

**Autocratic, Democratic, and Optimal Government**

William A. Niskanen

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This book seeks to compare the effects on aggregate income of three forms of government, which William Niskanen labels as autocratic, democratic, and optimal. To do that, Niskanen develops a small aggregate model with five variables and six parameters that he estimates with

data from 1964–99 and calibrates for 1996. The central idea behind this model is conveyed in his representation of the aggregate production function:  $Y = a(1+G)^b(1-R)^c$ . According to this formulation, aggregate output per capita is equal to some natural rate denoted by  $a$ , as modified by the various fiscal activities denoted by  $G$  and  $R$ , where  $G$  is the level of per capita government consumption spending exclusive of defense and  $R$  is the average tax rate. Natural output is independent of regime, with differences in income across regimes arising through their effects on  $G$  and  $R$ .

Niskanen models the different political regimes as equilibria whose outcomes can be represented as the solution to some maximization problem. An optimal government is one that maximizes average net disposable income. A democratic government is one that maximizes the net disposable income of the median voter. An autocratic government is one that maximizes the net income the ruling clique extracts from the remainder of the population; this extraction, in turn, is the difference between the tax revenues the regime collects and the amounts it spends on public services, military activities, and interest.

This is a work in macro public finance, in that it seeks to construct relationships directly among such aggregate variables as incomes, tax rates, and transfer payments, as against seeking to generate those aggregates from the bottom up, so to speak. In its macro character, moreover, it is strongly reminiscent of real business cycle (RBC) theorizing. It adopts a form of natural rate theorizing, it invokes a representative agent as an explanatory device, and it models equilibria that are punctuated by exogenous shocks. In RBC theorizing those shocks are mostly to technology; in Niskanen's formulation, they are a form of preference shock, as a regime shift changes the identity of the representative agent whose preferences dominate the political equilibrium. This book could easily be incorporated into a macro course by someone who was looking for a different context with which to illustrate the construction and use of RBC models.

All of the work in Niskanen's model is accomplished by the change in maximand across regimes. With respect to the aggregate magnitudes, Niskanen's model has a ring of plausibility about it. Democracy yields an aggregate income that is about 85 percent of what would result under optimal government, whereas aggregate income under autocracy is only about 55 percent of what it would be under optimal government. These results seem broadly plausible. On the one hand, they tell us that democracy contains room for improvement. On the other hand, they also tell us that democracy is preferable to much of the remaining political landscape. To be sure, that is not a conclusion that one is likely to arrive at through reading this book so much as it represents a prior belief that is supported by this book. Indeed, my sense about this book is similar to my sense about democracy, as well as about macro theory of the RBC type: it's pretty good, but it leaves room for improvement.

The points of uneasiness I have with this book, moreover, are similar

to those I have with macro theory generally: the treatment of macro phenomena as inherently simple, in contrast to being complex phenomena that are generated in bottom-up fashion through complex patterns and networks of human interaction. In place of modeling political regimes as equilibrium arrangements that differ in the objects they select to be maximized, I think there is much potential value to be developed through modeling processes of continual movement. It is interesting to note in this respect that Niskanen cites the 18th century Scot historian Alexander Tytler, because Tytler did not think democracy represented some stable equilibrium. To the contrary, Tytler thought democracy contained internal contradictions that would lead to its transformation into some form of autocracy; a democratic regime might have been founded on faith and courage, but could eventually arrive at dependence and bondage nonetheless. On the same page that Niskanen cites Tytler (p. 14), he also cites Alexis de Tocqueville. Yet in his chapter on “What Sort of Despotism Do Democratic Nations Have to Fear,” toward the end of *Democracy in America*, Tocqueville characterized a process of metamorphoses similar to what Tytler portrayed.

On page 68 and at other places as well, Niskanen argues that the United States experienced erosion in its constitutional framework over much of the 20th century, which presumably moved things increasingly away from the optimal government node in his formulation. This could very well be so, and I most certainly would not be someone to dispute Niskanen’s claim in this respect. I would only point out that this type of claim involves Niskanen in speaking outside the framework of his model. Models never apply themselves, of course, for they require an analyst to apply them intelligently. Despite his comparative static analytical exercise, Niskanen seems to recognize that the issues about which we most fervently seek illumination call for some framework of endogenous development and not an equilibrium framework of comparative statics, where all agents of change are exogenous to the model.

A conceptualization that contrasts autocracy and democracy seems also to entail a vocabulary that is insufficiently rich and nuanced to treat adequately the problems of human governance. If we were to describe the games that people play, we would not be content with a vocabulary that spoke only of ball games and card games. We would want a richer vocabulary to navigate our way through the vast labyrinth of games that people play. I have a similar reaction to being restricted to a vocabulary that speaks only of democracy and autocracy. The historical record gives us a rich array of different forms of autocracy, as well as of democracy, along with hugely different economic consequences. Autocratic governments may be characterized by pyramids and palaces, but not always. For instance, the cameralist regimes that emerged in the 16th century were operated quite differently from the various mercantilist empires to their west. In like manner, hotels are forms of autocratic government that provide a wide range of public goods in often far superior fashion to their organizational cousins, democratically organized cities.

Reading this book reminds me once again of how much admiration I have always had for Niskanen's ability to reduce complex settings to simple models, and to do so in a way that allows him to extract empirically meaningful and interesting implications. The challenge for people such as me, who appreciate the clarity of formulation and points of empirical reference that Niskanen brings to his work, but who think that the extent of reductionism found in contemporary macro modeling, including this book, hides too many phenomena of central importance to the subject at hand, is to arrive at formulations that bring those phenomena into the analytical foreground while maintaining empirical contact with reality.

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