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*

- 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

- Demand Limits
  - Pay Taxes, produce
  - Disinvest, withhold production
    - (05: Unlimited government; Stagnant Economy)
  - Pay Taxes, Producers
    - (04: Unlimited Govt. Growing Economy)
  - Reject limits
    - (03: Unlimited government; stagnant economy)
- Accept limits
  - (01: Limited government, growing economy)
  - (02: Unlimited govt. Growing economy)
Equilibrium behavior when citizen has credible exit threat $(0<E<1)$ and state is dependent $(R>1)$.

(Demand Limits, Disinvest; Accept Limits) is sub-game perfect
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 \((S<1)\).
## Summary of subgame perfect equilibria

State is:

<table>
<thead>
<tr>
<th>Citizen has: Has credible exit threats</th>
<th>Relatively autonomous $S&lt;1$</th>
<th>Dependent $S&gt;1$</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1&gt;E&gt;0)</td>
<td>(Disinvest, Disinvest; Reject)</td>
<td>(Demand, Disinvest; Accept Limits)</td>
</tr>
<tr>
<td>(E&lt;0)</td>
<td>(Invest, Invest; Reject limitations)</td>
<td>(Invest, Invest; Reject limits)</td>
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## Equilibrium outcomes

State is:

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<td>( S &lt; 1 )</td>
<td>( S &gt; 1 )</td>
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</table>

Citizen has:

- Has credible exit threats: 
  - \((1 > E > 0)\)
    - Poor, Autocracy
    - Rich Democracy

- Does not have credible exit threats: 
  - \((E < 0)\)
    - Rich Autocracy
    - Rich Autocracy
Institutional Explanations

• Future lectures