

19 OLSON Democracy/dictatorship

TRANSITION BANDITS

The villager thinks that monarchy is the best type of government because king can control and administrate a country better given that he is the owner of the country. Similarities with the owner of a house, that fixes it. But we cannot be sure if an owner would make his country most productive as possible. To have some gain a society need public order so that people could work and produce/obtain public goods. At the beginning man live in anarchy, they are constantly threat by violence and fear, so they have no incentive to produce. We can say that people would be more productive in a peaceful order rather than in anarchy. So it seems reasonable that people make a voluntary agreement in order to maintain peace, supporting the full cost and receiving only a little share of the benefits. We can derive that is impossible for citizen to make a voluntary agreement about peace, COLLECTIVE ACTION PROBLEM, only small group can organize themselves because they have great share of the common goods, great incentive to contribute and gains, while large groups bears the whole cost, have little incentive and small gains.

At the beginning we have roving bandits who steal everything they can from population, state of anarchy, so people have no incentive to product given that it will be stolen. Then rationality makes bandits settle down and take theft in the form of a regular taxation maintaining a monopoly on theft in the domain. The bandits became stationary and protect people from other bandits in order to protect their taxation system. Bandits will take only a part of the productions so that population have an incentive to produce, save and invest money. In this way anarchy is replaced with a government thanks to the self interest and rationality of some bandits and not by a voluntary agreement.

TAXATION SYSTEM OF BANDITS

An autocrat is the owner of a country and if he is short viewed, rational self-interested he would take the maximum possible surplus from the society to use it for his purposes. An autocrat have also to use some of this money to produce public goods, and so will impose an higher tax. If the level of public goods produced given some tax rate is high, the higher will be the income of the autocrat from taxes in the future, the higher is the tax rate given a level of public goods, the lower will be the income from taxes in the future. If the taxes are high, autocrat will have high income in the beginning, but then there will be no money to collect.

DEMOCRACY

Candidates buy majority transferring income to the prospected majority, and taxes imposed reduce society outputs. For this reason, democratic leaders have no incentive to raise taxes, because they will not be re elected by citizen. But doing so, they will not reach revenue maximizing level and productivity is slowed, hurting themselves. However, in democracies we have other actors, such as lobbies and small parties that will pursue particular instances and consider more the social losses, so not necessarily democracy will be worse for economic growth than dictatorship.

SUCESSION

If an autocrat is short viewed, he will take all the income for himself, limiting the possibility for the citizen to save, produce and invest. Maximum income can be achieved only if the autocrat is long viewed and people make long term investments. In order to do that, he must secure protection from expropriation, impartial enforcement of contracts and stable monetary system. An autocrat must promise that everything will be secured by an independent source of power and in long time, so it is necessary an established rule of succession or dynasty.

ECONOMIC DEVELOPMENT

People need that their contract are protected and properties will not be expropriated, so the government protect them and in order to do so, grant some individual rights. Individual rights are artefacts created by government institution, so we can say that there will be no private property without a government. So, condition of long-lasting economic development is the same of a long-lasting democracy. Property and contract last in time over generations, political leaders instead are in charge for short periods. So, money pass from dictatorship to democracies in the long period. Countries with the highest level of economic development are democratic and democracies win war twice as frequently than dictatorship.

20 GLORIOUS REVOLUTION – WEINGAST NORTH

North and Weingast theory says that government have to secure private property rights because they are essential to economic growth and prosperity because if they alter taxes as they prefer, they will expect lower returns from investments and incentive to invest. They Search for the proof that prevent the state from using violence to extract all surplus. The ex post opportunism will benefit if action can be divided ex ante. The wise party is the one who seek to give and receive credible commitments. Reputation is also important in repeated plays because result in variation in the sovereign's time preference or discount rates. Political institutions must be carefully chosen in order to eliminate or eventually reduce the problem of compliance. Institution are considered as constraint when reputation is insufficient to prevent renegeing. To establish punishments, the constitution must be self-enforcing.

GLORIOUS REVOLUTION

As tax revenues did not match expenditures, the Stuarts engaged in various kinds of expropriation techniques for example forced loans, seize goods for public purposes below market value, expanding the peerage and instituting the court of wards by which they can impose arbitrary imposition. This was a disincentive to invest and lead to less accumulation of capital. Institution can introduce compliance if they are self-enforcing, because the repeat plays and reputation are sufficient to prevent renegeing on credit condition but this is true only if the discount rate is constant over time. A change in the discount rate could be a war for example. Institution do not substitutes reputation building but they act as a constraint to opportunistic behaviour.

In England there was a concentration of power and a lot of royal prerogative, translated into quasi legislative power for the Crown. The Crown controlled also the judges so they need to limit it with external institutional check. They tried to build political institution and restore parliamentary supremacy; a system of king in parliament and not more the king over everything. A parliamentary veto could also represent an important limit to the power of the crown and the king's prerogative were cut down. It was also assured the independence of the judiciary power.

It was possible because the people represented a threat to the crown, they could be easily replaced and wanted a government based taxation. The results are an effective separation of powers, economic and political freedom and balanced law. The cost of public expenses increased and increased also the number of veto player rising the predictability of the government as we study earlier.

FISCAL REVOLUTION

The bank of England growth in importance due to the increase of money available. There was a fall of interest rate and risk associated to government behaviour decreased. More debts and no inflationary finance. Capital market response in public and private. There was positive externality and public debt. On the private side, privates rate falls, trading securities grow and the first bank were born.

21.22 PRZEWORSKI

Is difficult to define democracy, someone says it is a system in which parties lose elections, for other a government pro tempore in which conflicts can be controlled, for others a system of processing conflicts in which outcomes depends on what other actors do or a system of ruled open endedness and organized uncertainty. The main feature on which all people concord are the uncertainty ex ante and that ex post outcomes are determine by political actors. The protagonist in democracy are divided into leaders and followers, who are capable to organize themself and formulate collective interests and act strategically. They are capable of coercing the interests. Democratic forces compete in order to win elections

OUTCOMES

Outcomes in democracy are uncertain, but not unpredictable. There is a difference between democracy and anarchy. The uncertainty is the same for every participant, no one knows before elections the outcomes, however they know which outcomes are possible and what is likely to happen given an institutional framework and political actors. So, we can say that outcomes are a product of institution and resources, so predictable. The political forces compete to reach an uncertain result.

To analyse this source of uncertainty, we have three theories. First one is the SOCIAL CHOICE THEORY MODEL, that focus on collective preferences cycles. For this theory the outcome cannot be understood in terms of individual preferences. The only justification to this uncertainty is the fairness, no one know the final outcome and everyone can win or lose. This theory says that there is no correlation between actors and outcomes. PROBABILISTIC STRATEGIES MODEL says that actors do not know what to do because they don't know what will happen. They make simultaneous decision and use a random device, a probabilistic function, to predict the outcomes. The unique Nash equilibrium in mixed strategies will be the final outcome. Outcome is only probabilistically predictable. The last one is the PRZEWORSKI MODEL. It says that if actors are rational, they change their belief when the information change and act on their beliefs, so their strategies are independently chosen and probabilistically distributed. Actors are uncertain if the others can predict their actions, what can be seen is only the appearance. Strategies are chosen by people independently so the system of decision making is decentralized. So, democracy is a system that generates appearance of uncertainty, because it is a system of decentralized strategies and knowledge is local. Political actors need to calculate probabilities for understanding the consequence of their actions, in order to predict what is best for them. Given that under the same circumstances outcomes are determined only by actions of political actors, democracy is for everyone an opportunity to pursue their respective interest. This Interest are not protected by the virtue of their political position, because entering democracy means that everyone is subject to the competition and uncertainty. So we can say that the democratization is the institutionalization of uncertainty through devolution of power from a group of people to a set of rules. the democratic outcomes are not the product of universal deliberative process but at most they are the product of negotiation between leaders. The majority rule is only the ultimate resource in a democracy in order to accept or refuse an outcome decided by the leaders.

THEORY OF COMPLIANCE

The outcomes are known from the beginning so if a political actor respects democratic rules, he has to compliance with the results. The commitment to democratic rules is not sufficient to compliance with democratic results; the durability of democracy is related to the ability of political actors and their willingness to compliance with the results and not to subvert democratic institutions.

Three major theories of compliance, the fist one Is the one born during the Enlightenment, THE THEORY OF RATIONALIST DEMOCRACY These authors say that democratic interests are harmonious and the only possible conflicts are born because of the disagreement about the identification of a common good. These conflicts can be overcome by rational discussion and the Role of the political process is to search for this common good. The superiority of democracy consist in this rationality. Three condition are needed to support this theory, existence, convergence and uniqueness. Convergence means that exist a unique welfare maximum over a political community, convergence means that democratic process converge to this maximum and uniqueness means that this democratic process is the only way to achieve this convergence. SOCIAL CHOICE THEORY criticize this model and says that there is no procedure of aggregating preferences

that can guarantee a unique outcome and even if it existed democratic process would not converge to it. Voting cannot identify a unique social preference because individual preference is exogenous and fixed. This theory is criticized by Przeworski too, because the will of the people is not the motive of the power of political process, is only a product of democratic process. The will of the people is brought about exactly through and within the Democratic process.

DELIBERATIVE THEORY says that the act of deliberation is an endogenous change of preferences resulting from communication between people. Citizen can change views through public and rational discourse and they can change opinion about which is the common good to pursue. Przeworski criticizes this theory because it requires three assumptions. First of all, the messages need to be true or false, the people must accept it if it's true and the messages are issued in a disinterested way. Second people act strategically, not pursuing only a common good, so this implies that cannot exist only one general truth.

Deliberation is not necessarily converging to a unique conception of Common Good but can exist different type of preferences that lead to a broadest agreement. Education of preferences does not necessarily lead to a resolution of conflicts and not all political conflict can be reconciled by discussion.

COMPLIANCE

The last one is PRZEWORSKI POSITION Przeworski theory says that interests of the people are often in conflict and that politics are characterized by antagonistic relationship between them. The vote is basically an imposition of one 's will upon a resisting will and the democratic institutions allows the political actors to act in a long-time horizon. The democracy offers to the losers a prospect of eventually advancing their interest, that is sufficient to incite them to comply with an immediate and unfavourable outcome. This theory is based on the compliance of the people. Przeworski analyses three different views of compliance. Compliance can be SPONTANEOUS DECENTRALIZED AND VOLUNTARY and this is a self-enforcing equilibria based on outcomes. Each actor does what is best given what others actors would do, so the outcomes are decided by the best equilibrium of the different actors. We can see it is a self-forcing equilibria represented with a cooperation game in which actors are better off by cooperating.

Compliance can be also the product of BARGAINS OR CONTRACT that are enforced exogenously in this situation. One actor at least would be better off doing something else but the final outcome holds because it is enforced by an external force. An example is the one of two parties competing controlled by a third party, that is able to punish those who transgress the agreement. This third party in a democracy enforce the agreement. This enforcement in democracy can be the centralized or decentralized: it's decentralized when there are enough actors that self-interestedly sanction the noncompliance and support the cooperation game while it's centralized if there is an external agency that has the power and the motivation to sanction defections. If this third party is a state, the centralized enforcement consists in sanctioning produced by the state itself and this is not controlled by the society. This is the view of the leviathan that differs from democracy. If this enforcement is decentralized, the state enforces compliance because it would itself be punished for not doing so. We can consider the state as an agent of coalition for made to ensure compliance so that democracy would be the only equilibrium

The last theory is the one that consider compliance motivated by moral commitment or social order and norms. This view does not consider normative commitments as necessary to understand the way democracy works. This type of cooperation is spontaneously enforced in systems with decentralized self-interested punishments.

DEMOCRACY EQUILIBRIUM + ESERCIZI

When democracy become the dominant institutional system no one can act outside of it, all political forces complete in this environment and advance their interest by submitting them to this democratic feature and in this way we can have a consolidated democracy. This means that democracy is self-enforcing because compliance constitutes the equilibrium of the decentralized strategies of all the relevant political forces. Democratic institutions are considered important for this reason, because they have the capacity to punish the one who act outside the democratic institutions and can be organized in different ways. The different organization of the democratic institutions can make a difference because they have distributional effects and they offer actor intertemporal perspective because it is difficult that this institution change. Only organized political forces have the capacity to underline the democratic system, political actors can only try to alter outcomes ex post or reduce confidence of other actors in democratic institutions.

$W > L$, $S = qD(\text{success}) + 1 - qF(\text{fail})$, $S > L$ but $L(0) + C(1) > S(0) + S(1)$, results $L(0)$ and $C(1) = pW + 1 - pL$ or $S(0)$ discount $0 < r < 1$ if cumulative $C >$ cumulative S then $C(0)$. Comply if $p(i)$ greater than some minimum $p^*(i)$, if $p(i) > p^*(i)$, $C^* > S^*$ so $C(0)$

TRANSITION TO DEMOCRACY

It's difficult to relate constitution with empirical reality because it is influenced also by the condition of the environment and by institutions. Scholars have observed that after the introduction of democratic constitutions, electoral majorities have been rare, preferring coalitions or minority government. In successful democracies institution make it difficult to fortify a temporary advantage and governments in order to being able to govern must have not so much neither too less power. There can't be a lot of veto player but at the same time it can't control every aspect of the public sphere. Government must be strong enough to govern effectively but weak enough not to be able to govern against important particular interests. SOCIAL CONTRACT THEORY tries to find out if, given some institutional and environmental feature, there can be a way in which people can organize and obtain the pareto optimal rational outcomes by giving up their personal decentralized preferences and coordinating themselves.

FACTS = equilibria in strategies that make decentralized voluntary compliance individually optimal, agreement to disagree. The solution to the problem of decentralized preferences is the creation of some institutions. Different studies on transition. First is SOCIOLOGICAL and says that outcomes are determined only by conditions of the people, so unsatisfied citizen will lead to a democratization. O'DONNELL SCHMITTER with a game theoretic approach focused on the strategies of different actors. PRZEWORSKI follows this approach but introduced also time. Different types of outcomes of transition: no democratic institutions can last and end up with a new dictatorship. No democratic institution can last so agreement on democracy as a transitional solution. Some democratic institution would work but conflicting political forces fight produce a dictatorship. Some democratic institution will work but political forces disagree and pursue personal interest. Democracy is established.

Dictatorship can't tolerate independent organizations because they threaten the hegemony of the dominant group. So, liberalization means opening the political space to civil society organizations in order to broaden the social base of the regime without changing its structure. At a specific point a group in the authoritarian regime decide to tolerate some organization in civil society. There are two categories of liberalization. First from above, top down model. The liberalizers in the regime see the possibility of an agreement with unorganized forces in civil society. Or from below, bottom up model, when mass mobilization is so big that the regime can't stop them with force, dividing the regime between liberalizers and hardliners. Both of them can be seen as the same project of liberalization, intended as a controlled opening of the political space from within the regime. The liberalizers are the one who can always open the regime. But liberalization can be unstable, once repression lenses there are the first reaction of autonomous civil society, so unless everyone have full and complete information about other actors' preferences, liberalization can't happen and will end up in repression. The level of popular mobilization depends on the strength of the authoritarian regime, so on its lies, production of fear and the economic prosperity.

ESERCIZIO

Possible outcomes STATUS QUO, BROADEN DICTATORSHIP, NARROWER DICTATORSHIP, INSURRECTION, TRANSITION. Vedi preferences

DEMOCRATIZATION

The breakdown of a dictatorship produces two problems, political actors doesn't know who will accept the democratic institutions and who will compliance when democracy is created. Two front of the battle for political actors, against the regime and against the other political actors in order to achieve a better position when the regime falls. Democratization is ensured in two phases, extrication and constitution. EXTRICATION from the authoritarian regime see four political actors: two from the regime (hardliners and reformers) and two from the civil society (moderates and radicals). Extrication is possible only when reformers can neutralize hardliners, moderates can control radicals and an agreement can be reached between reformers and moderates to establish new democratic institutions. Moderate needs radical to be able to put pressure on reformers and fear that radicals will not consent to the deal they work out with

reformers. The situation in which democracy is the equilibrium outcome are if radical accepts democracy with guarantee so that they can participate in the democratic competition and if moderates continue to be protected by the existence of autonomous armed forces free from the control of authoritarian regime. The moderates accept this protection because they fear a coup d'état, fear the radical and can't control the military forces in other ways. In conclusion prodemocratic forces must be prudent ex ante. The democracy that will be established will be conservative and decision ex ante create condition hard to reverse ex post. Optimal strategy of extraction is inconsistent and democrats will regret ex post their prudency.

CONSTITUTION. The main question once democracy is established is what institution will be adopted and how they will be self-enforcing. All transition to democracy are negotiated, conflicting political forces have to bargain in order to establish the institutional framework. Institutions are important because they have distributive effects, so they can determine which particular interest will be pursued once the democracy is established. Three main problem of institutions creation are substance versus procedure, agreement versus competition, majoritarianisms versus constitutionalism. Different outcomes depend on the composition of the coalition that defeat authoritarian regime. If the forces are known and balanced, anything can happen, if they are known ex ante and uneven, democracy will be stable as long as the current situation is maintained and if they are unknown democratic institution will comprise extensive checks and balance and democracy will last against a large variety of conditions. This because institutions are made for a particular person, party or coalition and are designed to consolidate ex ante power relations. If forces are known and balanced, we have no equilibrium in pure strategies resulting in a major uncertainty and unpredictability. Outcomes are the results of institutions and resources, if they are not stable, even the outcomes can't be predictable. In front of a risk of continuing conflict, political forces agree on certain institutional framework as a temporary solution. Institution are seen as less important and will have less effective power so that outcomes will be more predictable. Przeworski criticize this theory. If no one knows anything about relation of forces institutions will be introduced with a system of check and balance and maximize the political influence of minorities, making policy insensitive to public opinion. They will provide insurance to losers, reduce the stakes of competition and prevent the increase of returns to power. This make easily to comply. CONTESTATION...

23 PRZEWORSKI self-enforcing democracies

Przeworski says that democracy endures only if it is self-enforcing and is in equilibrium. The interest of the people are in conflict. Winners and losers are designed by elections, democracy function under a system of rules which enables behaviour that would not be possible without them. Spread in the nineteenth century there was the idea that democracies couldn't last long because they were threatened by poverty. They believed that universal suffrage and capitalism could mean instability, incompatible with personal security or property rights, universal suffrage would have been the end of civilization. Modern theories reflect on median voter theory, everyone pays a portion of their income t in tax and then divide it among all members. The people above the average income are considered net contributors and the people below are net beneficiaries. Net beneficiaries prefer high taxes while net contributors prefer low taxes. In democracy are represented more the interests of a wider portion of society than in dictatorship and this because poor have greater representation. So dictatorship make tax policy to benefit the rich and democracies the poor resulting in higher distribution of wealth. The rich are less likely to invest in democracies for this reason resulting in theory in a less increasing economic growth.

The assumption is that income affects the level and the length of democracies. Individuals are heterogeneous in initial wealth, decision are endogenous, decision about redistribution are taken in elections, chances of winning a conflict are exogenous and depend on the relationship of military forces, results are accepted by everyone if equilibrium is democracy, the cost of dictatorship is the loss of freedom. Utility function is concave. At a sufficiently high income the additional gain from being able to dictate redistribution becomes too small to overcome the loss of freedom. If there is enough wealth in the country so that it does make too much difference whether some redistribution takes place, it is easier to accept the idea that it does not matter which side is in power. If loss of office means serious losses for major groups, they will seek to retain office by any means available.

The results show that democracy survives in wealthy countries, each country has a threshold of income above which democracy survives. If income and military forces are balanced, democracy will survive in poor counties. Economic threatens democracy due to their effects on per capita income and the decline reaches the income threshold. If the income is in an intermediate level, one party can obey it's possible that a party will obey only if it wins the election while the other obeys unconditionally.

Democracy survives only if redistribution of income remains within the bounds that make it sufficient for the poor and not excessive for the rich. In poor unequal countries there is no redistribution that can satisfy both parts,

24 WEINGAST DEM AND RULE OF LAW

Weingast searches the different level of rule of law in different states and how political and economic rights are respected. Weingast says that democratic stability can exist only when citizens are able to successfully resolve a coordination game. The stability depends on self-enforcing equilibrium in which the sovereign himself believes that it's his own interest to respect government limit. Three research fields: the absence of consensus about the role of interests and values in democratic stability, analysis of divided societies and how democracy survives this condition and the role of elite pacts into transition to democracy.

WEINGAST MODEL + ESERCIZIO

Weingast' model starts with three players, the sovereign and the citizens divided into group A and group B. The citizens have a set of preferences and values about the limits of the government, each of these citizens is able to classify these preferences into two mutually exclusive categories, legitimate actions that are tolerated, and fundamental transgression, bad for him. The sovereign to stay in power must have citizen support and can be deposed only if both group of citizens decide to challenge. The economy is able to produce social surplus shared by player and transgression result in economic loss because sovereign confiscates citizens' wealth. The players' actions are respect or transgress for the sovereign and acquiesce or challenge for citizens.

MODEL 1 equilibri T, A, A (8,2,2) and NT, A, A (2,8,8) pareto optimal TCC 077

MODEL 2 TabAA 822 TaAA 429 TbAA 492

Citizen only responds to major violation. If the game is repeated, by the folk theorem, citizens are allowed to support their pareto optimal outcome. S if one of A or B has ever acquiesced, transgress against both A or B. A challenge only if the other player has always challenge in the precious games, otherwise acquiesce. The same is for the player B. The equilibrium is based on the trigger strategies of A and B, no one has incentive to change. Acquiesce today means avoiding a cost of 1 and then facing a loss of 3 in every game. Challenging the first period cost 1 but then maintain 3 in all future periods. The most natural equilibrium is the asymmetric one where transgression succeeds against one of the two groups because coordination is difficult in societies and people are unlikely to resolve it due to their decentralized nature. In absence of a common view the only possible result is coordination failure. To cooperate citizens need a coordination device, that could be constitution, a political leader... And to be effective this coordination device must be self enforcing. Limits become self enforcing when citizens consider the state's limits in very high way and in order to defend them they are willing to challenge the sovereign. Democratic stability depends on both mass and elites' behaviour.

WEINGAST DIVIDED SOCIETIES AND ELITE PACTS

if there is no consensus in the society the democratic processes can sometimes lead to peaceful solution. Weingast is against Lijphart and Barry because they consider democracy as an independent variable and values as dependent variables. Weingast says that societies in which the coordination game is resolved faces three phenomena. First of all they have a stable democracy, then a set of rights that define well the limits on the state and citizens believe that this limits are worth to be defended.

How can divided societies agree and cooperate to obtain a stable democracy. Usually people who belongs to different religions, linguistic or cultural groups have also different views about aspect of government or state. Limits on the power of the government for this reason are often difficult to sustain in divided societies, because people can't find a coordination game solution. As the asymmetric equilibrium of one group exploit the other it's difficult to find pacts that can lead to peace...

25 DEMOCRACY BETTER

The main question is if democracy can outperform authoritarian regimes, with healthier, longer and richer lives for his citizens. The analysis take into account the protection of property rights, incentive to consume and autonomy from dictatorship. Democracy have higher economic growth because they can ensure the rule of law, that give stable property rights, incentive to investments and so economic growth. Evidence however shows that economic growth is related to rule of law, but this index is not related to democracy. MELTZER RICHARD MODEL says that everyone pays a portion t of their income in taxes, that will be used by the government to deliver public and private goods. Anyone above average income is a net contributor and anyone below is a net beneficiary, so poor people prefer high taxes and rich people lower tax. A high level of tax can deter people with high level of productivity to invest. But in a democracy, everyone can vote and the majority of people prefer high taxes in order to receive more than what they can give. But if there is no investment there will be no economic growth. If we assume that dictatorship make tax policies to benefit rich people a change from democracy to dictatorship will lead to a less distribution of wealth and greater growth. These theories are criticized because poor people are less likely to vote than rich people so the tax rate will be not so higher in democracies and then because the state depends on the capital, so capitalists have a veto over state policies because their failure is the failure of the state itself. This theory derives from Marxist scholars.

Another theory ANALYSES INVESTMENTS RATE. Democracy will force people to consume rather than save and then invest. They encourage government policy to redistribute assets away from investment to consumption, while in a dictatorship, if the autocrat is future oriented, he will force people to save, invest and so making the economy grow. Dictators are not subject to as many pressures from special interests as democratic leaders, they will not be voted out. But because the dictator is autonomous, he does not need to spend money in an inefficient way to satisfy people and he will act in a predatory way, resulting in no incentives to invest.

SELECTORATE THEORY

This theory assumes that political leaders are motivated by the desire to gain and maintain office. Even if they have different goals, they act at least as if they desire to gain and maintain office. Starting from this assumption we can derive the behaviour of the leaders, due to the competitive nature of political environment. Given this desire, we assume that leaders are interested also in economic performance to maintain office, even if empirical observation find out that longevity is not related to economic performances. Leaders are influenced not only by office but also by the environment in which they work and a crucial element of this environment is represented by how the leader is selected, from this we derive selectorate theory. Selectorate theory analyses governments by their location in a two dimensional institutional space. One dimension is the size of the selectorate, and the other is the size of the winning coalition. To stay in power leader must keep member of their winning coalition happy and can do this by distributing public goods and private goods. Public goods can be used by everyone while private ones are consumed only by the members of the winning coalition. The leader also picks a tax rate. This tax rate determines how much money he can spend to provide public and private goods. At the same time a challenger can make his offer of public and private goods to the selectorate and whoever makes the best offer is selected as the leader. The way leaders decide to distribute goods depends on the size of winning coalition and selectorate. The goal is to stay in power but in order to do that he must keep the member of the winning coalition happy so he delivers an amount of private goods that can keep the winning coalition loyal. This is the LOYALTY NORM. individuals of the winning coalition weight the cost and the benefits of defecting, because they are not guaranteed to be in the next time winning coalition, so they risk to lose their private goods. This risk is explained by the ratio w/s . W/s represents the probability that a member of the selectorate will be in the next winning coalition. It indicates the probability that a member of w that defect can enter in a new winning coalition. So the loyalty norm is generated by this ratio w/s . When is small members of winning coalition will be loyal to the leader, when is big members of winning coalition will be less loyal. Systems with small w/s are dictatorship and big w/s are democracies, monarchies or military regimes. The loyalty norm affects also the performance of the leader, because if we have a small w/s the leaders do not need to pay much to keep W loyal and leaders have little incentive to produce good economic policies and corruption will spread. So performances should be better in large w/s .

26 OLSON THEORY OF ORGANIZATION

First of all, start defining what is an organization: an organization is characterized by the concept of purpose, it doesn't matter the types, size or shape of an organization, every one of them has a common and general purpose that is the interests of their members. Olson's studies focused only on the organization that were expected to have a significant economic aspect, so philanthropic and religious ones are excluded because they don't serve only the purpose of their members. Max Weber made an important distinction between associative and communal group. Associative groups rests on a motivated agreement while communal groups are centred on personal affection and relationships. As said the purpose is the common interest of the member of the groups, but individuals are moved only by personal and individual interests, that are different from groups ones. Groups interests are shared individual interests that cannot be satisfied by an individual, unorganized action, but groups can serve also personal interest although their primary function is to serve common interests. (analogy with the firms, combination of common and personal interests, higher price common and selling more individual)

Coercion to take taxes is necessary in a state because it has to deliver a special service, it has to deliver goods and services that are used by everyone. This type of good, a public good, is defined as any good as such that, if any person in a group consumes it, it cannot be withheld from the others in that group, for example defence and protection are imposed so that they go to everyone in a state. Given that these public goods are not excludable, the people who do not pay taxes for any of the public goods cannot be excluded by the consumption of it. That theory of the state and common goods is true also for any organization, if in an organization a common good is provided, no one can be excluded.

Traditional group theory focused on casual variable, such as human propensity to join organization and the constant presence of organizations in the world, and formal variant, for example groups as result of industrial revolution, universality of groups or the process that led to have less kinship units and its loss of functions in favour of non-kinship groups. All these variables have in common that participation is seen as voluntary and virtually universal and that there is no difference in attraction between small and large groups. However, the size of a group has an effect on the incentive of the members to contribute in order to achieve a common good. All the members have a common interest in obtaining the common goods and a common interest in avoiding the cost of providing it, so it's necessary to analyse costs and benefits variation in relation to the size of the groups. A simple function says that the more goods are produced, the higher will be the total cost, $C=f(T)$. but also, the total gain of the group depend at the rate at which common goods is obtained (T) and on the size of the group (SG), formed by the total number of the member of this group.

ESERCIZIO C $T = \text{rate good obtained}$ $SG = \text{valor grup}$ $VG = SG \times T$ valor ind $VI = FI \times SG \times T$ fraz ind guadango $FI = VI : VG$
 SOMMA $FI = 1$ vantaggio ind $AI = VI - C$

The outcomes of a group depend on what the individuals in that group do, and individual behaviour depends on $AI = VI - C$ and changes with T . the group provide collective goods until $dVG/dT = dC/dT$ and for the individual until FI $dVG/dT = dC/dT$. Maximum utility when $dAI/dT = dVI/dT - dC/dT = 0$ so $dAI/dT = 0$ and $dVI/dT = dC/dT$. the rate of gain in the group must exceed the rate of increase cost. slide 14 ca.

SMALL VS LARGE

Large groups usually are unable to provide collective benefits because F is smaller. Some small groups are instead able to provide the collective goods without using coercion or incentives to make participants contribute. This happen because member would better off if the public good is provided even if they had to pay the entire cost. So, the distribution of fraction of individual gains FI matter, small groups will be exploited by big groups. However, in real world large groups can last too because there are coercion and selective incentives. The selective incentives are a provision of a non-public good in order to make people contribute to the reaching of a common good.

28 govern of the commons

Common goods are goods with high subtractability, such as private goods, but at the same time are difficult to exclude, such as public goods. An example of the difficulties of the CPR is represented by the problem faced by herder, who receive benefits by using his animals and suffered a cost by the deterioration of the commons when they overgraze. However, the herder is motivated to add more animals to improve his benefit given that he bears only a part of the cost of the deterioration. This is true for every type of CPR, such as fisheries, pollution... the tragedy of the common is presented as a prisoner's dilemma in which people will be better off collaborating, but they act pursuing only their private interests. As explained in Olson's group theory, even if they are a group, people tend to act selfishly pursuing their private interest, obtaining a common goal without bearing the costs, unless the number of the participants is quite small or there are some coercive devices that make people act for groups goals. Scholars elaborated three theories in order to avoid the tragedy of the commons in general circumstances. The first one is the LEVIATHAN THEORY, consisting in a control of an external government agency that decide specific herding strategies that the central authority consider best. Authority will decide who can use CPR, when and how. The second theory is the PRIVATIZATON, ending common property in order to avoid the tragedy of the commons, and then distributing this common in same equal ways. However, this theory doesn't take into account the heterogeneity of the commons, and it is difficult to apply to nonstationary goods. The last theory is a HYBRID SOLUTION that implements different solutions for different situations. However, this solution requires perfect information about players behaviour and outcomes, so it's costly. A solution could be the creation of binding contracts; herder can make contracts to commit themselves to a cooperative strategy that themselves will work out. Contracts are not enforceable unless they are agreed by everyone using the common. Moreover, the actors can create a private court that will decide the disputes.

GOVERNING THE COMMONS INSTITUTIONAL APPROACH

A new approach tries to find out how institution and a group of principal can organize themselves to obtain joint benefits without free riding.

DEFINITIONS

the problem of governing CPR is due to the special nature of this goods, they have some feature of public goods and some of private goods. First of all, actors need to know the exact structure of the resource system, its borders, and how appropriators' action can affect the resource system, the yield of resources units and other outcomes. Actors have also a discount factor that make future benefits less attractive and may differ according to the length of time horizon. The time horizon depends on generational interchange, security faced by appropriators, shared norms of behaviour and expected opportunism. The norms of behaviour can affect the way in which alternatives are perceived and make actions that are considered wrong among a set of individuals excluded. Norm of behaviour can be good also against opportunism, because they can reduce the cost of monitoring and sanctioning.

SCHMINO internal norms, expected cost, expected benefits, choice of strategies and outcomes.

According to Olson, when a number of individuals have a common or collective interest, individual unorganized action will not be able to advance that common interest in a proper way. At the same time appropriators that act independently will have less total net benefits than that they would usually obtain if they had coordinated their strategies in some ways. most appropriators are not coerced into acting independently, their only problem is organizing. Organizing means that are introduced sequential, contingent and frequency dependent decision instead of simultaneous, noncontingent and frequency independent actions. There is no explanation because some coordination attempts fail and other succeeds, but in order to explain that we can compare institutional organization to firms, according to THEORY OF FIRMS. Schemini.

ALL ACTOR PRINCIPALS

If all actors are principals three problems emerge: the problem of supply, credible commitment and mutual monitoring. The problem of supply, according to Bates, arise when the game are assurance games and seems easier to supply new rules. The problem is transformed into a second order dilemma with only one possible solution, establishing trust and sense of community. The problem of the credible commitment is resolved with subsequent decision when payoff from breaking the rules is inferior to payoff of complying.

In order to achieve that, institution can introduce a sanction and a monitoring system. So without a monitoring system, credible commitment cannot be solved. Ct>bt-st. However people in the natural setting create institutions and commit themselves to follow rules and monitor each other.

Appropriators problems:

How to allocate resources, avoid rent dissipation. Rent dissipation if too many individuals, more than optimal quantity, invest too much. Problem of spatial and timing assignments.

Provision problems:

Various ways of assigning responsibility of restoring, time dependent, expect less acting independently.

Self govern:

Inst=set of working rules determine who is eligible to make decision in some areas. Working rules must be known, not necessarily formal laws.

All rules into another nest of rules, more difficult to change and decide how to change this rules until we reach constitution. Schemini.