}) - \hat{c}$. *Q.E.D.*

Propositions 1 and 2 describe equilibria in which investment behavior is unaffected by the autocrat's choice of party. We focus now now on "party equilibria," i.e., equilibria in which party membership guarantees non-expropriation with sufficiently high probability that party members choose $e_i = \bar{e}$. In constructing such equilibria, we can use Propositions 1 and 2 to specify strategies for play off the equilibrium path, i.e., for non-equilibrium observations of s. On the equilibrium path, any party equilibria must satisfy two constraints:

1. Expropriation constraint: The autocrat must prefer partial expropriation of party members and no collective action to full expropriation and collective action. This implies that parties must be sufficiently small for full expropriation to be unattractive.
2. Investment constraint: Party members must prefer to choose $e_i = \bar{e}$, which implies that parties must be large enough that expropriation is an unlikely event for any party member.

Multiple party equilibria are possible, including equilibria in which the autocrat chooses a party smaller than that which satisfies these constraints. Because the autocrat benefits from additional investment even when his gains from expropriation are capped ($\bar{h} > 0$), we focus on equilibria with the largest party that satisfies these constraints. The next proposition assumes that all investors respond to an unexpected choice of s by choosing $e_i = 0$, so that the optimality of party choice is trivial for the autocrat.

Proposition 4. *If $rq \leq \frac{\bar{g}-\bar{c}}{\tilde{g}}$, then there exists an equilibrium in which*

1. *the autocrat chooses a party of size $s = \frac{k}{rq}$;*
2. *party members choose $e_i = \bar{e}$ if $s = \frac{k}{rq}$, and $e_i = 0$ otherwise;*
3. *non-members choose $e_i = 0$ regardless of s.*

In this equilibrium, the autocrat expropriates k of $\frac{k}{rq}$ party members.

Proof. The optimality of investment behavior off the equilibrium path, i.e., for observations of $s \neq \frac{k}{rq}$, follows Proposition 1. To show that investment behavior is rational on the equilibrium path, consider party members and non-members in turn:

1. Given the strategies in the proposition, $v = s > k$, $v_{-m} = 0 < k$, and $rq = \frac{k}{v}$. Thus, by Lemma 2 it is optimal for the the autocrat to expropriate k of $\frac{k}{rq}$ party members. The probability that any party member is expropriated is therefore $\frac{k}{s} = rq$, so that the payoff in equilibrium is $\bar{g} - \bar{c} - rq\tilde{g}$. This is greater than the payoff from deviating to $e_i = \hat{e}$, which is $\hat{g} - \hat{c} - rq\tilde{g}$. Thus, the best possible deviation is to $e_i = 0$, which provides a payoff of zero, so that it is optimal to choose $e_i = \bar{e}$ if $rq \leq \frac{\bar{g}-\bar{c}}{\tilde{g}}$, which is a premise of the proposition.

2. The payoff to any non-member in equilibrium is zero. If instead some non-party member i deviated by choosing $e_i \neq 0$, then by Lemma 2 the autocrat would expropriate the deviating investor, and all investors would choose $p_i = 0$. The payoff from deviation is thus $-\hat{c}$ (if the deviation is to $e_i = \hat{e}$) or $-\bar{c}$ (if the deviation is to $e_i = \bar{e}$), both of which are less than zero.

Q.E.D.

In this equilibrium, parties are larger when collective action is difficult (k is large) and the autocrat retains little in the event of collective action (rq is small).

The next proposition assumes that all investors respond to an unexpected choice of s by choosing $e_i = \hat{e}$, so that for party choice to be optimal for the autocrat, the payoff to the autocrat from partial expropriation of party members must be greater than full expropriation of all investors.

Proposition 5. *If $rq \leq \frac{\bar{g}-\bar{c}}{\tilde{g}}$ and $\frac{k}{rq}\bar{h} - \hat{h} \geq (rq - k)\,\tilde{g}$, then there exists an equilibrium in which*

1. *the autocrat chooses a party of size $s = \frac{k}{rq}$;*
2. *party members choose $e_i = \bar{e}$ if $s = \frac{k}{rq}$, and $e_i = \hat{e}$ otherwise;*
3. *non-members choose $e_i = \hat{e}$ regardless of s.*

In this equilibrium, the autocrat expropriates k of $\frac{k}{rq}$ party members.

Proof. The optimality of investment behavior follows the proof to Proposition 4. To see that $s = \frac{k}{rq}$ is optimal for the autocrat, observe that in equilibrium the autocrat's payoff is

$$k\tilde{g} + \frac{k}{rq}\bar{h}, \tag{1}$$

where the first term is the gains from expropriation of k party members, and the second is the benefit to the autocrat of high investment by all $\frac{k}{rq}$ party members. In contrast, if the autocrat deviates to some $s \neq \frac{k}{rq}$, then all investors choose $e_i = \hat{e}$, the autocrat fully expropriates, and all investors choose $p_i = 1$, for a payoff to the autocrat of

$$rq\tilde{g} + \hat{h}. \tag{2}$$

Comparing Expressions 1 and 2 and simplifying gives the second premise of the proposition.

Q.E.D.

The second premise of the proposition has an intuitive interpretation: the benefit to the autocrat from high rather than low investment (e.g., from wage spillovers) must be large relative to the sacrificed gains from expropriation to justify building a party that protects members from expropriation. This is more likely when collective action is difficult (k is large) and the autocrat retains little in the event of collective action (rq is small).

4 Conclusion

In this paper we establish conditions for institutionalized ruling parties to provide credible commitments to investors, and for the creation of such parties to be optimal for autocrats. Our results provide insight into the choices of autocrats and the economic performance of non-democratic states. In future work, we plan to explore the empirical predictions of the model through analysis of cross-national data on institutions and economic outcomes in non-democracies.

References

[1] Bueno de Mesquita, Bruce, James Morrow, Randolph Siverson, and Alistair Smith (2003). *The Logic of Political Survival*. Cambridge, MA: MIT Press.

[2] Desai, Raj M., Anders Olofsgard and Tarik M. Yousef (2006). "The Logic of Authoritarian Bargains." Mimeo. Georgetown University.

[3] Egorov, Georgy, Sergei Guriev and Konstantin Sonin (2006). "Media Freedom, Bureaucratic Incentives, and the Resource Curse." Mimeo. New Economic School.

[4] Haber, Stephen (forthcoming). "Authoritarian Government." In Barry Weingast and Donald Wittman, eds., *The Oxford Handbook of Political Economy*.

[5] Wintrobe, Ronald (2000). *The Political Economy of Dictatorship*. Cambridge: Cambridge University Press.