

A Variant of the Modernization Thesis

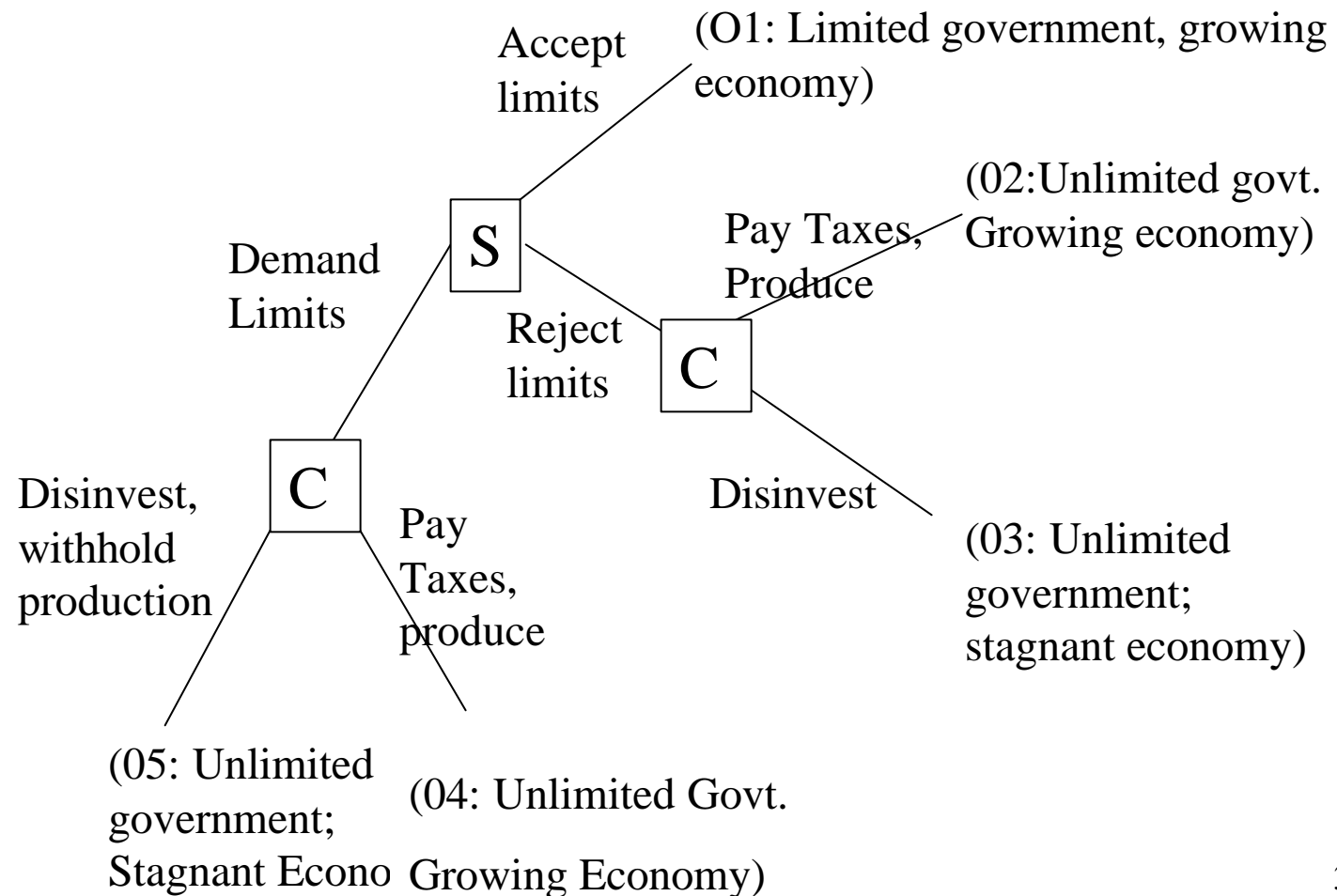
- As countries “develop” a new class emerges that has both the interest and the ability to constrain government.
- “No bourgeoisie, No democracy” –
Barrington Moore *Social Origins of Dictatorship and Democracy*

Bates and Lien (1985) “A Note on Taxation, Development, and Representative Government.

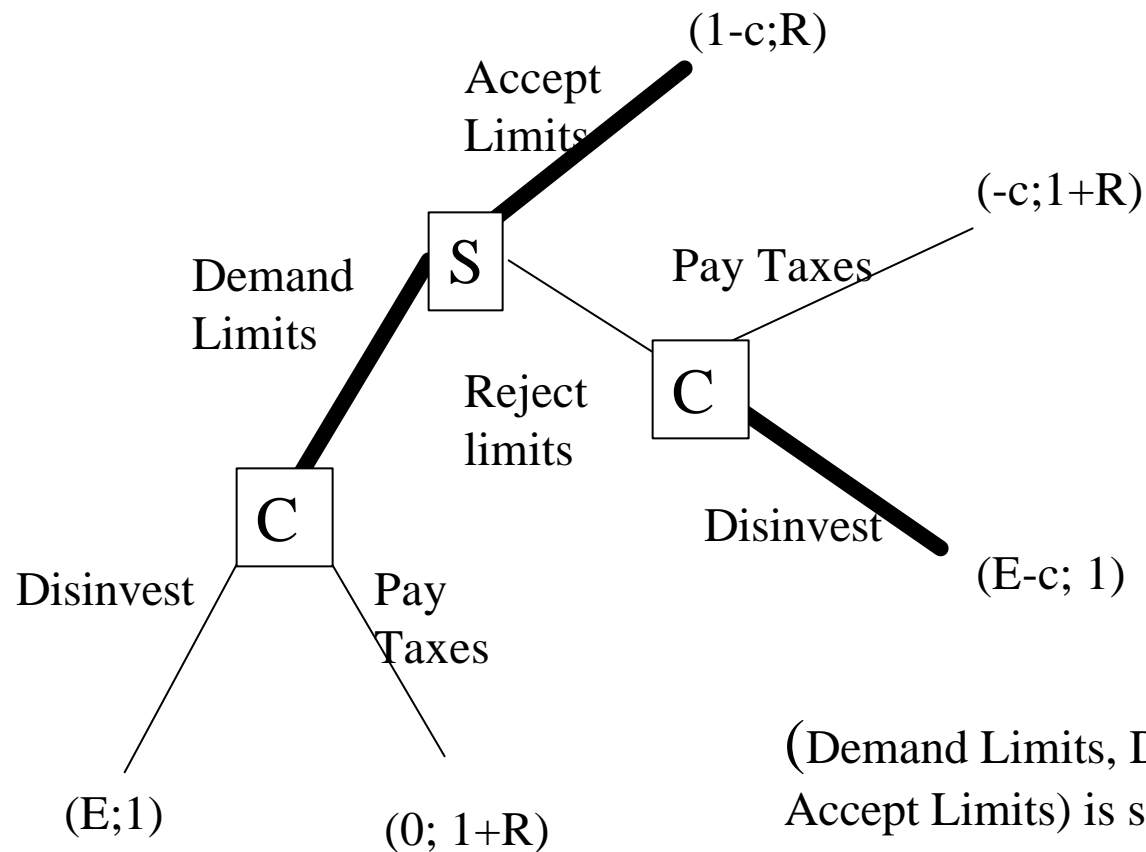
- Democracy arose in the UK and not France because the UK’s economy was dominated by a lot of small-holders who could hide their assets.
- The French economy was dominated by large estates that were easy to tax.

As a result, the crown had to bargain with elites in the former case, but not in the later. The consequence of this bargaining was that the Crown had to accept limitations on its rule in the former case, but not in the latter.

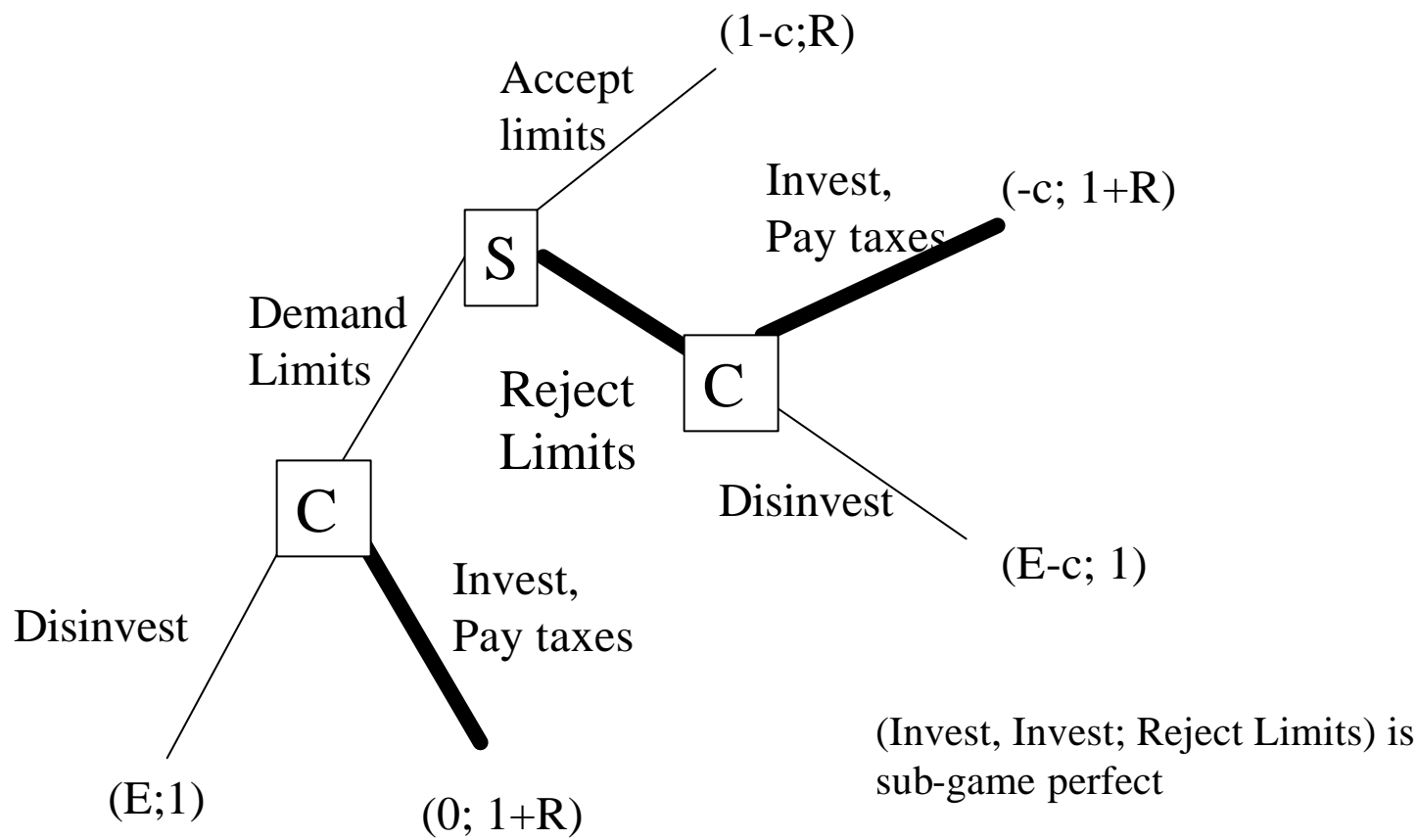
Limitations on government in response to citizen demands



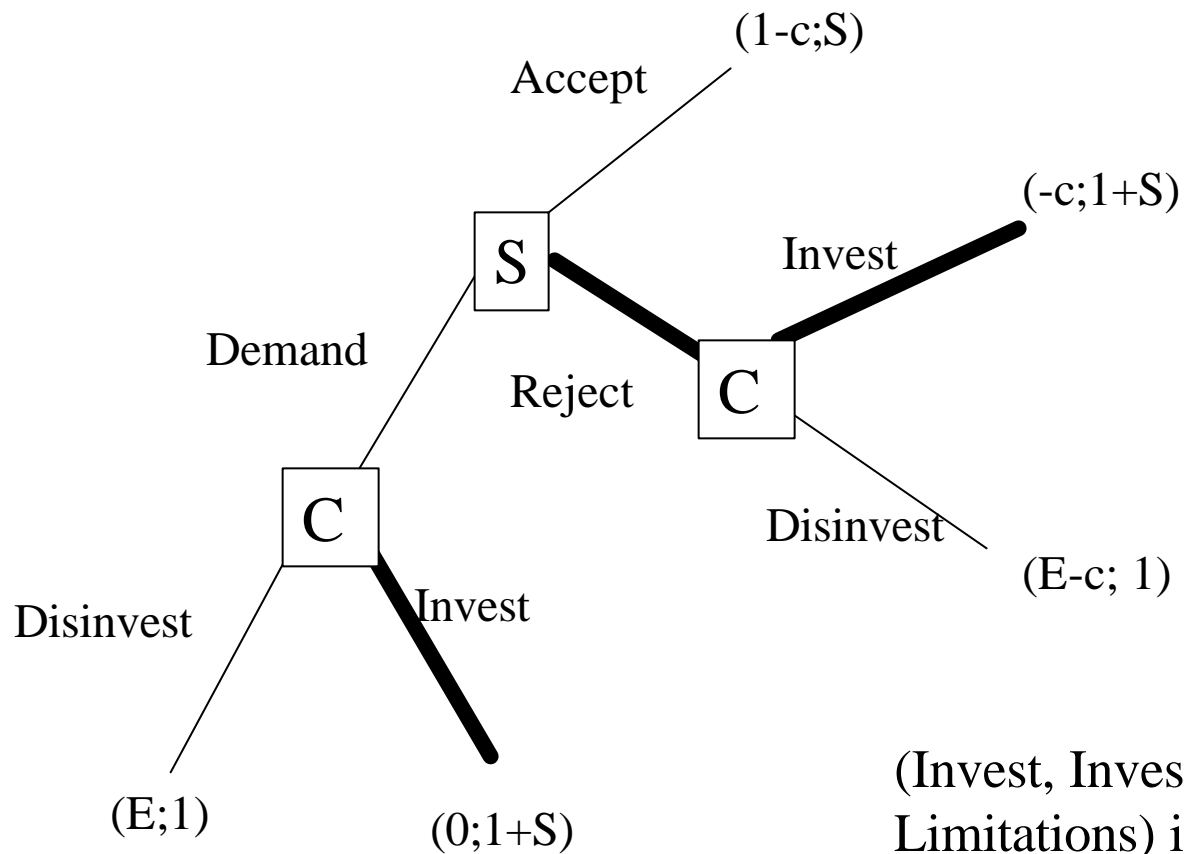
Equilibrium behavior when citizen has credible exit threat ($0 < E < 1$) and state is dependent ($R > 1$).



Equilibrium behavior when citizen has no credible exit threat ($E < 0$) and state depends on citizen's support ($R > 1$).

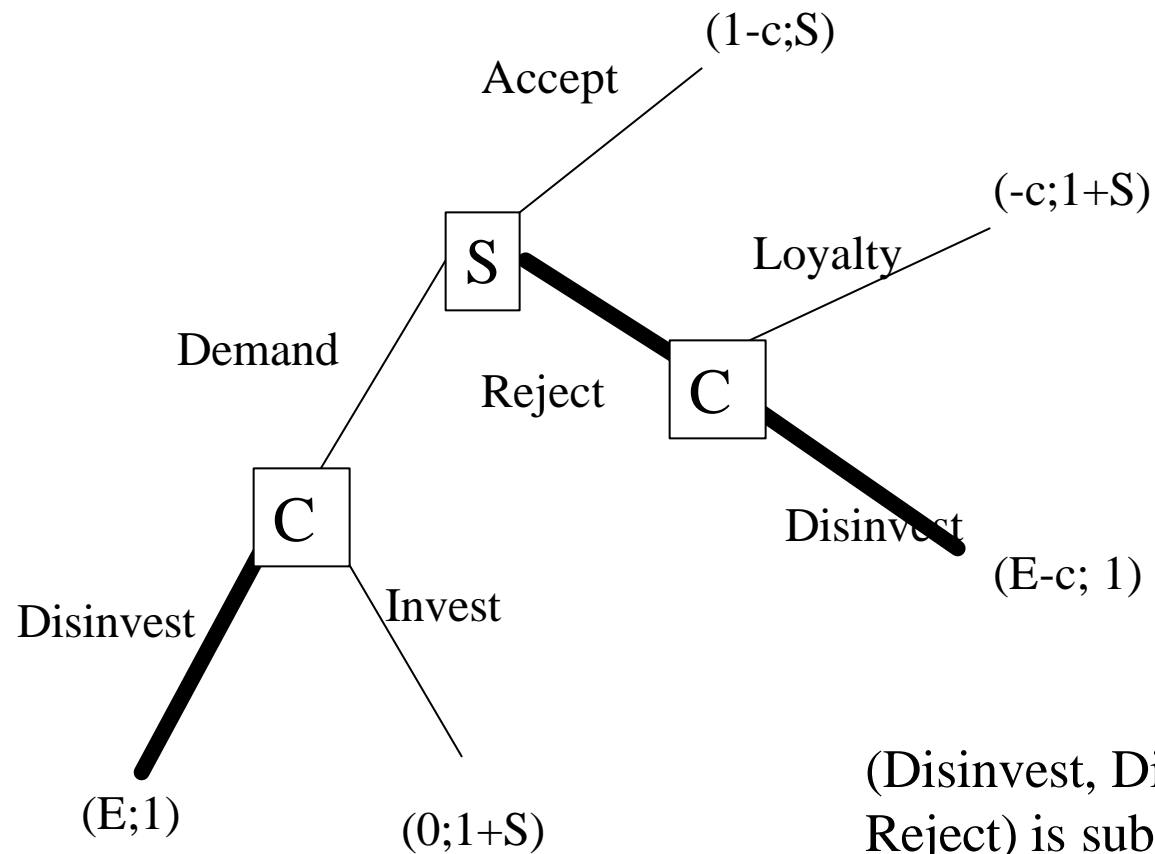


Equilibrium behavior when citizen has no credible exit threat ($E < 0$) and state is relatively autonomous ($S < 1$).



(Invest, Invest; Reject Limitations) is sub-game perfect

Equilibrium behavior when citizen has a credible exit threat ($E > 0$) and state is relatively autonomous ($S < 1$).



(Disinvest, Disinvest;
Reject) is subgame perfect

Summary of subgame perfect equilibria

State is:

		Relatively autonomous $S < 1$	Dependent $S > 1$
Citizen has:	Has credible exit threats ($1 > E > 0$)	(Disinvest, Disinvest; Reject)	(Demand, Disinvest ; Accept Limits)
	Does not have credible exit threats ($E < 0$)	(Invest, Invest; Reject limitations)	(Invest, Invest ; Reject limits)

Equilibrium outcomes

State is:

Relatively autonomous
 $S < 1$

Dependent
 $S > 1$

Citizen has:
Has credible exit threats

$(1 > E > 0)$

	Relatively autonomous $S < 1$	Dependent $S > 1$
Has credible exit threats $(1 > E > 0)$	Poor, Autocracy	Rich Democracy
Does not have credible exit threats $(E < 0)$	Rich Autocracy	Rich Autocracy

Does not have credible exit threats
 $(E < 0)$

Institutional Explanations

- Future lectures