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THE (IN)STABILITY OF DEMOCRACY

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Abstract

How stable are democracies? Building on Ghosal and Proto (2009, *Journal of Public Economics*, 93, 1078–1089), the conditions under which democracies are stable are analyzed. How these conditions relate to the threat of the rise of right wing populism poses to democracies is discussed.

Keywords: Democracy; conflict; populism.

JEL codes: D74; O12; H11.

1. Introduction

The rise of right wing populism has called into question the stability of existing democracies. Walter (2022) presents evidence of many existing democracies that are turning autocratic. The USA is a case in point. The Polity Score, which measures how democratic or autocratic a country is in a given year on a 21 point scale going from -10 to $+10$, with -10 being the most autocratic and $+10$ the most democratic, has gradually dropped the USA's rating from a $+8$ (immediately after the 2016 Presidential Election) to a $+5$ after the 6th of January, 2021, to a $+5$, the threshold at which a democracy is reclassified as an 'anocracy'. Belgium, the United Kingdom have seen their polity score slip as Poland and Hungary (both are now classified as anocracies). Twenty five other countries are increasingly autocratic, including Brazil and India.

How fragile are liberal democracies? What factors determine the stability of a democracy?

Ghosal and Proto (2009) (GP, hereafter) studied the conditions under which stable democracies emerge as a consequence of intra-elite competition. In this paper, we will present main features of their analysis. GP proposed a new game theory-based model of bargaining between elites to explain how the involvement of a large and unorganized non-elite may, in some circumstances, ameliorate intra-elite conflict and how, in this framework of class conflict, bargaining and coalition formation, a formal institution, like the democracy, has a real effect in changing the bargaining power among classes. The reader interested in the formal model and the technical details are referred to their paper: in what follows we present an analysis of their results and relate it to the conditions which lead to the fragility of democracy.

Of course, there are well known cases where the conflict between different groups undermined stable democratic institutions. Ake (1985) (see also Forrest, 1993; Olaloku, 1979) points out that 1 reason why a stable democracy failed to emerge in Nigeria is because it is characterized by heterogenous ethnic groups, where each ethnic group encompasses different social classes. With the rise of right wing populism in many countries, including the USA, there is a conscious effort by political entrepreneurs to build coalition based on a marker of fixed identity (race, ethnicity, religion, region), leading to a shift from democracy to some form of anocracy and, in extremis, the threat of civil war. GP extend theoretical model to consider scenarios where, due to linguistic or ethnic differences, there are vertical links between 1 elite and a section of the non-elite. With such vertical links, they show that a vertical bias in coalition formation between elites and sections of the non-elite could prevent the emergence of a stable democracy.

An earlier generation of social scientists argued that intra-elite conflict could lead to democracy. For example, Moore (1966) argued that a fundamental precondition for stable democracy is a balance of power between the landed upper class and urban bourgeoisie; while totalitarian regimes arise whenever 1 class dominated the others. Bardhan (1984) also emphasized the capacity of the democracy to manage the conflict between elites as key to understanding the conditions which ensure the stability of democracy in India. And Olson (1993) notes: ‘We can deduce (...) that autocracy is prevented and democracy permitted by the accidents of history that leave a balance of power or stalemate—a dispersion of force or resources that makes it impossible for any leader or group to overpower all of the others’.

Gethin *et al.* (2021), in a study of 50 democracies over the period 1948–2020, show that with the decline of class based voting, right populism, and not democracy, may emerge as the outcome of intra-elite conflict between wealthy elites who vote for right wing parties, and educated elites vote for social democratic parties. Social democratic and labour parties have become the parties of the educated, (public sector) white collar middle-classes and have effectively given up on ideas of universal social progress through collective political activity. The working class of today are thus effectively courted by the populist radical right, which satisfies their cultural conservatism while de-legitimizing any political coalition with social democratic parties and other workers (immigrants etc.).

The paper is organized as follows. In Section 2, we present the main model and results in GP; Section 3 focuses on the conditions under which democracy may fail to emergence. The last section concludes.

2. Analysis and key results

GP analyze a model where there is uncertainty about the future power of the 2 elites to appropriate available surplus and ex-ante surplus sharing agreements are not binding. The non-elite class—unlike the 2 elites—is initially unable to act collectively, thus it has no power of surplus extraction. The surplus is generated by assets owned by the 2 elites. It is assumed that each individual belonging to an elite owns an identical unit of a class-specific asset (for example, land or factories), whose returns are subject to a perfectly correlated shock across all individuals owning the same asset. The returns of the asset owned by 1 elite are negatively correlated with the returns of the asset owned by the other elite and only 1 of them yields positive surplus.

The stronger elite is defined as the 1 which owns the asset with a positive return. It is assumed that the portion of the surplus retained by the stronger elite depends on whether or not the non-elite organizes and forms a coalition with the weaker elite.

GP show that in an oligarchy the stronger elite retains most of the available surplus, whereas a democracy results in a more balanced surplus allocation between the 2 elites. In a democracy, the newly enfranchised non-elite individuals organize to act collectively, so that the weaker elite can credibly threaten to form a coalition with the non-elite against the stronger elite.

A democracy remains stable because of the costs of overthrowing the coalition of the weaker elite and the organized non-elite, so that the more balanced surplus sharing proposal chosen by majority voting is not overturned by the stronger elite. Therefore, sufficiently risk-averse elites will unanimously choose democracy as a form of insurance against future imbalances in relative power. However, this only results in a moderated redistribution as non-elite still receives a relatively small share of the surplus. This happens because the elites will never choose to democratize ex-ante if the cost of overthrowing non-elite is large enough.

Two examples, drawn from the histories of Indian and French democracy, are a useful illustration of the underlying mechanism of coalition formation. In India, Indira Gandhi’s attempt to mount a coup (by imposing ‘Emergency’) in 1975 culminated in her losing the enormous popular support she had hitherto enjoyed. Even though she promised more redistribution to the non-elite, this commitment was not credible and an alliance consisting of the non-elite with anti-Congress parties fiercely opposed her by organizing a large mass mobilization (e.g., Kohli, 2001).

In France, universal male suffrage was introduced in 1848. When a social reform agenda was passed thanks to the alliance between the working class and Republicans, a conservative government disenfranchised 2.8 million of men in 1850. However, in 1851 the Republicans and the working class supported the coup led by Louis Napoleon Bonaparte, who restored universal suffrage, initially only formally and from 1868, under the pressure of Republicans and working classes more substantially (by abolishing the previously imposed ban on organized political activity, Collier, 1999, pp. 42–43; Elwitt, 1975, p. 41).

In GP's model, collective non-elite political activity is organized by a political party who is able to reward its own members selectively. Party formation is modelled within the non-elite explicitly by allowing each individual in the non-elite the choice of becoming a party member. There is a cost to party membership so that it becomes a dominant action if and only if the number of other individuals joining the party is greater than the critical mass required for effective political activity. Therefore the party formation process has 2 equilibria, one where all individuals join the party and the second where no individual joins the party. In our set-up, consistent with Olson (1965), selective incentives resolve the free-riding problem involved in collective action.

Which equilibrium do non-elite individuals coordinate on? An individual member of the non-elite will compare the consequences of not joining the party (i.e., the risk of losing out from the gains of party membership if a critical mass of other individuals join the party) with the consequences of joining the party (i.e., the risk of incurring a privately borne cost if the number of other individuals joining the party falls below the critical mass). The selection argument used by GP here picks the equilibrium with the lower risk of loss that is, the equilibrium which is risk dominant. In GP's model, the critical mass required for effective political activity is decreasing in the cost of joining the party. In democracy, the elites lower the required critical mass by lowering the cost of joining the party for the non-elite. This ensures that individuals in the non-elite coordinate on the equilibrium that leads to party formation.

The mechanism of conflict resolution of the democracy described by above has 2 main implications that we think are new in the literature. First in a democracy both non-elite collective political activity and the right to vote are necessary: enfranchisement with a high cost of political organization would not change the oligarchic equilibrium allocation. This point is consistent with the observation that all constitutions of the countries commonly considered democratic emphasize the importance of collective organization as well as the universal right to vote. Furthermore, political scientists have documented that in many dictatorships individuals have the right to vote (and often massively participate in elections) without having real freedom of association, and that criteria used to define democracies must include not just the right to vote, but also the existence of effective collective political organizations (e.g., Dahl, 1989; Hermet, 1978).

Second, the benefits to the non-elite may be very small in a democracy and can never be too high. This point seems to find some support from Aidt *et al.* (2006), who find evidence of little or no redistribution to the working classes in the post-enfranchisement experience of western European countries; and from the Indian experience where high and widespread poverty and low level of public good provision have coexisted with the democracy—the so called Indian puzzle (e.g., Weiner, 2001).

GP analyze the institutional choice of democratization in a framework characterized by 2 conflicting elites. The 2 elites compete for the appropriation of a unit of social surplus, but both of them are initially uncertain about their future relative bargaining power. When their relative bargaining power is revealed, the strongest elite, faced with the weaker elite on its own, is able to appropriate the surplus, but since individuals belonging to each elite are risk averse, they would each prefer to commit credibly ex-ante to partially insure each other against future imbalances in bargaining power. GP show that democracy—consisting of both franchise extension to a numerically large non-elite and lowering the cost of organized political activity via legalization of the participation in collective political activity (like the formation of a political party)—is an ex-ante Pareto-efficient credible commitment device by which competing elites ensure a mutually fairer share of the surplus by handing formal power to a weak non-elite median voter.

In particular, the democratization—lowering the cost of political participation—changes individuals' expectations on other individuals' most likely strategy and acts as an equilibrium selection device, inducing the individuals to join a political party and solving in that way the non elite's collective action problem.¹ This second effect gives some bargaining power to the previously completely inconsistent and weak working class, who prefer to ally with the weaker between the 2 elites and partially compensate for the imbalance in the relative bargaining power of the 2 elites. The necessary condition for this mechanism to work is that both the organized non-elite and the weaker of the 2 elites, on their own, have little bargaining power against the stronger elite, but are stronger together. Under these conditions, and before the relative bargaining power between elite is known, the democracy is a credible, Pareto efficient device ensuring a fairer surplus distribution between the 2 elites, who unanimously agree to establish it.

The surplus sharing proposal winning the elections is renegotiation proof for 2 reasons. First, if the stronger elite objects to the electoral outcome, it will be opposed by a strong coalition between weaker elite and organized non elite. Second, the median voter (from the non-elite) will be constrained by the threat of being disenfranchised by a coalition between the 2 elites, and for this reason demands for her own class a low amount of surplus.

3. Populism and democracy

In this section, in contrast to the preceding analysis, we examine 2 different scenarios where intra-elite conflict does not necessarily lead to democratization: vertical biases in coalition formation and dominant elites.

3.1. Populism and ethnic conflict

As already argued in the introduction, intra-elite conflict does not necessarily lead to stable democracy, especially when different social groups are characterized by strong vertical links based on a marker of fixed identity. In what follows, we show that with vertical bias, the conditions for equilibrium democratization, derived in the simple model, need to be qualified. A possible objection to our argument is that stable democracies are not a necessary outcome of inter-elite conflict in heterogeneous societies as in many African countries. In recent times, even established democracies may not be immune to populist rhetoric.

GP consider scenarios where there may be a vertical bias and that sections of the non-elite may prefer to form coalitions with the (stronger) elite with whom they have existing ethnic or linguistic links. It is shown that such vertical biases in coalition formation links prevent the emergence of democracy.

In words, the analysis demonstrates that political mobilization of a section of the non-elite by an elite group based on a marker of fixed identity such as race or ethnicity or religion, can make democracies unstable. Such mobilization is a key characteristic of right wing populist movements, and in earlier era, fascism (Gethin *et al.*, 2021; Parenti, 1997).

3.2. Dominant elites

Moore (1966) observes that the presence of a dominant elite results in dictatorship, not democracy. When the ex-ante balance of power is skewed in favour of 1 of the 2 elites, whether or not democracy is chosen at $t = 0$ now depends on the ability of the (ex-ante) weaker to act on its own without the consent of the ex-ante stronger elite. However, the ex-ante dominant elite may agree to a democracy if the size of the available surplus increases (due to, e.g., an efficiency wage argument as now the non-elite obtain a small but positive share of the available surplus) after democracy is chosen.

¹We follow Harsanyi and Selten (1988) equilibrium selection argument—and we show that the collective action may become the risk dominant strategy after the democratization.

4. Conclusion

The following quote is a good way of summarizing our main result:

'In a country where the elements in the dominant coalition are diverse, and each sufficiently strong to exert pressures and pulls in different directions, political democracy may have slightly better chance, than in other developing countries,(...). This is based not so much on the strength of the liberal value system in its political culture as on the procedural usefulness of democracy as an impersonal (at least arbitrary) rule of negotiation, demand articulation and bargaining within coalition, and as a device by which 1 partner may keep the other partners at the bargaining table within some moderate bounds' Bardhan (1984, p. 77).

In particular, the above analysis clarifies how the democratization can be seen as a negotiation device by which competing elites ensure a mutually fair share of the surplus by handing formal power to a weak non-elite median voter. It also, however, clarifies the limits of such a mechanism in sustaining democracy, in face of the emergence of right wing populism or ethnic conflict.

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