Democracy and Dictatorship:
The Politics of Innovation

Maria Brouwer
University of Amsterdam
Department of Economics
Roetersstraat 11
1018 WB Amsterdam
The Netherlands

January 2006

Abstract:
Finding a positive relationship between good institutions and economic growth, economists have turned to the question what promotes –good for growth- institutional development? International trade and investment in human capital have come up as alternative explanations for institutional development. The paper elaborates the Olson hypotheses on dictatorship and the pursuit of the common good by including international trade. Dictators can generate revenues by exploiting domestic or foreign workers/ consumers. Olson's arguments for static efficiency under dictatorship seem plausible. His arguments for their capacity to invest in innovation seem less convincing. The paper argues that most autocracies prefer stagnation to the vagaries inherent to expansion. The exploration of new possibilities could lead to failure, which would undermine autocratic authority. Democracies spend more on education and are more affluent than dictatorships. Glaeser et al argue that investments in human capital (education) enhance civic participation and therewith promote democracy. The paper argues that freedom of incorporation preceded investments in human capital and democratization. Investments in human capital will surge, if several bidders vie for its use. Free incorporation promotes market exchanges, which eradicates the hold-up problem inherent to authoritarian rule.

JEL Codes: O15, O34, P26
Key Words; Economic Growth, Democracy, Dictatorship, Investments in Human Capital, Intellectual Property Rights, Favoritism, Hold-up Problem.

Democracy and Dictatorship: The Politics of Innovation

1. Introduction

Cross-country analyses found that legal protection of property rights; limited and efficient government and a relatively benign and uncorrupt bureaucracy are good, growth-promoting economic institutions (North, 1981, Easterly & Levine, 1997). Secure property rights were found to constitute an essential precondition for private investments in physical and human capital (Djankov et al. 2002, 2003).

Knowing what institutions are conducive to growth, does not imply that the best way to establish them is clear (Kaufman & Kraay, 2003). Institutions can either emerge through agreement as in a democracy or be imposed on a population by a single decision-maker. Both democracies and dictatorships can use their political power to transfer resources to privileged groups instead of building `good for growth' institutions. Uncertainty about the growth boosting effects of democracy derives from its assumed anarchic tendencies. Hobbes preferred the stability of absolute rule to the disorder of anarchic democracy. Montesquieu, by contrast, lauded the economic freedom of republics, which boosted both trade and growth (Djankov et al. 2003). The ambiguous effect of `more' democracy on economic growth was also noted by Barro (Barro, 1999). Democracy provides a check on governmental power, but also encourages rich-to-poor distributions of income. Some argue that a benevolent dictator can outperform democracies due to its dedication to the common good (Olson, 1993, 2000). The economic success of some (formerly) autocratic countries such as China, Taiwan and South Korea support the notion that dictatorship may spur economic progress. However, cross-country analysis indicates that dictatorship is negatively related to development. Most developed nations are democracies, but dictatorships had a large dispersion of growth rates (Glaeser et al, 2004). Some dictatorships thus spurred growth, whereas others did not. One could argue that developing nations will develop democracy as a by-product of growth (Barro, 1999). This thesis is supported by the examples of both South Korea and Taiwan, which became democracies after several years of rapid growth.

We have to look for other variables to explain institutional development, if both democracy and dictatorship can develop good -growth promoting- institutions. Some have pointed at the role of trade. History shows that societies that are open to trade grow more rapidly. Athens and the Italian city-states are cases in point. Examples also abound in our days. Apart from the Asian tigers, a host of countries that increased their trade share of GDP grew rapidly (Dollar & Kraay, 2001). China and India are the most prominent examples, but a host of other countries ranging from the Dominican Republic to Malaysia have increased both trade and growth since 1980. Openness to trade and good institutions go together, but changes in trade can predict growth better than changes in institutions (Dollar & Kraay, 2002). This would indicate that opening up to trade triggers the creation of good institutions (Dollar & Kraay, 2004).

The chain of causation between institutions and growth has also been viewed from a different angle. Some economists argue that human capital is a more basic source of growth than political constraints on the government (Glaeser et al, 2004). Educated people would be more inclined to settle their disputes peacefully instead of referring to force (Lipset, 1960). Countries that emerge from poverty seem to accumulate human and physical capital under dictatorships and tend to improve their institutions, once they become richer. Glaeser et al. conclude, based on a cross-country analysis, that initial levels of human capital measured by years of education are a good predictor of growth (Glaeser et al, 2004). This would imply that investment in human capital precedes institutional development. But, autocracies are not inclined to invest in human capital as is testified by the majority of poor countries, which combine dictatorship and illiteracy, whereas developed countries have educated populations (Glaeser, et al, 2004). The question, therefore, arises what triggers some dictatorships to invest in human capital and open up to trade?

2. Democracy, Dictatorship and the Common Good.

The political theory of institution building argues that institutions are built by those in power to stay in power and redistribute resources to their group. Political theory is rather indifferent between democracy and dictatorship, since both systems are inclined to benefit their favored groups. Politicians can rise to power in a democracy on promises to expropriate the few rich people at the benefit of the poor majority (Jensen & Meckling, 1977). Dictators, by contrast, are inclined to exploit the many for the benefit of an elite group. Both democracy and dictatorship might thus violate property rights and redistribute wealth according to political imperatives. This might explain why a relationship between democracy and economic growth was difficult to find in recent data (Barro, 1996; Glaeser et al, 2004).

Economists, by contrast, have argued that `good' institutions will emerge, when it is efficient to create them. Economists define `good' institutions as public goods, if nobody can be excluded from their benefits. Their analysis also does not single out democracy as the superior mode of governance. Collective action theory points at the free rider problems that prevent democracies from attaining the common good; nobody may feel inclined to produce public goods, if everybody benefits from the efforts of a few. This applies particularly to large groups, where the relationship between effort and result is shallow. Hence, large interest groups might fail to achieve their goals due to free rider problems (Olson, 1982, 31). Small groups, by contrast, can better internalize the gains from collective action, but are primarily interested in enlarging their piece of the pie, instead of enlarging the pie (Olson, 1982, 44). Moreover, an increase of the number of small lobbies would lead to political stalemate and stall decision-making (Olson, 1982, 65). Distributional coalitions, once in power, are exclusive and do not want to expand membership (Olson, 1982, 69). Olson (1982) emphasizes the weakness of democratic decision-making due to interest disparities. As a consequence, democracies might tend to pursue the interests of small well-organized minorities (similar to dictatorships).

Olson's analysis presumes that the collective good –maximum welfare- is easily discernible, but that conflicting interests and free rider problems prevent governments to pursue it. A dictator can more easily obtain the `common good' in Olson's view, since he does not need to make compromises to satisfy several competing interest groups. Olson's analysis resembles the Coase theorem purporting that collective welfare can be optimized, if property rights are in a single hand (Coase, 1960). A single owner's interests are encompassing and will thus be inclined to internalize externalities.

Democracies might be less suited to achieve the collective good due to their difficulty to internalize all externalities and to free rider problems.

Another question involves the stability of political systems. Democracies might collapse due to coups, while dictators might be continuously challenged by contenders. Olson analyzed stable autocratic rule in his analysis of stationary bandits (Olson, 1991 and 2000, McGuire & Olson, 1996). Stability distinguishes stationary bandits from warlords, eager for booty, who do not establish governance structures (Olson, 2000, 6-12). War bands will turn into kingships, if they establish governments once their power has been firmly established. Some power structures remain fragile, when rivaling warlords continuously contest territorial claims. But, some autocratic regimes existed for centuries. Olson's analysis resembles Weber's analysis of the origin of kingdoms and nations. But, Weber emphasizes domination, whereas Olson stresses the public goods aspect of dictatorship. Kingship will arise, in Weber's view, if charismatic war leadership becomes permanent and a repressive apparatus for the domestication of the unarmed subjects is developed (Weber, 1978, 1135). A despot would thus refrain from ransacking the country, if he expects his rule to last for an indefinite time. Hereditary dictatorship as in a dynasty could comply with this requirement.

A stationary bandit, who has monopolized theft, will be inclined to provide protection and even produce public goods to further efficiency. Olson argues that stationary bandits would want to promote efficiency by reducing theft below the 100 percent rate (Olson, 2000, 8). We could label this the logic of autocratic action.

Section 3 discusses the underlying hypothesis that stability and growth are juxtaposed. This is not obvious, since many nations have pursued stagnation (in order to prevent decline). Olson's claims for the achievement of both static and dynamic efficiency in stable autocracies are discussed in sections 4 and 5. Section 6 discusses impediments to investment in human capital. Sections 7, 8 and 9 discuss the political an institutional precondition for the rise of international trade in past and present days.

3. Stability and Growth

Democracy is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's vote (Schumpeter, 1947, 269). Autocratic government lacks these electoral institutions. Autocratic rule can emerge democratically as in the case of the elected dictator of the Roman Republic and the popularly approved Athenian tyrant, who rose to power in situations of emergency. These absolute rulers, however, were appointed for limited time periods. Some appointed tyrants extended their rule and turned into autocrats. Other autocrats seized power irrespective of popular will. Some autocracies were constitutional. The Spartan hereditary kingship is a case in point. I shall use the terms dictatorship, despotism and autocratic rule for all systems, in which a non-elected authority has indefinite length of office. Autocratic rule can be called stable, if it has ruled unchallenged for a considerable period of time. Autocratic rule can be hereditary as was the case in the Chinese, Japanese and Occidental empires or based on single party rule, as happened in communist and fascist regimes. Autocratic rule can be based on mere repression, or be legitimized by religion, secular ideology or tradition. Autocratic rulers can impose their laws on dominated territories and people, or let subjugated territories govern themselves according to their own rules. Autocrats can use their political power to distribute an economic surplus among favored groups. Many autocracies were bifurcated societies in which a small elite ruled and the majority of the population had few or no rights. Civil liberties such as freedom of expression, organization, demonstration, travel and religion are usually absent in autocratic regimes, since they were found to be closely related to electoral rights (Barro, 1999, 162).

Olson (2000) mentions several cases of stable autocratic rule, such as the unchallenged Mafia boss, the Chinese emperors and Stalin's rule. He suggests that stable autocratic rule may support economic growth by enhancing both static and dynamic efficiency. This differs from older views on the matter, contending that political, economic and social stability are correlated. Regimes that abhor a change of power also want to freeze the political and economic structure. Machiavelli expounded this view in a vivid picture of ancient Sparta as a society that opted for preservation of the political, social and economic status quo. Its defeat in the war with Argos in 669 BC prompted it to give up all ambition and to revise its constitution. The new constitution, written by Lycurgus, gave great power to the royal dynasty and Council of Elders. Spartan society under Lycurgus law was stable and lasted for 800 years. Nobody could reach a higher station in life than he possessed at birth. Sparta sought the preservation of the social structure by forbidding the entry of newcomers. All intermarriage between Spartans and non-Spartans was prohibited. Trade was also considered a threat to social mobility. *Nobody might come there with merchandise or any manufactured goods* (Machiavelli, 2003, 282). Hence Sparta strove for autarky. Commerce was strictly regulated and left to the `minor' people, who could harbor no political ambitions. Sparta did not depend on `foreign' trade, since it could live on the produce of the conquered territories. Each Spartan owned his own plot of land that was worked by the subjugated Helots. Spartan citizens did not engage in economic activities, but spent their time in the military up to the age of 60. Landownership was distributed equally among Spartan citizens. The Helots worked the land according to time-honored routines. But, the Helots kept a longing for the freedom they had enjoyed in earlier times. They were subject to terrorist acts, which were inflicted on them by the Krypteia; a group of young Spartan men, who roamed the countryside each year to kill Helots.

Spartan society possessed many features of Schumpeter's stationary state; a society in which production population and social positions were fixed at a certain level and remained unchanged. Plato expressed his desire for a stationary society after Athen's defeat in the Peloponnesian war. Everybody in his *Republic* would carry out its hereditary duties as slave, soldier or aristocrat. Both the Spartans and Plato opted for stagnation to prevent (further) decline of their republics. Many autocracies of old also preferred stagnation to change in order to preserve the political power of the leading group. Freezing the economic and political status quo was, in their view, conditional on maintaining their power. Imperial China and Japan are cases in point. Stagnation curbed dissent, because nobody was expropriated and nobody could have any ambition. Distributional shares were fixed according to time worn principles. We could argue that these states held a long run view. They sacrificed revenues from innovation to safeguard future political power and income for their group. Stability was further advanced, if rulers refrained from military ventures to expand their territories. Expanding states can motivate their constituents by promising them a better life. But, expansionary policies can fail and undermine the authority of the leader. Stable dictators, would therefore, be inclined to refrain from military aggression. This applies to imperial China, Byzantium and Japan, which refrained from expanding their empire at some point in time. Emerging dictators, by contrast, want to win the people's support by promising them riches from appropriating domestic or foreign wealth. They have not much to loose from failure, whereas success could elevate them to positions of wealth and power.

4. Stable Dictatorship, Appropriation and Static Efficiency

We will take a closer look at the static efficiency properties of different autocratic methods of appropriation. Static efficiency requires the optimal allocation of production factors, which would be achieved in a perfectly competitive economy. Each production factor would receive his marginal worth and produce according to best practices in perfect competition. Welfare is maximized and can be measured by consumer surplus. However, perfect competition would leave the dictator no excess profits to appropriate. We use the perfect competition model as a benchmark to analyze the appropriation policies of autocratic rulers. An autocrat can create rents in two different ways. He can either raise prices in a monopoly fashion and appropriate monopoly profits on domestic or foreign markets. Or, he can reduce wage costs of domestic or foreign labor below market levels and collect the difference. This leaves us with four different modes of autocratic appropriation.

A. Monopolistic Appropriation in Local Markets,

An autocrat can appropriate monopoly revenues by taxing privately owned businesses. Neighborhoods under single family Mafia rule could be taxed in this manner (Olson & McGuire, 1996). We assume a market for goods or services depicted by a linear demand function; $P = a – Q$. Marginal costs of firms in the protected line of business amount to c_1. We assume that marginal costs cover wage incomes at market rates. Price would equal c_1 and output amounts to $a-c_1$ in perfect competition. Welfare, measured by consumer surplus, equals $\frac{(a-c_1)^2}{2}$. A stationary bandit in such a situation demanding protection costs equal to $\frac{a-c_1}{2}$ per unit would lift price to the monopoly level and maximize his income. Output would be cut in half by such a move and price would rise by ½ $(a-c_1)$. Consumers lose out in monopolistic autocracy. The Mafia boss incurs monopoly profits equal to $\frac{(a-c_1)^2}{4}$. Total welfare, however, declines by $\frac{(a-c_1)^2}{8}$ due to the emergence of dead weight loss.

Consequently, the installation of a theft monopoly raises price and harms consumers. Moreover, the installation of a theft monopoly would make half of the workers in the protected industry jobless, if employment is proportional to output. A monopolization policy always creates inefficient allocation due to misallocation. Production factors are withdrawn from the protected businesses and remain idle or are re-allocated; for instance in the protection business. Such a policy can thus never achieve maximum welfare.

Olson and McGuire argue that protection is a public good, since less would be produced without protection. We could imagine that production will collapse, if firms expect to be ransacked by competing bandits anytime. But, business would be better off, if it were protected against crime by a police force in a consensual democracy. Business would only be marginally better off, if it were taxed by a majority in a re-distributive democracy instead of a dictatorship (McGuire &Olson, 1996). As a consequence, monopolizing dictatorships do not provide public goods in the most efficient way.

We can argue that a monopolization strategy will only work, if the protected industries are local and not exposed to competition on world markets. Typical Mafia-protected lines of business such as retailing and restaurants comply with these requirements.

State monopolies industries that are closed to foreign competition are also cases in point. Royal monopolies were established in England under the Stuarts; in France under the Bourbons and in Russia under Peter the Great.

B. Monopolistic Appropriation of Foreign Markets

Autocrats can also attempt to monopolize world markets. Mafia families that went into the drug trade expanded their business beyond local borders. However, monopolization of foreign markets is harder to achieve, since foreign governments resist monopolization of their domestic markets. Moreover, international competition is difficult to control in renewable goods markets as experiences with the control of coffee, copper and other commodities prices have demonstrated. The control of world oil prices by OPEC countries can be considered a successful example of a monopolization strategy of foreign markets. A global monopolization strategy is not confined to autocracies, but can also be pursued by democratic governments.

C. Autocratic Appropriation through Exploitation of Domestic Labor

Autocrats can suppress wages to the extent that incomes hit subsistence levels. Appropriating a surplus through lowering wages is more rewarding, if productivity is higher. Revenues of $(w_1 - w_2)(a-c_1)$ accrue to the dictator, if wages are reduced from w_1 to the subsistence level of w_2. Surpluses are twice as high for a wage suppressing than for a monopolizing policy of the same magnitude due to the higher volume of output of the former policy. Moreover, total welfare needs not be affected, if output remains unchanged. Workers on subsistence wages can spend less, but their demand can be replaced by autocratic demand on conspicuous consumption and/or military spending.
A surplus can be generated by autocratic control of both product price and wages. Wholesale prices can be fixed at low levels, while retail prices are set at a level that allows the autocratic government to reap profits. Socialist dictatorships from the USSR to Mao's China have applied these methods to generate surpluses. A socialist dictator can maintain output at the perfect competition level $(a-c_1)$ by imposing output quota, while wholesale price c_2 is set below the competitive level of c_1. A surplus of $(c_1 - c_2)(a-c_1)$ accrues to the socialist dictator pursuing this policy. That was how Mao during the great leap forward created an agricultural surplus that accrued to the government (Gabriel, 1998). Autocratic appropriation can be technically efficient, if labor productivity is not affected by wage suppression.

Socialist appropriation shares some features with feudal arrangements, in which a (local) lord appropriates a surplus on agricultural production through (lump sum) land taxation or sharing arrangements. Compulsory labor was also used to appropriate a surplus under feudalism. Such arrangements prevailed in China before 1949 and were also common in Mughal India, Czarist Russia and medieval Western Europe. Serfs were hindered in their mobility and bounded to the estate by eternal obligations and privileges. This differs from socialist states that can move their people at will. Feudal systems needed to restrict mobility to keep rural incomes below market levels. Only a few people were allowed to move to the imperial center to share in the luxuries of the court or participate in government.

D. Appropriation through Exploitation of Foreign Labor

Dictators need to sell part of their production on international markets, if they want to buy foreign goods. But, selling on world markets implies that revenues are subject to fluctuations. Moreover, people need to be reallocated according to market imperatives, which could interfere with autocratic desires to bound people to their birthplace. Many autocracies, therefore, strove for autarky and minimized international trade.

This does not apply to colonies, whose plantations and mines were specifically established to serve world markets. Plantations used slave labor for the production of goods that were sold on faraway markets. The practice dates back to Roman times, when garrisons were stationed in conquered territories and land was distributed among colonists. The Portuguese, French, English and Dutch established plantations in Latin America after they had conquered these countries. African slaves were robbed of their rights after being conquered or abducted, and sold in regions where slave labor was common. The Arab world was an important buyer of slaves. African slaves were traded to the Americas in the seventeenth and eighteenth century to work on plantations (Maddison, 2001). Slavery existed until the abolition movements of the 19th century ended these practices. Indigenous people also worked on plantations as happened in Indonesia and Spanish Latin America. Investments in plantations could be sizable and were usually undertaken by private firms. This applies specifically to English and Dutch settlements established by their trading companies. Investments in the silver mines of Mexico and Peru were undertaken by Genoese and German bankers and not by the Spanish state (Maddison, 2001, 37). Plantation economies were specialized and had to import food (Maddison, 2001). Plantation owners exploited slaves, whose maintenance costs could be put at subsistence level. The slave traders and the former slave owners appropriated part of the rents that were generated by plantation production. Revenues also needed to be shared with the home government. The Spanish government charged a 20 percent tax on all silver from her colonies. The English and Dutch also imposed excise taxes on colonial wares that were sold on home markets. The trading companies had a royal monopoly charter and were allowed to engage in warfare. The goods from the colonies were first directed towards their home markets, but were soon sold abroad. Products such as coffee, sugar and tobacco were new to Western Europe, but rapidly became mass commodities as their prices declined due to international competition. A monopolization strategy was unsustainable for products that were produced by private enterprises (Ferguson, 2004, 15).

5. Dictatorial (Dis)incentives for Dynamic Efficiency

Gains from Innovation

We could argue that an exploitation policy could maximize static welfare, measured by consumer/government surplus. The Olson approach, however, largely ignores distribution and incentive issues. Dynamic efficiency points at the rise of efficiency due to the application of new knowledge, which is embodied in innovations. Olson (2000) argues that a dictator wants to introduce innovations, since this would augment his income. A monopolizing autocrat could increase his monopoly profits by introducing a cost reducing innovation. His income would increase by $\frac{1}{2}e[a-c_1+\frac{1}{2}e]$, if he appropriated the additional revenues brought about by a unit cost decrease equal to e in a monopolized industry. A monopolist would share the efficiency gain with consumers by lowering prices. But, employment would fall, if demand were not very price elastic.

An autocrat, who generates a surplus by exploiting labor, would maintain price and absorb the whole efficiency gain himself. A wage suppressing socialist or feudal ruler could expand his income by $e(a-c_1)$, if he fully appropriated the benefits from a cost reducing innovation. Labor can only remain fully employed in the existing line of business, if production expands at a sufficient rate.

Autocrats would seek innovation, if this would augment surpluses. This would be the case, if the revenues of innovation exceed its costs. Costs of innovation can exist of R&D expenditures and investments in physical structures. Innovation costs also consist of the re-allocation of people and capital prompted by innovation.

But, autocracies are inclined to impede innovation for several reasons. Autocrats would lack incentives to increase efficiency, if dismissed workers came at their expense. This applies to the Mafia boss, who cannot dismiss family members. A feudal dictator, whose subjects are bonded to village and soil, would lack the incentive to invest in innovation, if redundant labor could not be easily re-deployed within his territory. Arguably, such autocrats have to internalize all innovation costs in contradiction to a firm, which can leave reallocation of production factors to the market.

A related argument involves that tradition hindered innovation in autocracies. People's behavior was not so much directed by commands, but by time honored routines in many autocracies of old. Tradition could mitigate oppression, but also hindered economic innovation and progress. Everything new will be resisted, if it is expected only to benefit the favored few (Weber, 1978, 1094). Another impediment to autocratic innovation is the absence of individual incentives due to a lack of property rights. Autocrats could promote innovation by providing (intellectual) property rights to individuals and businesses (Olson and McGuire, 1996). Intellectual property rights would entitle innovative firms and individuals to appropriate the profits from innovation for some period of time. But, autocracies are weary to provide property rights that cannot be easily withdrawn by the ruler, as this would interfere with their powers to allocate surpluses as they please.

Indeed, many stable autocratic regimes did not seek innovation. This applies to the economies of both China and India, which remained stagnant between 1500 and 1870 (Maddison, 2005). This contrasts with plantation exports from Latin America, which increased rapidly from 1500 to 1820 (Maddison, 2001). The Chinese Emperors introduced extensive agricultural innovations to accommodate a growing population. Per capita production, however, did not rise. Indian agriculture, by contrast, did not allow for an increase of population before 1820 (Maddison, 2001).

Favoritism and Innovation

All methods of autocratic appropriation discussed above involved the appropriation of surpluses by a privileged group and the existence of an exploited group either at home or abroad. Stability of the social structure by keeping people employed in occupations and places designated by birth was a main imperative of feudal systems. Peasants remained peasants and rulers remained rulers in stable feudal autocracies. Nobody is expropriated, if the unequal distribution of incomes and wealth dates back a long time. No aspirations need to be kindled, if there never was any prospect of improving one's station in this life. Possibilities for social advance were scant for people that did not belong to privileged ethnic or social groups. This applies to slave labor and to the Asian peasant, who was not allowed to choose an occupation of his liking. The Indian population was divided along strict caste distinctions, in which each caste had its own occupation. A person' s worth was completely determined at birth.

Imperial Chinese imperial bureaucracy knew some social mobility. People could enter officialdom, if they passed an imperial exam on classic Chinese literature and Confucian texts. But, social mobility was impeded by the long learning period that was required to pass the exam. Only sons of the land holding elite, who spoke Mandarin, could prepare for the imperial exams. Exams were also used to recruit officials for the Indian Office. But, the higher ranks within the British Civil Service were initially not open to Indians (Lal, 2004, 34).

Modern, non-traditional dictatorships do not rely on tradition, but on command. Labor can be re-allocated at will. This applied to the USSR, where people were deported to new industrial towns in undeveloped regions. Forced relocation also occurred in Mao's China, Pol Pot's Cambodia and Communist Vietnam, where people were moved from cities to the countryside. Zimbabwe, a democratic state, also pursued policies of forced migration in the early 21st century.

Stable status hierarchies, based on tradition, can make people complacent with their lot. Arbitrary autocratic rule, by contrast, may provide incentives to people to promote their case. Favoritism implies that people close to the ruler can have tremendous power, but are always in danger of a sudden dramatic downfall for purely personal reasons (Weber, 1978, 1088). Flattery and palace intrigue will prevail, if the ruler's opinion determines one's fate. Positions will be precarious, if the ruler's preferences are unsteady. Favorites in old autocracies were chosen from circles close to the ruler, while tradition ruled the lives of the larger part of the population. Modern -ideology based- autocracies, by contrast, demand ideological servitude from all their subjects. Every person has to model his/her behavior according to autocratic wishes instead of to timeworn traditions. Secret or morals police scrutinize behavior and can induce a person's social demise. Intellectuals and artists can turn from friend to foe overnight as is illustrated by Stalin's cultural policies. We could argue that such arbitrariness would kill all ambition and provoke dissent. This would be the case, if obtaining the regime's favor depended purely on chance. However, people will not be easily convinced that there is no pattern in the madness and will spend time to figure out the hidden rules of the game. The belief to be able to crack the code of the ruler's favor and rise to power stabilizes autocratic regimes. But, innovation is hindered, if people's social ascent is totally determined by a single authority. Members of the incumbent elite would lack incentives to innovate, if their position is secure and independent of performance. Innovation is stimulated, by contrast, if market forces determine success or failure. People want to invest in innovation, if they can reap the benefits in the case of success, and if losses are limited. Free incorporation and developed financial markets would allow innovators to appropriate innovation rents through increased values of equity. Both autocratic and democratic regimes could apply such schemes. But, installing such incentives impairs the power of the autocratic ruler to allocate and reward people according to his wishes.

This can explain why freedom of incorporation and finance for entrepreneurs are conspicuously absent in most autocratic regimes. This applies obviously to socialism and feudalism. Close linkages between governments, banks and industrial enterprises in many countries allow ruling elites to determine the allocation of capital and therewith the fate of firms and its managers (La Porta et al, 2003). Lal observes that making the banking system the creature of the government's will creates enormous moral hazard problems (Lal, 2004, 131). The banks have no incentive to select credit proposals with respect to expected revenues, but decide on political grounds. As a consequence, governments needed to bail out banks in Korea and Japan, when `bad debts' accumulated.

We could argue that both autocratic favoritism and competitive markets create uncertainty about a person's lot. Some people rise while others fall by autocratic whim; fortunes are built and destroyed through innovation. However, rise and fall due to innovation would not depend on a ruler's favor or wrath, but on objective market forces. Uncertainty created by market competition does not need to repress initiative, if big prizes can be won and losses can be limited to opportunity costs. Moreover, competition among financiers forces them to be non-conformist and look for new talent. Arrangements conducive to entrepreneurship such as the sea loan and the equity based commenda enterprise were found in the city-states of Antiquity and the Middle Ages (Brouwer, 2005).

6. Investments in (Human) Capital

Some economists have argued that investments in human capital are a good predictor of growth irrespective of governmental form (Glaeser et al, 2004). Moreover, countries with educated populations are usually democratic, whereas people in dictatorships are usually uneducated (Glaeser, et al, 2005). Dictatorship thus seems to hamper investments in human capital.

Education was usually the training ground for officials in autocracies. Military training was common in warrior states, such as Sparta and in feudalism. Literary training prevailed in patrimonial and bureaucratic states. Chinese officials had to take an entrance exam before they could enter Chinese imperial bureaucracy. Only a few officials were permitted entry each year. Mass education was not sought, because of a limited need for officials. Moreover, many autocracies of old wanted to further stability by freezing learning and renouncing novelty. Novelty is only sought, if things are deemed improvable. Many autocratic regimes stopped to adopt new knowledge at some point in their history, because they thought they had reached the zenith of their performance. This applies to ancient Mesopotamia, where learning stagnated around 1500 BC, when officials were required to undergo long periods of training. Science, especially mathematics, which had flourished under Hammurabi came to a standstill (McNeill, 1998, 601). The Roman Empire started its cultural decline in the early third century, when its literature, jurisprudence and schools deteriorated (Weber, 1978, 389). Islamic, Chinese and Japanese cultures also became conservative, after they had reached a cultural pinnacle deemed incapable of improvement. Education concentrated on learning by root and on writing according to established literary conventions. The same applied to Moslem learning, which became canonized after 1200. All innovation in Moslem science was banned after that date (McNeill, 1998, 503). These civilizations did not produce new knowledge and were also reluctant to adopt foreign knowledge. English merchants, who brought a number of new technical devices to China in 1792, testified to this. They found that the Chinese were not interested in anything foreign (Maddison, 2001, 62).

Some socialist autocracies in Eastern Europe were dedicated to mass education. However, the situation of the former USSR countries points out that high levels of schooling do not ensure high returns to investment in human capital.

Glaeser et al (2005) argue that high levels of education trigger a change to democracy, as happened in the US, England and the former Soviet states. Autocracy would become untenable, when people become more educated. Education stimulates participation in civic activities. I would argue, by contrast, that autocracies usually lack civic organizations due to a ban on free incorporation. Freedom of incorporation thus precedes investments in human capital and economic growth. A change to democracy will not further investment and growth, if these institutions are not in place. This fits in with French experience, where democracy did not take root after the democratic revolution of 1793. The many short-lived democracies that arose after countries were freed from colonial power also support this notion. We could argue that both England and the US already had institutions favoring commerce, before democracy took hold.

The absence of free capital and labor markets precludes the possibility of multiple appraisals in autocratic states. Instead, a single arbiter, who can depreciate and appreciate a person’s human capital at will, determines a person’s worth. We can argue that investment in human capital in autocratic regimes suffers from the hold-up problem; an autocrat with great discretionary powers can always renege and depreciate investment in human capital. This applied to the Chinese imperial official, who could be removed from his position at will (Weber, 1978, 1037). Modern despots have executed policies of both individual and mass depreciation of human capital. The exodus of intellectuals from the cities to the countryside in Maoist China and Pol Pot's Cambodia are examples of the latter policy. Intellectuals were no longer needed, since everybody had to become a farmer in a subsistence economy.

7. Autocratic Government and International Trade Routes

Autocratic regimes used markets to realize a monetary surplus. Mafia rule, plantations and state owned enterprises are cases in point. Monetary surpluses were usually preferred to appropriations in kind. Ancient Egypt, the Caliphate, Imperial China, the Ottoman and Byzantine Empires and the Sultanates are examples of autocratic rule, which relied on the generation of a monetary surplus to run their armies and bureaucracies. Most autocrats attempted to generate surpluses on domestic markets, but largely eschewed international trade. Many closed themselves off from the outer world at some point in their history. They restricted international trade and suppressed the rise of a merchant class (Weber, 1978. 1101). The Middle East (both the Byzantine and Moslem Empires) led in world trade from the seventh to the twelfth century AD. Byzantine feudalism became centralized, when an urban aristocracy occupied official positions. The decline of the merchants of Constantinople was hastened, when the Byzantine aristocracy got envious of their wealth and demanded their demise. Both domestic and foreign trade became the reserve of foreigners in the Byzantine Empire. Defense of maritime trade routes was contracted out to the Venetians, who obtained a license on Byzantine sea trade in exchange for naval help against the invading Normans in 1082. The Byzantine Empire had no fleet to speak of and depended completely on Venice (Norwich, 1989, 73). The Venetians defended Constantinople, when it was attacked by the Ottoman Empire. But, they failed in 1453, which brought the Byzantines under Ottoman rule. Maritime trade was not reinvigorated under Ottoman rule. Jews and Christians were the merchants and bankers of the Ottoman Empire, who were held in low esteem and were heavily taxed.

The empires of the Far East either lost their sea routes to European sailors or surrendered them voluntarily. The Portuguese won supremacy in the Southern Ocean in the early 16^{th} century, but were supplanted by the Dutch and the English in the late 16^{th} century. Chinese social structure teetered on the verge of a fundamental change analogous to the rise of the bourgeoisie in medieval and early modern Europe (McNeill, 1998, 525). But, the transformation never took off and social stability was restored, when imperial China secluded itself from the outer world in 1424. China had been a sea-faring nation, but the Ming dynasty forbade all long distance trade and the construction of seagoing vessels. The fleet was burnt and even the memory of the extraordinary expeditions was effectively suppressed (McNeill, 1998, 526). Confucian bureaucracy reinstalled its grip on China and overseas trade was left to foreign merchants. The same applies to feudal Japan that forbade all foreign trade under the Tokugawa Shoguns. The local Samurai were disarmed and their seagoing ships were burnt in 1636. Foreign trade was restricted to the island of Decima and conducted by the Dutch.

Many empires of old thus forbade their subjects to participate in maritime trade and curbed the rise of an indigenous merchant class. Weber explains these policies by the limits entrepreneurial ventures put on autocratic power and the ruler's wide latitude for favoritism. *He could continuously create wealth and destroy it again by granting favors and confiscating possessions* (Weber, 1978, 1099). A rising mercantile bourgeoisie, by contrast, would demand property rights, freedom of incorporation and capital markets to valuate their assets, which would limit the ruler's discretion. The stable autocrat, therefore, did not want to leave international trade to an indigenous entrepreneurial class. Good governance was sacrificed for personal power. Good government comprises protection of property rights, control of corruption, voice and accountability and is positively related to per capita income (Dollar & Kraay, 2003). We could argue that good governance is akin to a government, which renounces its powers to single handedly determine a person's fate, but leave this to market forces.

8. Decentralization and Property Rights

We noted above that many autocratic governments repressed the rise of a merchant class by restricting international trade. This contrasts with Occidental city-states and nations, which thrived on international trade. Venetian, Portuguese, Dutch and English merchants traveled to foreign shores to buy and sell goods. They accumulated wealth due to specialization and the diffusion of innovations.

The question then arises, why did these governments stimulate trade and trade promoting institutions? We could argue that ancient city-states had to rely on trade, because they were too small to be autarkic. This applies with the greatest force to Italian medieval city-states, such as Venice, which lacked a hinterland for the largest part of their history. Another reason is that many city-states wanted to expand in both numbers and wealth. Their policies were the opposite of Sparta's inertia. Their main political characteristic was not democracy, but political autonomy (De Long et al, 1993) They were 'free' from imperial domination, but were sometimes ruled by a single family.

Weber stressed that city-states were founded as voluntary associations with the purpose of improving the situation of their members. More important than the character of governance, either democratic or autocratic, are the aspirations of organizations. Medieval city-states wanted to grow in numbers in order to increase their military and economic power. Growth was extended beyond local birth rates due to open immigration policies. People could escape serfdom by moving from the countryside to the city. Mobility between cities was also high, as is demonstrated by the wanderings of many scientists and artists of these days. Medieval city-states allowed the incorporation of associations, such as guilds, business enterprises and monasteries. Legislation furthering commerce arose in the independent city-states of Antiquity and the Middle Ages. People, who join an organization out of free will, demand that they are treated fairly. City legislation had to meet these expectations. Property rights, contract legislation and an independent judiciary were institutions that guaranteed newcomers a level playing field with incumbents.

The city-states of Northern Italy experienced rapid population growth from 1100 to 1500 (Delong & Shleifer, 1993). Italian city-states had different forms of governments. Both Venice and Florence knew some form of democracy, whereas Milan and other city-states were mostly under single-family rule. However, all Italian cities prospered during the period under investigation. We could argue that all Italian city-states furthered trade irrespective of government, since rivalry among cities prompted them to offer conditions of living that were comparable to those of other cities.

The medieval city-states emerged under feudal arrangements, which –in Weber's words- constituted an extremely decentralized type of domination (Weber, 1978, 1079). Vassals were entitled to tax their peasants in exchange for protection. Weber developed the hypothesis that Occidental feudalism differed from its Oriental counterparts due to the contractual relationships between lord and vassal (Weber, 1978, 1073-4). The Occidental fief was the vassal's personal property for the duration of the feudatory relationship. Fiefs and benefices became hereditary, although the successor had to prove his capability for vassalage (Weber, 1978, 1074). Occidental, contractual feudalism, however, obliged the lord to accept a vassal, if the candidate met some requirements. Moreover, no arbitrary obligations could be imposed on the Occidental vassal. The fief could only be taken back from the vassal in the case of felony, which was decided by a collegiate vassal court (Weber, 1978, 1079). Alienable property rights gave Occidental vassals political power. They could organize a general strike in the form of a mass resignation, if they disagreed with the ruler. Alienable fiefs had a market-determined value, which forced the French king to compensate his vassals for the surrender of their benefices. Lacking the resources to meet their demands, he could only give in to their wishes (Weber, 1978, 1039). Occidental feudalism through its reliance on contracts and its separation of powers preceded the constitutional state (Weber, 1978, 1082). Vassals were usually exempt from making contributions to the lord; as a consequence of which Occidental feudal lords obtained their incomes largely from privileges granted to cities. These organizations increased their autonomy over time and developed their own institutions, which triggered their growth.

Oriental feudalism, by contrast, was not contractual. Relationships between lord and vassal were either more personal (Japanese Samurai) or more detached than in the Occident. Oriental feudal rulers could increase central power by establishing a standing army. Islamic rulers became independent of their knights, when they instituted personal slave armies. A slave army of Turkish and Negro slaves replaced the tribal Islamic army in 833 (Weber, 1978, 1015). Ottoman power was also supported by a slave army, which was recruited from the Balkan (the Janissaries). Such armies required payment of part of locally appropriated surpluses to the imperial center. Central appropriation was also crucial to Chinese autocracy, which relied on a standing army. A large share of the Chinese surplus went to the imperial center and its bureaucracy (Maddison, 2001). Occidental, contractual feudalism contrasted with the favoritism featuring Oriental arrangements. Property rights of benefices given to Chinese Mandarins, officials of the Sultanate and the Ottoman Empire were limited due to the great discretionary powers of the ruler. Arguably, discretionary rule can only prevail, if alienable property rights are lacking. A benefice that can be withdrawn by a unilateral act of the ruler is not a property, but a personal privilege.

9. Imperialism and International Trade

Monarchical bureaucracy replaced feudalism in the European nation states that emerged after 1500. The new European nation states of the 15/16th century (Spain and France) arose out of a need for stability instead of feudal chaos. Moreover, feudalism as a largely natural economy was opposed to the development of a market economy (Weber, 1978, 1094). But, local autonomy disappeared in the process of state formation (North & Thomas, 1999, 127). National taxes replaced local taxes and the tax burden grew. France opted for the autarkic model and hardly conducted any foreign trade. This contrasts with Spain, where the larger part of tax revenues came from overseas trade; in the beginning primarily from the Low Countries, later from the American Colonies. The position of the capital became more prominent in the newly emerging nation states. The rise of the bourgeoisie was curbed. There was no room for an independent merchant class in the Spanish empire. The merchants of Seville were expelled in 1492 together with the Moors and the Jews. Feudal collegiate institutions such as the Estates General and the Cortes were overruled by royal decrees. A divide between landless and land-holding people emerged that was more profound than ever before in Spanish history (McNeill, 1998, 673). Agricultural innovation was stalled due to a lack of property rights and high taxes (North & Thomas, 1999. ch. 7). Agricultural practices remained medieval in both absolutist Spain and France.

Centralization of political power thus spurred centralization of expropriation and impeded innovation. It curbed the freedom of incorporation that featured city-states. State monopolies were founded by royal charter. Vassal armies were replaced by standing armies, which required money incomes for their upkeep. The same applies to the artifacts of imperial splendor. Money incomes could be generated by exploiting the domestic population through taxation or by sales of appropriated agricultural surpluses abroad. The latter would require the use of a merchant class, which was usually avoided.

The centralization of power promoted trade duet to monetization, but the centralization of power put barriers to international trade. We noted above how oriental empires licensed maritime trade to foreigners. By doing so they outsourced both trade and the military protection of trade routes. We already pointed at the Venetian defense of Constantinople. Chinese and Indian maritime trade was licensed to the Dutch and the English, who established trading posts and forts along their coasts.

The successful defense of trade routes triggered the dissemination of commercial institutions to at least part of society. The Indians came to outsource both defense and administration to the English. The English East India Company got permission from the Mughal Emperor to establish trading posts in Madras, Bombay and Calcutta in the seventeenth century (Ferguson, 2004, 27). The Emperor Aurungzeb wanted to close trade and expropriate the English merchants in 1698. The English, however, prevented the execution of the verdict. Persian and Afghan invasions brought the Mughal Empire at the brink of collapse in the 1740s. Central rule was further undermined, when local rulers carved out their own kingdoms. The English defended their trading posts with armies, which were largely recruited from the indigenous population (Ferguson, 2004, 29). The English monopolized Indian foreign trade, after defeating the French, who also claimed India. Robert Clive became governor of Bengal in 1757 with local Indian support after he won the Battle of Plassey (Ferguson, 2004, 36). The East India Company was granted the civil administration of Bengal, Orissa and Bihar under the Treaty of Allahabad, which gave the English the right to tax their subjects. The crumbling of central power under the Manchu dynasty in China in the 19th century also gave Western powers leverage (Lal, 2003, 285). Hence, military protection of trade routes could lead to imperial control in cases where local government was unable to defend itself to domestic or foreign forces.

The conflicting demands of money incomes and central control, which could not tolerate the existence of a merchant class thus forced autocrats to license trade to foreigners. This, however forced them to adopt the institutions conducive to trade which these foreigners required. Institutions in many former colonies still bear the stamp of their former rulers. The beneficial effects of British colonization have been demonstrated by several studies. Lal also emphasizes the beneficial effects brought about by the Pax Britannica, such as free trade, protection of property rights and the gold standard (Lal, 2004, 107). The British Raj only imposed a tax burden of 6 percent on the Indian population, while the Moghuls had levied a 16-18 percent tax (Lal, 2004, 4). Indian per capita income grew under British administration after it had been stagnant for centuries. English policy led to the emergence of an industrial economy in India manned by Indian entrepreneurs and financed by Indian capital (Lal, 2003, 288). The British Empire protected private enterprise and introduced legal institutions governing capital markets. Overseas properties were protected by British legislation, whereas local rules continued to prevail in other realms. Interference with local traditions met with great resistance, as the British experienced when they wanted to curb customs such as widow burning (sati) in India in 1837 (Ferguson, 2004, 143).
International trade prospers, when imports are not taxed more heavily than domestic goods. The British embraced this principle, when they repealed the Corn Laws in 1848. Britain further promoted trade by choosing a unilateral free trade stance. It opened its markets for foreign products without demanding reciprocity. International trade grew rapidly under the Pax Britannica, which lasted from 1850 till the end of the First World War.
Lal argues –in unison with Olson- that all empires from Mesopotamia to the Mongol empires brought peace and prosperity, because they restricted the damages due to war (Lal, 2004, 36-7). However, most autocracies were not capable of raising productivity after they had exhausted the benefits that a larger scale brought. The British Empire seems to be the exception to this rule.

The example of the Pax Britannica indicates that property rights need to be guaranteed, before foreign investment can ensue. Glaeser at al (2004) argue that some dictators have chosen to protect property rights in order to generate prosperity. The USSR, Lybia, Syria and Iran are mentioned as recent examples. South Korea is mentioned as an example of a benevolent dictatorship, which chose for capitalism and property rights after 1950; boosting the country's growth (Glaeser, et al, 2004).

The stability of these property rights is, however, doubtful. We could argue that property rights were respected under the Pax Brittannica, because Britain protected the maritime trade routes. We could argue –in the same vein- that South Korea had no choice but to open up their country to trade, as in effect it was a US protectorate. The same argument applies to Taiwan. Singapore, as a city-state in fact could not opt for an autarkic policy, as it was too small to do so.

The recent rise of China and India is not based on military protection by Western forces. China choose a policy of opening up to foreign trade and investment in 1978. Direct foreign investment to China has grown rapidly since 1995. Foreign investment is concentrated in export-oriented companies and advanced technology sectors. More than half of all Chinese exports in 2004 came from foreign investments (Preeg, 2005). Chinese investments in human capital have accelerated since 1995. Chinese R&D expenditures grew by 22 percent per year from 1995 to 2002. Chinese science doctoral degrees increased from 1995 to 2001 by 14 percent annually.

Autocratic regimes might want to open up to foreign trade in order to stimulate technology transfer through foreign direct investment. But, foreign investment that is not protected by home made legislation and courts is considered precarious. Moreover, foreign investors will only want to invest, if they can freely sell on domestic markets and export their wares. Autocratic regimes are restricted in their appropriation of surpluses, if they want to attract foreign investments. Some part of the surplus needs to be paid to workers that have come to the cities, while foreign investors also want their due. We could argue that refraining from rent appropriation would dismantle the economic reason for dictatorship. However, part of the productivity increases due to foreign investment can be taxed away. Government can also steer resource allocation by their control of capital markets and exchange rates. Allowing foreign investors in also implies the entry of alternative bidders for human capital. Chinese people can earn a manifold of their former agricultural incomes in the cities within the new industrial zones.

10. Conclusion

The discussion on what triggers the emergence of good for growth institutions has intensified recently. Both democracy and dictatorship seem capable of guaranteeing property rights, but also of expropriation. Both trade and investment in human capital have figured as candidates to explain -good for growth- institution building. The paper argues that international trade is the more powerful explanation. Markets can solve the hold-up problem of human capital investment inherent to allocation undertaken by a single authority. Most autocracies of old were weary of innovation, as this could undermine their political power. However, innovation is required, if they want to keep up with innovative competitors. Dictatorships will open up to trade; if they are either part of a trade-promoting political entity, or if they want to come at a par with more advanced nations.

References:

Barro, Robert, 1996. `Democracy and Growth', *Journal of Economic Growth*, pp. 1-27.

Barro, Robert, 1999.`Determinants of Democracy', *Journal of Political Economy*, vol. 107, no 6, 158-183.

Brouwer, Maria, 2005 , `Managing Uncertainty through Risk Sharing Contracts from Medieval Italy to Silicon Valley', *Journal of Management and Governance*, 9 (3), 237-255.

Coase, Ronald. 1960. `The Problem of Social Cost', *Journal of Law and Economics*, 3, October, 1-44.

DeLong, Bradford, Andrei Schleifer, 1993. `Princes and Merchants: European City Growth before the Industrial Revolution', *Journal of Law and Economics,* 36 (2), 671-702.

Djankov Simeon, Rafael La Porta Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, 2002. `The Regulation of Entry', *Quarterly Journal of Economics*, 117, 1-37.

Djankov. Simeon, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Schleifer, 2003. `The New Comparative Economics', *Journal of Comparative Economics*, 31 (4), 595-619.

Dollar, David and Aart Kraay, 2001. `Trade, Growth and Poverty', *Finance and Development*, September 2001.

Dollar, David and Aart Kraay, 2002, `*Institutions,Trade and Growth*", Worldbank, www.worldbank.org/research/growth

Dollar, David and Aart Kraay, 2004. `Trade, Growth and Poverty', *The Economic Journal*, F22-F49.

Easterly William, Levine Ross, 1997. `Africa's Growth Tragedy: Policies and Ethnic Divisions', *Quarterly Journal of Economics'* 112, 1203-1250.

Ferguson, Niall, 2004. `*Empire, How Britain Made the Modern World'*, Penquin Books.

Gabriel, Satya J. `1998. *`The Structure of a Post-Revolutionary Economic Transformation, the Chinese Economy from 1949 to the Great Leap Forwards'*. China Essay Series, number 3. Http://www.mtholyoke.edu/courses/sgabriel/economics/china-essyas/3.html

Glaeser Edward, Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, 2004. `Do Institutions cause Growth?' *Journal of Economic Growth*, September issue.

Glaeser, Edward, Giacomo Ponzetto and Andrei Shleifer, 2005. `*Why does Democracy need Education?*' Harvard University and NBER.

Jensen, Michael C, William H. Meckling, 1977, `Between Freedom and Democracy', *The Banker*, October 1977, no 620, 39-49.

Kaufmann, Daniel , Aart Kraay, 2003. `Governance and Growth: Causality which way? Evidence for the World, in brief', *Economia*, Vol. 3, no 1.

La Porta Rafael, Florencio Lopez de-Silanes, Andrei Shleifer , Robert Vishny, 1999. `The Quality of Government', *Journal of Law, Economics and Organization*, 15 (1), 222-279.

La Porta Rafael, Florencio Lopez-de Silanes, Guillermo Zamarripa, 2003. `Related Lending', *Quarterly Journal of Economics*, February 2003.

Lal, Deepak, 2003. `Asia and Western Dominance, Retrospect and Prospect', *Journal of the Asia Pacific Economy*, 8(3), 283-299.

Lal, Deepak, 2004. `*In Praise of Empires; Globalization and Order'* Palgrave/Macmillan.

Lipset, Seymour, 1960. `*Political Man; the Social Basis of Modern Politics'*, New York, Doubleday.

Machiavelli, Nicolo, 2003. `*The Discourses'*, Penguin Books.

Maddison, Angus, 2001 `*Growth and Interaction in the World Economy, the Roots of Modernity'*, the AEI Press, Washington, DC.

McGuire, Martin C., Olson Mancur C., 1996. `The Economics of Autocracy and Majority Rule; the Invisible Hand and the Use of Force'. *Journal of Economic Literature*, March 1996. Vol. 34, issue 1.

McNeill, 1998. *`The Rise of the West; A History of the Human Community'*, The University of Chicago Press.

North, Douglass C. *`Growth and Structural Change'*, New York, Norton.

North, Douglass C. 1990. *`Institutions, Institutional Change and Economic Performance'*, Cambridge University Press.

North, Douglass C, Robert Paul Thomas, 1999. *`The Rise of the Western World; a New Economic History'*, Cambridge University Press.

Norwich, John Julius, 1989. *`A History of Venice'*, Vintage Books, New York.

Olson, Mancur, 1982. *`The Rise and Decline of Nations'*, Yale University Press.

Olson, Mancur, 1993. `Dictatorship, Democracy and Development' *American Political Science Review*, 87. 567-76.

Olson, Mancur, 1991. `Autocracy, Democracy and Prosperity', in Richard Zeckhauser (ed). *Strategy of Choice*, Cambridge, MA, MIT Press.

Olson, Mancur, 2000. *Power and Prosperity, outgrowing Communist and Capitalist Dictatorships*, New York, Basic Books.

Preeg, Ernest H. *`The Emerging Chinese Advanced Technology Superstate'*. Statement by Ernest H. Preeg before the US-China Economic and Security Review Commission. April 21, Palo Alto California.

Weber, Max 1978` *Science and Society'*, University of California Press.

Weber, Max, 1988. `*The Agrarian Sociology of Ancient Civilizations',* Verso, London /New York