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Of Rule and Revenue

Margaret Levi

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The Theory of Predatory Rule

Rulers maximize revenue to the state, but not as they please. They maximize subject to the constraints of their relative bargaining power vis-à-vis agents and constituents, their transaction costs, and their discount rates. These constraints determine the choice of revenue system. That is my hypothesis.

Rulers are predatory in that they always try to set terms of trade that maximize their personal objectives, which, I argue, require them to maximize state revenues. They do not always plunder, pillage, and exploit. However, each will, in North's words (1981, 23), "attempt to act like a discriminating monopolist, separating each group of constituents and devising property rights for each so as to maximize state revenue." Consequently, rulers devise structures to facilitate exchange and increase their marginal rate of return.

Most rulers must offer some return for the revenue extracted. Even rulers who hold nearly all the resources of power—which does occasionally occur in history—are still likely to require agents to enforce the policies. Rulers are chief executives (see, esp., Barnard 1938), who are sometimes principals and sometimes agents but whose administrative efficacy always rests on their ability to manipulate their environment.

The action in my model lies in the constraints on ruler behavior. Relative bargaining power and transaction costs account for the fact that rulers in history do not always rob their subjects blind and are not always running protection rackets. Rulers cannot simply advance any policy that appeals to them. They choose among the feasible set of options, and they can act to

change that feasible set. By definition rulers are actors within a domestic and an international context, and they must interact with constituents, agents, and the representatives of other polities. To achieve their ends, they must coerce and bargain, develop their resources, and, often, alter their constraints.

Policies are the outcome of an exchange between the ruler and the various groups who compose the polity.¹ Policies are a function of rulers' terms of trade. Rulers negotiate contracts with their agents and constituents, and each set of actors attempts to attain the best possible terms. Contracts are possible only if they make each party better off. Rulers are providing goods, usually collective goods, that have the attributes of gains from trade. Such gains are possible only if rulers can provide economies of scale in protection, justice, and other sought-after goods or if they can reduce uncertainty and ensure against risk. Of course, over time a contract is likely to prove unfavorable to one or the other of the contracting parties, who will then try to change it. Changes in state policies and organization require renegotiation of contracts.

Although I start with contractual relationships, I do not assume a precontract Hobbesian state of nature, with its equal distribution of power. I follow the contracting paradigm in arguing that the state economizes on resources that individuals otherwise would have to pay for, such as self-defense. There are gains from initial contracting. However, I part company with many neoclassical economists who argue that all economic actors are subject to and benefit from contracting. In my view a group could be so powerless as to be effectively excluded from a meaningful contractual relationship altogether. Nor do all parties benefit equally from the contract. Moreover, when the state itself is the enemy from whom people are buying protection, the state resembles a protection racket rather than an institution that engages in productive activity (Lane 1958; Frohlich and Oppenheimer 1974; Davis 1980; Emerson 1983; Tilly 1985). It is not unusual historically to have both kinds of states exist side by side.

The first determinant of the terms of exchange is the relative bargaining

¹ Jensen and Meckling (1976) and Fama (1980) characterized the firm and property rights as a "nexus of contracts." In earlier formulations of my argument, I posited that the state is also a "nexus of contracts" between rulers and agents, rulers and constituents, and, often, constituents and agents. One problem with this formulation, as Douglass North pointed out, is that the ruler or institutions of the state are contractors who can be sued as a whole. Another major problem with the formulation, I have come to realize, is that it provides too trivial a role for the institutions that structure the contracting and exchange process. Such institutions are the heart of the state-building and revenue-producing process. Moreover, they do not develop *de novo* with each new ruler or set of constituents. They are usually givens that must be worked with or around.

power of the contracting parties.² Rulers will have more bargaining power the more they monopolize coercive, economic, and political resources. Rulers will seek to control the supply of resources by either ensuring that they are a party to all exchange of resources or by eliminating rival suppliers. As governments increasingly regulate and license economic activities, there will be more rent seeking by those subject to state surveillance. However, from the point of view of rulers, encouraging rent seeking could be an efficient strategy despite its promotion of social waste.

When others possess resources that the ruler needs or when they can successfully resist the ruler's demands, their bargaining power is increased. Since bargaining resources are distributed unequally throughout the population, a single ruler will form different contracts with different groups of agents or constituents. Thus, rulers can use the same state organization as both a productive enterprise and a protection racket.

Given the behavioral assumption that people, or at least most people, are opportunistic and will break contracts when it suits them, and given the high costs of acquiring information about the activities and possessions of others, rulers must devise policies that lower their transaction costs. These are the costs of implementing and enforcing policies. More specifically, they are the costs of measuring, monitoring, creating, and enforcing compliance. Transaction costs include the costs of bargaining—that is, the costs of locating appropriate bargaining partners and the costs of reaching a contract. An increasing stock of knowledge about efficacious administrative practice—knowledge that comes with learning-by-doing, experience, or example—reduces transaction costs. They are increased by increasing demands that rulers must arbitrate, negotiate, and meet.

Rulers occasionally make trade-offs between their bargaining power and their transaction costs. They sometimes choose to use bargaining resources or to alienate powerful allies in order to promote a policy with relatively low transaction costs. Alternatively, they sometimes undertake high trans-

² My argument is influenced by my reading of power dependence theory in the social exchange literature, especially Emerson (1962) and Cook and Emerson (1978). It also owes a debt to the pioneering work of Robert Dahl (see, for example, 1961) on political resources as well as the more recent contributions of Ilchman and Uphoff (1971, esp. 32–37 and chap. 2) in their important effort to integrate political and economic theory into a method for political economic analysis. My approach is most similar to theirs in our contention that resources are the basis for power. However, Ilchman and Uphoff are more taxonomic than I am. They provide examples rather than case studies to demonstrate the plausibility of their model. More fundamentally, however, they believe that the kinds of resources available to rulers differ from those of other actors; and they include nonmaterial resources—namely, status, authority, and legitimacy—in their analysis. Also, they are considerably less concerned than I am with the relationship between rulers and agents.

action costs in order to avoid policies that would upset constituents or agents on whom they depend. It is trivial to say that rulers consider the costs and benefits and choose the policy that gives them the most advantage. Certainly, they are not always choosing the policy that produces the most revenue, and the reason lies in one additional factor that affects all rulers: the requirements of maintaining power. Holding the office of ruler is the *sine qua non* of rule. This self-evident fact can be restated in terms of two observable and potentially testable factors: the rulers' discount rates and their need to create and sustain quasi-voluntary compliance. The discount rate derives from the nature of rivalry over rule and is the parameter within which bargaining power occurs. Quasi-voluntary compliance is a mechanism for reducing transaction costs. Without a fairly high degree of quasi-voluntary compliance, revenue production policies are not even feasible. Quasi-voluntary compliance will be the subject of the next chapter.

An important constraint on the policy choices of rulers is their discount rates, that is, the extent to which they value the future relative to the present.³ The higher the discount rate, the less concern with the future. Two objective reasons for a high discount rate are the likelihood that the future will not come or relatively poor information about the future. There can also be subjective reasons, resulting from weakness of will or *akrasia*, in which rulers succumb to the present moment despite knowledge of the likely future costs. Low discount rates accompany security of rule. High discount rates follow from insecurity and intense rivalries.

What I have outlined thus far are the major constraints on policy formation. Variation in these factors should explain a large part of the variation in policies. However, these constraints are themselves the consequence of other variables. The possibilities are infinite; nonetheless, the most significant can be summarized into three main categories: (1) productive forces and economic structure, (2) the international context, and (3) form of government. Predatory rulers will act to alter these factors to suit their purposes. Nonetheless, at any given point in time, these factors structure rulers' choices.

³ Lance E. Davis (1980), in his Presidential Address to the Economic History Association, picks up the themes of Frederick Lane (1958) and argues for an economic history that recognizes the importance of politics and political analysis. One of the questions he thinks must still be addressed is "the appropriate rate of discount" (9–10). This is exactly the task some game theorists have taken on. In particular, Taylor uses variations in discounting as part of his explanation for variations in conditional cooperation ([1976] 1987). Elster introduces *akrasia* into rational choice considerations (1979, esp. 173–75 and chap. 2). Hardin (1985) has recently brought these and other factors together in an extremely interesting discussion of the role of time in rational choice theory. I rely heavily on his distinctions in my own account of discounting and of dynamic analysis.

What follows from this model is that significant differences in state policies will primarily reflect differences in constraints on the rulers. For example, feudal monarchs are rulers confronted by subjects with comparable political and economic resources. Feudal rulers are likely to make concessions in the form of tax exemptions and services in exchange for loyalty to the regime. In contrast, absolute monarchs are rulers who possess a virtual monopoly over coercive capacity but not necessarily a perfect monitoring ability. Their policies will create a large revenue base for the state while providing only minimal services. However, they will keep only as much revenue as they can prevent their agents from pocketing; they may even have to provide incentives that make it worth the while of agents to collect the revenues in the first place.

The way I have conceptualized ruler, as the chief executive of the polity, means that rulers exist even in modern democracies. Given its connotations, the term *ruler* may be misleading to some. However, in my perspective presidents and prime ministers of contemporary democracies are rulers who face legal checks and balances as well as innumerable pressure groups. Their policies will be contradictory, expensive, and inefficient (for economic growth). There will be, for example, legal restrictions upheld by courts and police, who are constitutionally out of the rulers' jurisdiction. Legislators, who can block a ruler's policies and pass their own, effectively share policymaking power with the ruler (the president or prime minister). Well-organized agents will demand both higher incomes and reduced work loads. And heads of state will have to depend on economically and politically influential subjects for reelection, social order, or the implementation of policies.

Given such constraints, is it, therefore, correct to model presidents and prime ministers as predatory rulers? Is not the state an arena for bargaining and the chief executive the disinterested arbitrator of competing interests and the executor of resulting policy decisions? This is, of course, the world of the pluralists, the vision that neo-Marxists and other neostructuralists have rightly criticized as misleading and wrong.⁴ In another, more sophisticated view, there are again no "rulers," only administrators implementing group decisions. They may be opportunistic administrators and bureaucrats, but they remain agents. This seems to suggest to some observers that they cannot be "rulers." Let me now take up each of these perspectives in turn.

⁴ See the appendix for an elaboration of and the problems with the positions taken in these literatures.

To understand the limits of the pluralist perspective, or what Brennan and Buchanan (1985) label "the myth of benevolence," it is useful to theorize about the nature of policies that would result solely from pressure groups with conflicting claims jockeying for power. Becker (1985) presents such a model. He assumes an equality between taxes and subsidies, and he defines political effectiveness as the ability of a group to control free riding by its members. Under these conditions he finds that deadweight or social cost also influences political effectiveness. He argues, "An increase in the dead weight cost of taxation encourages pressure by taxpayers because they are then harmed more by tax payments. Similarly, an increase in the dead weight cost of subsidies discourages pressure by recipients because they then benefit less from the subsidies received" (Becker, 1985, 343). When he adds to this the "compensation principle" of welfare economics (in which *winners could* compensate losers), he finds, *ceteris paribus*, that the push by interest groups that benefit from a policy will be stronger than the opposition of those that lose.

Introducing predatory rulers into this model fundamentally alters the findings. First, it adds an additional competitor, which makes the bargaining game more complex. Second, as rulers gain power in the bargaining over policy, the effect will likely be an increase in the use of government for noneconomic purposes and an increase in governmental regulations. Rulers can—and quite regularly do—use government employment and programs to purchase loyalty.⁵ Third, rulers influence what pressure groups perceive as the deadweight cost of a policy. Thus, they can influence the outcome of the competition by means of a source of political effectiveness not available to the other claimants.

The second alternative to the model of predatory rule is the analysis of heads of government as agents. In this view they are embedded in a structure that limits their options to such a degree that it is nonsensical to label them rulers. I argue that rulers can be principals or agents. In modern industrial democracies, they are likely to be agents of the citizens. In historical settings the principals may have been dominant economic classes

⁵ This need not represent "inefficiencies." As Becker (1985, 338) notes, "If the *intent* of public policies were fully known, I am confident that public sector would be revealed to be a far more efficient producer and redistributor than is popularly believed. . . . These enterprises may only appear to be less efficient because they are used to raise the income of employees (or others). Redistribution should be included among the measured 'outputs' of public and regulated enterprises before one can conclude that they are less efficient than private enterprises." Michels ([1919] 1949, 185–89) made a similar point about the functions of public employment. Reder (1975), among others, makes political outputs part of his model of government employment.

or the nobility. As with Niskanen's bureaucrats (1971), they are maximizing utility subject to constitutional constraints that affect their bargaining power and transaction costs. The difference is that I specify the content of their utility function as maximizing revenue to the state.

It may, however, be more difficult for modern presidents and prime ministers than for their predecessors to design policy according to the requirements of rationality. A recent literature derived from "positive political theory" (Riker and Ordeshook 1973) investigates the character of democracy, especially in the United States. Some writers demonstrate that decision rules and majority voting seldom, if ever, produce Pareto optimal results (see discussions of this literature in Frohlich and Oppenheimer 1978, chap. 1; and Mueller 1979, esp. chap. 3). Others conclude that collective rationality is unstable and that this instability further erodes economic efficiency and the possibility of pluralist political practice (see the review of the relevant literature in Miller 1983). One crucial finding of this work seems to be that the relationship between citizens and policies depends, more than anything else, on who sets the agenda (Plott and Levine 1978; McKelvey 1979; Shepsle and Weingast 1984). This finding reiterates and formalizes the now classic, and once radical, insight of Bachrach and Baratz (1962). Again, this literature is not inconsistent with the theory of predatory rule. Rather, it illuminates the kinds of bargaining resources that emerge from and are necessary to be effective within democratic rules.

The major implication of the theory of predatory rule is that rulers will devise and formalize structures that increase their bargaining power, reduce their transaction costs, and lower their discount rates so as to better capture gains from exchanges of politics. They will design institutions that they believe will be efficient in promoting their interests (which may overlap—but need not—with the general welfare or with the interests of a dominant class). More specifically, within the limits of the constraints upon them, they will design revenue production policies that maximize revenues to the state. However, as relative prices change, institutions that once facilitated exchange may begin to hinder exchange or reduce return. Rulers will then try to redesign state structures and rewrite state policies.

My model is static in the sense that, at any point in time, policy choices are a consequence of a given set of bargaining resources, transaction costs, and discount rates. Nonetheless, rulers can and do act to modify and structure the institutions that facilitate exchange. Establishing domestic and international peace permits rulers—and their constituents—to devote fewer resources to protection and more to production. An increase in bargaining power over a rebellious community not only increases the

possibility of favorable policy for rulers but also reduces the transaction costs of achieving compliance with the policy. Over time, arrangements constructed to minimize transaction costs may affect bargaining power; for example, putting workers together in factories or creating bureaucracy facilitates both control and political mobilization. Changes in relative bargaining power, transactions costs, and discounting should lead to new bargains.

This chapter focuses on the factors that explain the choice of a particular revenue policy. The theory of predatory rule is initially an exercise in comparative statics. In the next chapter, I take up the consequences of incremental changes in the contract over the life of the contract. Comprehending shifts in compliance, I argue, is a major component in the development of a dynamic model of state policy.

RELATIVE BARGAINING POWER

The relative bargaining power of rulers is determined by the extent to which others control resources on which rulers depend and the extent to which rulers control resources on which others depend. Rulers will be better able to set favorable terms of trade the less they depend on others and the more others depend on them. Rulers whose power resources diminish will either have to offer more in exchange or give up some of their ends. In my model, rulers always calculate whether the marginal costs of their maximizing strategies will outweigh the expected return.

To keep this formulation from being tautological, I realize one must specify the bases of such a calculation. An outside observer must be able to analytically reproduce the choices confronting rulers. At best, actors (and observers) make rough estimates. Some resources are difficult to measure accurately; even if they were measurable, most decision makers find precise calculations too costly (Simon 1947; March and Simon 1958), if not impossible (Kahneman and Tversky 1984; Simon 1985). Nonetheless, rulers, constituents, agents, and rivals can make fairly good estimates of their own and others' bargaining resources—at least as I define resources. I include only resources that have a material basis and could, in principle, be quantified. I exclude legitimacy, status, and authority (Ilchman and Uphoff 1971, esp. 60–67 and 73–86). Although I do not deny their importance, they are even more difficult to specify than the factors I have chosen. But my major reason for exclusion is that they are, more often than not, a consequence of other resources. I take up this point in more detail in chapter 3.

The major categories of resources are coercive, economic, and political

resources. Rule has evolved so that, over time, state officials have come to control a greater proportion of these resources. There has been a reduction, at least by historical comparison, in internal military competition. Dependence on the state for economic resources has increased. Political institutions have developed that contain and channel collective action and pressure and that permit few people to escape the arm of the state. Although this description would hardly capture all contemporary polities, it is a fair characterization of the majority of the most advanced industrialized countries.

The institutions of rule have evolved so that rulers are able to bargain, and bargain on their terms, with a greater number of constituents. Yet the constraints on rulers have far from disappeared. They also have evolved and changed. In particular, the increasing economic power of the mass of the population has led to an increasing political power, which has culminated in the granting of universal suffrage and the formation of popular political parties. The result has been an increase in political pressure groups and the development of legal institutions for containing the power of the ruler. It is an interesting paradox that as the state has increased its control of coercive, economic, and political resources, a ruler's personal command of bargaining resources is more constrained. Over time rulers have become more dependent on others for resources.

In the process of investigating the character of bargaining resources, the nature of their evolution also becomes clear. Historically, military resources have been extremely significant. When particular individuals monopolize the military resources of a society, they are likely to achieve and maintain power as well as accomplish policy ends. When military resources are distributed among several individuals or coalitions, rulers are likely to have rivals or potential rivals. In such instances the dependence of individuals or groups is decreased, and the ruler's dependence may be increased. Consequently, rulers will have to exchange resources for support or use up resources to prevent attack. At the least, rivals' command of military resources reduces the ability of rulers to enforce contracts in areas that rivals control or dispute. Consequently, rulers will have to forgo certain policies, implement them unevenly throughout the domain, or implement them evenly but bear high transaction costs in the process.

Historically, military technology has evolved so that there are economies of scale in centralized armies, with corresponding increases in rulers' control of military resources (Bean 1973; North 1981, esp. 135-42). The development of new forms of property, which were subject to laws governing exchange as well as possession, further increased rulers' control of

coercive resources. State arbitration of property rights, with the consequent creation of more elaborated courts and the institution of the police, increased the dependence of constituents on rulers.⁶

Even rulers who effectively monopolize military and other coercive resources also need economic and political resources to obtain their ends. To the extent that rulers find themselves dependent on the political and economic resources of constituents and agents, their bargaining power is reduced. To the extent that constituents and agents have alternative suppliers of economic and political resources, their dependence on their rulers is reduced. Rulers can improve their terms of trade by increasing the economic and political dependence of constituents and agents on themselves and by reducing their own dependence on the political and economic resources of others. The more rulers can monopolize economic and political resources, the better able they will be to negotiate favorable terms of trade.

Economic resources consist of ownership and effective control of the means of production, that is, the raw materials and tools (Cohen 1978, 32); the routes and facilities of trade; valued skills and knowledge; the labor supply; negotiable wealth, that is, money or its substitute; and what Hchman and Uphoff label goods and services (1971, 32, 58-60). These in turn are affected by the economic structure and productive forces, structural conditions to be discussed later.

It is difficult even to imagine a situation in which rulers monopolize all these resources, although the hydraulic societies probably come close (Wittfogel 1957). A division of labor has existed in all historical societies, and this of itself creates interdependence among the individuals in the economy. In contemporary democracies, where rulers are elected, the resources that individuals command are seldom adequate. Candidates depend on those who possess the funds necessary for a modern mass-media campaign, which is generally big business (Ginsburg 1984; Bates 1976). Indeed, most rulers, throughout most of history, have had to make concessions to economically powerful actors in return for their support.

Political resources also affect the relative bargaining power of rulers. Rulers possess political resources to the extent that they can inhibit the desertion of constituents to competitors or rival states and to the extent that they can block opposition and promote support, that is, ensure that collective action is in their interests. People will vote with their feet if they

⁶ For an interesting account of the development of property rights, see Offer (1981). His focus is on Britain, 1870-1914. Silver (1967) discusses the development of domestic police forces in response to changes in property relations.

can flee at low cost (Hirschman 1970). It is a truism that dissatisfaction often causes "flight or fight." Thus, the more rulers can raise the costs of exit while preventing antagonistic mobilization, the more they can increase the prospects for loyalty, that is, compliance with their policies.

The prerequisites of collective action (see, for example, Olson 1965; Lipsky 1970; Frohlich, Oppenheimer, and Young 1971; Oberschall 1973; McCarthy and Zald 1977; Tilly 1978; Popkin 1979; Moe 1980; Hardin 1982; Taylor 1982) include positive selective incentives, negative sanctions, and entrepreneurial skills that enable the relevant actors to locate and manipulate additional incentives. All rulers necessarily possess some positive inducements, negative sanctions, and entrepreneurial skills. The question is how successfully rulers can mobilize their subjects and agents and whether alternative leaders exist who are equally able to mobilize people.

Government-created rights and programs are sources of positive incentives in the form of bribes, patronage, or other material inducements. Governments are also sources of such negative sanctions as social ostracism, exclusion from valued goods and services, and actual punishment. Feudal monarchs rewarded the knights who fought for the crown. *Ivanhoe* and *Robin Hood* are the romantic versions of such tales; both men benefited by choosing the winning side in the conflict between John and Richard. In contemporary politics rewards for loyalty include employment or advantageous legislation. Punishments for undependability or disloyalty include job severance or the abolition of beneficial government programs.

Constituents and agents also possess political resources. Sometimes they use government-created benefits to their own advantage. Generals, provincial governors, and all the others to whom rulers have had to delegate authority over history are often able to use these state-provided resources to mobilize against rulers. Moreover, in contemporary democracies government programs sometimes can be used by skilled entrepreneurs to finance the organization of the relatively poor and powerless against the government itself (Piven and Cloward 1971, chap. 10; Lipsky and Levi 1972; Levi 1974; Walker 1983).

Community is another important basis for mobilization. Marx and Engels predicted that the establishment of the factory system, combined with the migration of workers to the city, would facilitate the organization of labor ([1848] 1978, 480–81). They understood that regular interaction and communication among similar individuals promote the capacity for collective action, but they did not specify the mechanisms. Taylor ([1976] 1987, 1982) offers an account of how community—that is, shared com-

mon beliefs and norms, direct and multifaceted relationships, and reciprocity—can lead to conditional cooperation, in which individuals cooperate only as long as others do. Combined with the appropriate structural conditions, community underlies revolutionary movements and other large-scale collective actions (Popkin 1979; Skocpol 1979, chap. 3; Taylor 1988). Its variations, due to differences in economic structures, account for regional variation in rebellion (Brustein 1985; Brustein and Levi 1987) and industry variation in pressure groups (Bates 1987, chap. 3).

Political entrepreneurs, be they rulers or rivals, can promote political mobilization by constructing community where it does not already exist and by bringing new incentives and disincentives to bear where it does. In his analysis of peasant movements and collective action in Vietnam, Popkin (1979, chap. 6 and *passim*) stresses entrepreneurial behavior meant to enhance peasant estimates of the entrepreneur's efficacy in securing promised returns (259). Peasants must be made to believe in the entrepreneur's credibility and capacity to deliver. Entrepreneurs encourage this belief by offering rewards consonant with the existing moral code, by understanding and being able to communicate with the peasants they are organizing.

At least initially, entrepreneurs must demonstrate their ability to provide immediate payoffs on locally important issues. Ultimately, entrepreneurs want to mobilize support for leaders and groups outside the local community and to increase peasant participation in nonlocal collective actions. In return for such participation, entrepreneurs must offer peasants private goods in the form of better yields, a higher welfare payment, a lower rent, or insurance against crop failure.

Most of what constitutes entrepreneurial activity is in fact coordination of resources or people. With increasing specialization and division of labor, the need for coordination has increased. The demand by constituents for rulers to perform this role has intensified. Coordination is something constituents want that rulers not only can supply but also, in many spheres, have a comparative advantage in supplying. Increases in both the demand for and the supply of coordination enhance the political—and economic—bargaining power of rulers.

Ideology is often presented as an additional political resource. How else can we account for cases where the material incentives fail to compensate for the hardship experienced? If both positive and negative incentives are insubstantial, arguments based on the assumption of rationality predict a failure of collective action. However, there are many exceptions to this rule. Some—such as the Crusades, where soldiers put up with considerable discomfort because of incentives in the form of promises of future returns in

booty or salvation—can possibly be understood within the rational choice framework. Other examples are not so easy to explain: the nationalism that accompanies most wars, the behavior of the people of Paris during the French Revolution, the ghetto residents of Detroit and Watts during the rebellions of the 1960s, and the workers of Poland during the past years.

These may be examples of communities where conditional cooperation applies, or they may represent “moments of madness” (Zolberg 1972). But ideology is also likely to be part of the explanation. Both rulers and revolutionaries use ideology to mobilize support for their regimes. Fidel Castro and Mao Zedung legitimated their revolutions on the basis of justice and equity as well as redistribution. Khomeini used antipathy to the Shah and love of the Islam religion to rally the Iranians. And many monarchs kept both their heads and their crowns by appeals to divine rule. Yet, despite the evidence of the importance of ideology for political mobilization, a theory of collective action that adequately incorporates the role of ideology or norms has still to be written.⁷ Without it an analysis of the distribution of political resources must, unfortunately, remain incomplete.

Coercive, economic, and political resources are usually interwoven. Economic resources probably explain a large percentage of the variance in military and other coercive resources. Affluent rulers, such as Elizabeth I of England and Philip II of Spain, tend also to be dominant militarily. Conversely, a militarily powerful ruler can wrest the economic resources needed from those who hold them, as Philip of Macedon did.

Political resources also affect the distribution of other resources. Rulers who have entrepreneurial skills or who perform the central coordination function in political exchange can use the political system to redistribute the flow of economic resources to their advantage. Moreover, political mobilization provides people with group economic power. Given that rulers are economically dependent on the skills, knowledge, and labor of other individuals, their choices will be influenced by the probability of slave rebellions, mutinies, strikes, and other work disruptions. Guilds, craft unions, and professional associations that limit the amount of labor available or monopolize information about or the right to perform a particular task also alter the terms of trade. For example, the success of the medical

⁷ Marx and Engels ([1843] 1978, 172–75; [1848] 1978, 481), Gramsci ([1919–37] 1971), and their followers provide some clues from within the Marxist framework. Both North (1981, esp. chap. 5; 1985, 394–97) and Coleman (forthcoming) offer promising starting points from a rational choice perspective. Ilchman and Uphoff (1971, esp. 73–80) present an account of legitimacy as a political resource, but it relates less to the mobilization that affects bargaining than to the compliance issues that will be taken up in detail in the next chapter.

profession in protecting its privileges in the United States rests on its past success in winning from state governments a legal monopoly over valued skills and knowledge and control over the number and qualifications of individuals labeled physicians (Freidson 1970; Larson 1977, chap. 3).⁸

Groups that already have significant economic resources can enhance their bargaining power by improving their political resources. For example, the antebellum U.S. Congress was most responsive to pressure on tariffs from industries that were cohesive (Pincus 1977). Bates and Lien (1985) demonstrate that rulers will have a preference for collective agreements on taxation when significant economic assets are mobile. If rulers tax mobile assets, their owners are likely to shift them to the possession of those who are exempt from taxation. Collective agreements solve this problem. However, argue Bates and Lien, collective agreements aggregate already resource-rich constituents who demand concessions in return for tax compliance. The consequence, more often than not, is the establishment of representative and other democratic institutions.

TRANSACTION COSTS

Transaction costs are the positive costs of bargaining a policy and of implementing a policy once it has been bargained. The most important transaction costs are those of negotiating agreements, measuring revenue sources, monitoring compliance, using agents and other middlemen, punishing the noncompliant, and creating quasi-voluntary compliance. A policy is not viable if the transaction costs are too high.

In recent years public choice analysts, particularly but not solely those with a conservative political bias, have emphasized maximizing behavior they designate as rent seeking. Rent is “a return in excess of a resource owner’s opportunity costs” (Tollison 1982, 30). Buchanan (1980b, 4) argues that “the term rent-seeking is designed to describe behavior in institutional settings where individual efforts to maximize value generate social waste rather than social surplus.” In his view rent seeking is a form of profit seeking but within an institutional setting that hinders the efficient

⁸ However, the power of doctors may be alterable. To reduce the costs of medical care and decrease the political influence of physicians, some United States government agencies are encouraging the training of nurse practitioners and physicians’ assistants as possible substitutes. They are also mandating an increase in the size of medical school classes. At least some politicians and bureaucrats recognize that physician monopoly is not revenue maximizing for the state, and they are beginning to discourage some of the rent seeking that their predecessors made possible. A power struggle is in process. Its outcome is still far from clear.

allocation of resources. According to Buchanan (1980b, 4–15), Tullock (1975 and 1980, *passim*), Tollison (1982, 38ff.) and others, the more the state intervenes in the market, the more rent seeking. Rents are made possible by governmental restriction of entry into a market and by its granting of special privileges through regulation, licenses, legal monopolies, and the like. These actions create an artificial scarcity, which profit maximizers then attempt to capture. In the process, they use up—or, more precisely, waste—resources. Bates (1981, chap. 6) provides a vivid illustration of how African governments, in their desire to promote economic growth and modern agriculture, create artificial scarcities in foreign exchange, agricultural commodities, and the like. The immediate consequence is socially wasteful competition to secure monopoly control of these goods and services. The final result is personal gains, profits, and corruption, which make some people rich but at the expense of the general welfare.

The problem with the rent-seeking approach is that its focus is too narrow. Most of the advocates of rent seeking are obsessed with demonstrating the negative impact of government on the economy. They view competitive markets as the most socially efficient means to produce goods and services. Their commitment to the market tends to blind them to inefficiencies that can occur within the market and, conversely, to efficiencies that can result from nonmarket solutions. They do not treat the effects of government intervention as variable, sometimes reducing and sometimes stimulating social waste. As a result, they seem to suggest the rather silly conclusion that entrepreneurs are wasteful only when governmental intervention gives them the opportunity to be. Nonetheless, the notion of rent seeking does give analytical grounding to a set of behaviors that undoubtedly exist. For example, Bates (1981), who makes no universal claims about government's causing waste, demonstrates that the concept of rent seeking is useful in explaining how African marketing boards can promote an inefficient use and distribution of producers' resources.

Rent seeking is only one source of social waste, and not necessarily the most empirically important. The rent-seeking literature recognizes only the waste caused by government, ignoring the waste entailed in the relationships among firms and among employers and employees. The disjuncture between private costs and social costs is what is really at issue. When does individual maximizing behavior generate externalities or public bads? What is the best means for preventing social waste as well as for promoting the general welfare or Pareto optimality? More crucially, for my

purposes, which policies are perceived as most likely to increase and which to reduce the returns to government?

A more general approach is the analysis of transaction costs,⁹ a concept derived from Coase's now classic (1937) article on the theory of the firm. As Offer (1981, 2) notes, "Transaction costs' are like sand in the gears of perfect exchange. They eat into ownership and aggregate into a middleman's interest, which takes on the attributes of a species of property."

The definition of transaction costs includes a vast number of factors, all those variables typically assumed away by micro-economics—that is, "the costs of searching, negotiating and enforcing contracts, and of defining and policing of rights" (Cheung 1978, 24). With the publication of seminal work by Alchian and Demsetz (1972), Williamson (1975), and Jensen and Meckling (1976), economists began to drop the traditional assumption that transaction costs are zero. The revisions of the theory raise serious challenges to neoclassical economics from within the discipline. They also provide the basis for an account of the variation in economic organizations and structures.

The transaction cost approach assumes the omnipresence of contractual relations. It is, in fact, part and parcel of what its practitioners have come to call the "contracting paradigm." Any exchange, be it written or unwritten, connotes a contract. Moreover, and certainly more controversially for non-neoclassical economists, any resource changing hands connotes an exchange. This is the Hobbesian world, where preexisting social relations and norms play little part.

At the heart of the contracting paradigm is the assumption of conflict of interest between the parties to an exchange. But also contributing to transaction costs are the costs of acquiring information.¹⁰ Economists are finally taking into account—if seldom explicitly—the important insights provided by behavioral organizational theorists (see, for example, Simon 1947; March and Simon 1958) regarding the consequences of strategies for coping with inadequate information. However, for the behavioralists the focus tends to be on "bounded rationality."¹¹ For economists information

⁹ See Moe's (1984) excellent survey of the literature. He provides an interesting contrast of the transaction cost approach to organization with the behavioral approach derived from Simon (1947). Also see the review essays by North (1978) and Jensen (1983).

¹⁰ There is now a huge literature on the economics of information, which Moe (1984, esp. 752–58) summarizes quite neatly.

¹¹ Behavioralists are questioning the very assumption of maximizing behavior. Elster (1979, 1983b) attempts to reconstruct rational choice by using their contribution and the contributions of important contemporary psychologists such as Kahneman and Tversky (1979, 1984).

issues revolve around assessing the quality of the good or service to be exchanged (see, for example, Akerlof 1970; Barzel 1982). In organizations the quality of applicants for a position, as well as the quality of their product once they are employed, must be assessed. However, employers often suffer from asymmetries of information that benefit the employee. Employers are unable to observe an applicant's decisions or actual qualifications and therefore may resort to adverse selection; that is, they may use a rule that ensures against risk but cannot ensure (and probably militates against) the best selection. In addition, employers are not able to observe all aspects of postcontract behavior; therefore, moral hazard—that is, cheating or shirking—may result.

The aim of the transaction costs approach is to build from these arguments about conflict of interest and information costs a model of organizational variation. Coase (1937) asked why firms, with their hierarchical and nonmarket form of organization, exist. He answered that, given transaction costs, they are more efficient than markets for production. Alchian and Demsetz (1972) argue that the hierarchy of the firm can be deduced from the behavior of individuals contracting with each other to derive gains from cooperation through team production. A hierarchy economizes on the costs of acquiring information about shirking by introducing incentives to monitor shirking behavior. Williamson (1975) suggests that the costs of transacting in different sectors explain why some firms choose vertical integration (hierarchy) whereas others choose to purchase goods and services on the market. Jensen and Meckling (1976) provide the first step in a positive theory of agency.¹² They posit that organizations are a nexus of multilateral contracts between principals and agents that specify the rules of performance evaluation, rewards, and decision rights. The problem is to develop organizational structures that lead agents to act consistently in the interest of principals. To do this requires technologies of monitoring and bonding.

The transaction cost framework cannot be imported whole hog from economics to political science and sociology, however. It suffers too much from the limits of economics generally, despite its pioneering elaborations of nontraditional domains. It shares a tendency with public choice and

¹² Jensen (1983) differentiates the positive theory of agency, which he is developing with coauthors Meckling and Fama (Fama 1980; Fama and Jensen 1983a, 1983b), from the "other" principal-agent literature (Spence and Zeckhauser 1971, Ross 1973). Jensen characterizes his approach as "positive" because of its attempt to model how the world works, including the behavior of other maximizing individuals. The second approach is less empirical and more mathematical. It centers more on questions of uncertainty and risk sharing.

neoclassical economics to be too mathematical and formal and, thus, too abstracted from the empirical realities it is presumably attempting to explain. Moreover, the definition of transaction costs is still too imprecise. It often remains a residual category for all those variables that economists have neglected. Moe (1984, 759–72) points out the difficulties of applying an approach developed for economic organizations to public bureaucracies. Economic organizations generally have a shared concern for and a standard of efficiency, while the goals of public bureaucracies vary widely. With few exceptions even the best-intentioned economists seem to have an oversimplified and unsophisticated comprehension of power and political institutions.¹³

The potential contribution of the transaction costs approach to understanding variation in state organization should by now be obvious. Although most of the discussion of transaction costs remains within economics, the concept is beginning to have an impact on the other social sciences. Williamson (1985), Cook and Emerson (1984), and Heimer (1985) import the concept of transaction costs into more general organizational analysis. Laumann, Knoke, and Kim (1985) apply the transaction costs approach to participation in state policymaking. Moe (1984) uses it to analyze public bureaucracies. North (1981, 20) uses it to explain the central paradox of the state: "The existence of a state is essential for economic growth; the state, however, is the source of man-made economic decline." He uses the positive theory of agency to investigate the creation of organizations to minimize transaction costs. He then shows that these organizations become inefficient as technological change requires new organizational forms and property rights. North is neoclassical in his assumption of maximizing actors and Marxist in his theorizing about the development and effects of property rights through history.

As mentioned, transaction costs include a wide range of variables. The most important for understanding rule and revenue are the costs of bargaining a revenue production policy; the costs of acquiring information about revenue sources, constituent behavior, and agent behavior; and the costs of enforcing compliance with that policy. These factors are generally interrelated. For example, establishing with whom rulers might strike bargains requires information. What policies rulers will undertake to bargain and with whom are delimited by their capacity to measure revenue sources and to monitor constituent and agent compliance. Monitoring serves both to provide information and to aid enforcement. An effective

¹³ See, especially, the critique by Cook and Emerson (1984).

system of monitoring enables rulers to identify noncompliant behavior. By increasing the probability that free riders will be caught and punished, increased ruler knowledge is a disincentive to noncompliance. To maximize revenue, rulers will have to design revenue production systems that economize on transaction costs. They must be as concerned with the reduction of expenditures in extracting a tax as with the gross return from the tax.

COSTS OF BARGAINING

Bargaining power rests on resources. Bargaining costs include the costs of acquiring information (specifically, information about what resources will have to be exchanged to reach a bargain) and the costs of negotiating an agreement. The quality and availability of information about bargaining partners are partially a result of past interactions with those partners and partially a result of ruler capacity to measure revenue sources and monitor behavior (to be discussed below). Few rulers operate in a vacuum. Most have dealt, or watched their predecessors deal, with constituents and agents on enough prior occasions to establish a sense of where there is likely to be a high and where a low marginal return. Thus, in stable polities the costs of establishing bargaining partners are relatively low. What raises the costs are major technological changes in measurement or monitoring that alter the relative price of extracting resources from a particular constituency; major political, economic, or military changes that alter the relative bargaining power of rulers in relation to constituents; and major changes in the political and economic system that produce an altered cast of characters about whom reliable information is yet to be acquired.

Bargaining costs also include the costs of negotiating an actual policy. Institutional arrangements can significantly alter these costs. It is far more difficult—and costly—to negotiate with every individual than with a collectivity. It is usually less costly and risky for rulers to achieve agreement to a policy change by discussion in an institutionalized—that is, rule-bound—setting than by quelling rebellions. Technological and institutional change are double-edged, however. For example, although improvements in transportation and communication reduce the costs of ruler access to bargaining partners, they also reduce constituent costs of objecting to or renegotiating policies.

Finally, bargaining involves setting the terms of the contract so that the most revenue can be extracted at the least cost. Again, the limits of measurement and monitoring are crucial to the equation. Equally important are arrangements designed to reduce what Heimer (1985) labels

reactive risk—that is, the risks associated with strategic interaction, in which what one party decides to do depends on what the other party chooses. Mechanisms of enforcement are only one aspect of risk reduction. Proper specification of contract terms and appropriate institutional arrangements are also necessary.

COSTS OF MEASURING REVENUE SOURCES

The better the quality of rulers' information about the actual wealth, income, and property produced in the polity, about the behavior of those from whom they extract revenue, and about the behavior of those who do the extracting, the more they are able to extract in revenue from the population. Rulers generally try to act like discriminating monopolists. That is, they attempt to identify the separable parts of the economy and devise a means of measuring the inputs and outputs of each (North 1981, 23 and 26–27).

Measurement is largely a function of the available technology. Historically, one of the first acts of states has been to standardize weights and measures. Money is another mechanism for standardizing the relative value of taxable goods. A tax on income—as opposed to produce, property, or trade—is inconceivable without salary and wage workers. More sophisticated tools of measurement provided by modern technologies permit better evaluations of the quality, quantity, and movement of goods. Even so, a correct estimation of the relevant features of many goods often cannot be obtained through measurement.

Once rulers have established that they will be extracting revenue from a given population, measurement capacity determines what kind of property they can tax and where. Most ancient taxes were on produce and were paid in kind. It may have benefited rulers more to tax land or income, but they had no method for measuring the worth of land or income. Thus, the kind of wealth rulers could tax determined which individuals they depended on for economic resources in a particular society. Measurement problems can also raise the cost of revenue extraction. When areas of rulers' territory are inaccessible or militarily dangerous, land surveys and other normal devices for determining taxable property then become much more expensive.

COSTS OF MONITORING CONSTITUENT COMPLIANCE

Whatever the sophistication of measurement, the problem of monitoring persists. No matter what the dependence of constituents on rulers,

many are likely to free-ride, evade taxes, cheat, or shirk if they can do so unobserved and therefore escape punishment. Successful monitoring turns on the capacity to pinpoint as well as to punish those guilty of cheating or corruption. In a tiny and compact polity where everyone regularly scrutinizes everyone else, this is a relatively simple matter. However, in most polities rulers require agents to spy on and punish the noncompliant as well as to collect the actual taxes.

Thus, rulers will try to design political institutions that facilitate low-cost monitoring. For example, the feudal system was based, in principle, on a hierarchy of obligation, which gave monarchs fairly accurate ideas of those on whom they could rely. The political machine of urban America, which worked only to the extent that it could count and control votes, was greatly undermined when the introduction of the secret ballot prevented identification of voters not voting the party line. On the other hand, the post hoc tally of votes tells elected officeholders how many supporters they have and where, something that is far more difficult to determine in a nonvoting system. The roll-call vote has traditionally enabled political parties, constituents, and chief executives to monitor the loyalty of individual legislators. In the responsible party system of Britain, where monitoring capacity was combined with a reward system, the party had considerable leverage in relation to the members of Parliament (Hechter 1987).

The most important contemporary form of monitoring taxpayer compliance is, of course, the audit. There is a huge literature on the most efficient audit procedures, that is, the level of auditing that will deter evasion. Recently several analysts have investigated this question within a principal-agent framework, in which the government is the principal and the taxpayer the agent (see, for example, Graetz, Reinganum, and Wilde 1984; Reinganum and Wilde 1984; Reinganum and Wilde 1985). One ingenious analysis argues for rebates for truth-tellers (Border and Sobel 1985).

What measurement and monitoring capacity rulers have will affect the terms of the tax contract, for they will try to be precise in regard to factors they can subsequently evaluate and will try to specify broadly against other contingencies. Rulers may acclaim their property rights and require a given level of taxation, but their ability to collect those taxes depends on their ability to monitor the compliance of revenue producers.

AGENCY COSTS

Both measurement of revenue-producing activity and monitoring constituent compliance require rulers to pay agents. But agents can shirk and

cheat, particularly at the point where they extract revenue and the point where they turn revenue over to rulers. Incentives and disincentives to regulate the behavior of agents, those who carry out rulers' policies, represent a special case of transaction costs, called agency costs. Agency costs are the sum of expenditures by rulers (or other principals) on monitoring and by agents on guarantees that they can be trusted (Jensen and Meckling 1976). Investment in the measurement and monitoring of agent behavior always represents a loss of income to rulers that would not be lost if they could otherwise be certain of receiving all that was defined as their due. Thus, at the least cost and most return to themselves, rulers will try to design revenue production systems that enable them to evaluate agent performance and to incorporate incentives for agent compliance and disincentives for noncompliance.

Weber ([1922] 1968, 963–67) lays out some of the historical forms of agency control—and their pitfalls. In the absence of a money economy, taxes are paid in kind. Often, as in ancient Egypt or China or during the late Roman monarchy, rulers tried to motivate agents by giving them a fixed income in kind as insurance against fluctuating yields. As Weber points out, this “easily means a first step toward appropriation of the sources of taxation by the official and their exploitation as private property” (964). If rulers are not careful, the land itself is transferred to the official, who then takes on more of the attributes of a feudal lord than a tax collector. Rulers will demand revenue, but the nature of the negotiation and, probably, the level of return are transformed. A related form of agency is prebendal organization, in which officials have lifelong property rights to economic rents as payment for the fulfillment of the duties of their office. As Weber notes, “All assignments of services and usufructs in kind as endowments for officials tend to loosen the bureaucratic mechanism, and especially to weaken hierarchic subordination” (967).

An alternative is tax farming, one of the cases to be investigated in chapter 4. This can occur in a monetary or nonmonetary economy. Here the official bids for the right to collect the tax, pays a specified sum before collection, and pockets the surplus that he collects from taxpayers. Rulers can budget and can avoid paying the costs of monitoring tax collectors or measuring the taxable material of constituents. When tax farming is highly regulated, the tax farmers bear the direct costs of measurement (which are, of course, reflected in their bids); incentives for monitoring lie with the taxpayers and the tax collector. If tax farming is not regulated and if a tax farmer's interest is short-term profit rather than economic growth or stability, tax farming carries the risk of endangering the long-run revenue yield

and creating political opposition from those who feel they are being overtaxed.¹⁴

The modern alternative, of course, is bureaucratic revenue collection subject to contemporary accounting procedures. Computerized tax assessment is the logical extension. Although the state is likely to receive more of the gross revenue produced than through other methods of collection and to lose relatively little through agent pilfering, the price tag in technology, salaries, and working conditions can be very high. Nor can any agency contract totally prevent goal displacement, routinized treatment of constituents, or agent discretion (Lipsky 1980). Moreover, bureaucracy is not a single organizational structure. The variation in income tax administration among the United States, Great Britain, and Germany is a case in point. They differ not only in the processes of tax assessment but also in the processes of audit and appeal.

ENFORCEMENT COSTS

Enforcement becomes an issue once the rulers have identified the non-compliant. To punish free riding, shirking, and venality by both agents and constituents, rulers rely on a repressive apparatus composed of police, jailers, and other hirelings paid to uphold the laws. However, coercion is expensive, and its use often precipitates resentments that can fuel the flames of opposition. Thus, rulers will seek to create compliance that is quasi-voluntary. It is voluntary in that constituents pay because they choose to. It is quasi-voluntary because they will be punished if they do not and are caught. (Quasi-voluntary compliance is the subject of chapter 3.)

DISCOUNT RATE

Rulers' discount rates—that is, how much present value future returns have for them—are another major factor in the calculation of the costs and benefits of a policy choice. Rulers with high discount rates care little for the future. They will be less concerned with promoting the conditions of economic growth and increased revenue over time than with extracting available revenue even at the risk of discouraging output. Rulers with low discount rates do have an interest in securing future revenues; they will

¹⁴ Weber ([1922] 1968, 968) makes a related point, but he does not recognize the important variable of regulation.

extract revenue up to the point at which further extractions would put future output at risk.

Rulers with high discount rates will encourage agents to extract all there is from constituents but will try to ensure that they get the lion's share of the take. Rulers with considerable bargaining power vis-à-vis agents and low discount rates are likely to rely on some form of bureaucracy.

Rulers' discount rates are always something of a function of personal psychology, of whether they have a short or long time horizon. However, the principal determinant is security of office. Without security rulers are unlikely to be concerned about economic growth. For example, rulers subject to periodic elections and unable to use tax revenue in the campaign are likely to refrain from imposing unpopular taxes on potential supporters.

The most important cause of a high discount rate is military conflict. An embattled ruler who needs to win a war to stay in power will probably extract all there is in the hope of having sufficient resources to defeat rivals. Where risk is high, expensive and sophisticated techniques of measurement and monitoring techniques are likely to prove a waste of resources enough of the time to make preferable a predictable, if lower, return based on a less costly procedure of extraction. Rulers with very few pressures are unlikely to undertake costly bargaining, measurement, and monitoring, and they are unlikely to extract beyond the point at which taxpayers will resist through either decreased production or actual rebellion. Rulers under greater pressure may be compelled to.

Schumpeter ([1918] 1954) and more recently Peacock and Wiseman (1961), Mann (1980), Tilly (1985), and Rasler and Thompson (1985) have emphasized the causal importance of war in accounting for the increased size and power of the state. Military conflict produces pressures that alter rulers' transaction costs and bargaining behavior as well as discount rates.

STRUCTURAL CONSTRAINTS AND VARIABLES

Relative bargaining power, transaction costs, and discount rates are themselves the product of macro-level variables. I am concerned primarily with the effects of macro-level variables on transaction and bargaining costs and on rulers' discount rates, rather than with the causes of the shifts in the macro-level variables. Moreover, I expect to address only part of the variance. The peculiarities of a particular period and of particular minds always have a role to play in explanations of this sort. My more modest

purpose is to begin to specify the relationship between major macro-level changes and major policy change. I recognize that each historical situation and each historical configuration of macro-level variables is unique. Nonetheless, it is possible to identify structural factors that occur throughout place and history. This helps us to organize the complex and numerous facts that constitute a historical period.

Theorists working within the Marxist tradition have generally provided the best guidance for determining the most significant macro-level variables affecting a political economic system. Marx himself emphasized the importance of the productive forces and economic structure of a society for understanding nearly everything else about the society. Lenin added an emphasis on the international context, both economic and military.

PRODUCTIVE FORCES AND ECONOMIC STRUCTURE

Following Cohen's (1978) interpretation of Marx's theory of history, I define productive forces as the means of production (including the instruments and raw materials of production) and labor power (that is, the productive capacity of producers). The economic structure of a society refers to its production relations, "the relations of effective power over persons and productive forces, not relations of legal ownership" (Cohen 1978, 63).

Economic structure is an important determinant of the relative bargaining power of different sets of actors. The nature and extent of effective power over persons and productive forces should indicate what groups are likely to have significant economic and political resources. For example, feudal economies empower nobles and inhibit rulers from taxing producers directly.

The organization of work, the markets in which producers are active, and the nature of their living arrangements are further consequences of economic organization. These factors have particular analytical importance in that they provide information on the capacity to engage in collective action. A knowledge of these factors can produce a road map of which groups are likely to organize and with whom they will ally or conflict (Brustein 1981, 1985; Brustein and Levi 1987; Bates 1987, chap. 3).

When we know what kinds of property the members of a class are entitled to own, we have an important guide to the distribution of economic resources and conflict in a society. However, the existence of unequal bargaining resources connotes neither control of the state by the dominant economic class nor a high probability of class political action. First, other

classes also exist and—as in the case of the bourgeoisie in late feudalism or the middle class in contemporary capitalism—often have bargaining power of their own. Second, classes do not always act as such. Major conflicts are as likely to be intraclass as interclass.

The level of development of the productive forces determines the economic structure. It also has fundamental effects on the transaction costs of rule. What is produced, how, and by whom delimits what revenues rulers can extract from producers. For example, subsistence agriculture creates less taxable material than industrial production for profit. Moreover, in the absence of a commercial and monetized economy, measurement costs are very high indeed.

Where technological and productive development is low, there will be less to tax and fewer means (and reasons) for measuring and monitoring the extraction of revenue. The growth of technology and increases in the stock of knowledge tend to correlate with a more productive economy, one in which—from the ruler's point of view—there is more to tax. They also correlate with organizational innovations—such as the firm, bureaucracy, or income tax—that make it less costly to tax a larger proportion of the population. Greater ease of taxation promotes government expansion by enabling rulers to supply more goods and services (Riker 1978). More revenue means more extended rule.

As the productive forces develop, there is also an increase in the specialization and division of labor. This has two consequences for transaction costs of rule (see, esp., North 1985). First, specialization increases the number of economic actors and institutions that require coordination. The market provides some of that coordination, but the provision of the infrastructure of transportation and communication is often left to the state. Second, increased specialization results in a larger number of interest groups who make demands on the state. The proliferation of interest groups increases the costs of negotiating and implementing policies. Rulers may come to depend on some of these interest groups, with obvious consequences for relative bargaining power. Yet rulers can often play the various groups off against each other, particularly when rulers gain control of the central place in the network of political exchange.

As the distribution of economic resources changes, so does the cast of characters with bargaining power in relation to rulers. Technological innovation can alter an already existing balance of power, as evidenced by the fate of the Armada. It can also make advantages in economic wealth by competitors irrelevant or secondary. For example, Philip of Macedon introduced the phalanx and reorganized the army when Macedon was no richer

and probably poorer than Athens. These innovations enabled him to engage in successful military operations that yielded increased economic resources, especially the gold mines of Amphibolis. The combination of, first, his technological and, then, his economic advantages with his strategic brilliance gave Philip such military superiority that he was able to unify Greece for the first time in history. Subsequently, Alexander was able to carry out his father's plan to conquer Persia, Egypt, and parts of what are contemporary India (Bury, Cook, and Adcock 1969).

Technology is one of the motors of long-term secular change for both Marxists (for example, Cohen 1978) and neoclassical economists (for example, North 1981). It can also be a catalyst to revisions of state policy. A major change in the technology of production, information, or management can make existing property rights inefficient and provide new power resources to old rivals or new actors. The efficiencies of large enclosed estates precipitated state-backed enclosure legislation. Lenin's ([1917] 1975) famous essay on imperialism documents how the growing dominance of monopolistic finance capital over competitive industrial capital led to significant changes in military and colonial policies.

The development of technology and the increase in specialization and division of labor are crucial factors in accounting for the involvement of the state in an ever-widening range of activities. Specialization in the division of labor promotes new demands on the state, and technological and organizational innovations make it possible to supply the goods and services in response to demands.

State structures evolve to correct market failures, but they also evolve in competition with the market. Rulers can manipulate constituent and agent demands to justify extensions of their rule and increases in their revenue. Moreover, increases in the stock of knowledge provide each generation of rulers with tools and strategies often unavailable to their predecessors. For example, the tendency of tax farming to serve the interests of the tax farmers better than the interests of the rulers has been discovered over time and in a variety of contexts. Thus, it is unlikely that even a Reagan or Thatcher would turn to the market solution of tax farming to replace the current government tax collection bureaucracy. On the other hand, a Reagan or Thatcher knows how to use the mass media in ways that even such successful pretelevision politicians as Roosevelt or Churchill did not.

INTERNATIONAL CONTEXT

International trade, overseas colonies, and other such aspects of the international political economy are also important in determining rulers'

available sources of revenue and their relative bargaining power. The bargaining power of rulers will be enhanced where producers are dependent on the government for tariff protection, regulated factor markets, and so on. It will also be enhanced when rulers have sources of revenue external to their domestic constituents (Kiser 1986-87). However, the extent to which rulers have a relative monopoly and a relative benefit from international trade vis-à-vis their constituents depends on the extent of international competition, the status of the ruler in that competition, the dependence of rulers on trade for revenue, and the bargaining power of the traders.

The bargaining power of the rulers will be reduced to the extent that subjects can make a better deal with an alternative ruler and to the extent that powerful constituents control external sources of revenue.

Thus, in the international context the important factors are (1) the existence of rival powers to whom constituents can flee or with whom they can bargain; (2) the ability of rulers, constituents, or individuals from other states to profit from the products being traded internationally; and (3) the importance of international trade as a possible source of revenue for the state.

FORM OF GOVERNMENT

Historically, several forms of government have existed. Monarchies, military dictatorships, oligarchies, and representative democracies hardly exhaust the possible list. Even within democratic polities, there is immense variation in electoral rules, power and number of legislatures, relationship between legislature and head of state, and other features. Each of the general forms and each of these distinct features of government have consequences for the decisions and actions of rulers or heads of state. They affect the bargaining strategies and resources available to citizens, the ability of rulers to use the public coffers as their own, the forms of agency that will be permitted or denied, the permissible types of inducements to compliance and punishments for noncompliance, and the nature of the rulers' rivals.

What is crucial for this discussion is that each major change in government has predictable consequences for transaction costs, discount rates, and relative bargaining power.

Rulers will try to alter forms of government to suit their purposes if they can. Indeed, rulers will try to alter all the constraints on their behavior. In the cases presented in chapters 4-7, I shall highlight those instances in which decisions made in response to one set of constraints have enhanced

or decreased the ability of rulers to negotiate better terms of trade at another point in time.

CONCLUSION

Variations in state policies over time and across countries are a consequence of variations in rulers' relative bargaining power, transaction costs, and discount rates. But rulers walk a tightrope. The pursuit of personal ends—within constraints—is the sine qua non of predatory rulers. However, such pursuit may antagonize allies and constituents and enhance the appeal of rivals. On the other hand, too many concessions to allies and constituents could undermine rulers' political and economic power. Rulers are always searching for means to increase their bargaining power and lower their transaction costs. However, what leads to one may block the other. Such dilemmas of predatory rule are consistent with the primary contradiction of economic development as put forward by Marx and Engels: The property rights that serve the dominant interests of society come into conflict over time with innovations in technology and economic organization and with the new and powerful classes these innovations create.

The theory of predatory rule differs from the classical Marxist approach in its focus on rulers rather than on the dominant economic class. It differs from the new state-centered structuralism in its emphasis on deductive theory, which simplifies political, economic, and social complexity as a means for better understanding state organization and policies. It differs from public choice and neoclassical economists in its recognition of power and the unequal distribution of power.

There are several advantages to this reformulation. First, by eliminating the emphasis on class as the primary historical actor and by investigating instead individuals or sets of individuals, the theory becomes more general. Class is not eliminated as an important factor, but class becomes a variable rather than a given. History ceases to be an eternal search for the rise of the next dominant class. Second, by focusing on rulers instead of the state, the theory avoids the anthropomorphism prevalent in many contemporary discussions of the state. After all, the state is an institution composed of people. Its actions and behavior are the end result of concrete human actions. Third, the deductive approach permits an identification of significant causal factors in the creation and maintenance of state policies. It simplifies "real world" complexity on theoretical grounds and makes the

generation and testing of hypotheses possible. In sum, the theory of predatory rule offers a micro-foundation to macro-processes.

There are also obvious limitations to the model. First, so far it remains in the domain of comparative statics. Another book would be necessary to analyze the transformations in the structural variables that affect transaction costs, bargaining power, and discount rates. In the next chapter, I take up the more tractable problem of the incremental changes in policy that occur over the life of the policy. Second, ideology may turn out to explain a great deal of variation in both ruler and subject behavior. This point will also be taken up in the next chapter. Third, the analysis of ruler behavior becomes considerably more difficult in modern polities or where rulers are a collection of individuals rather than a single individual. I addressed this point earlier and will again in chapter 7.

No theory is interesting unless it can be used to explain actual events and data. This chapter represents only a first step in that process. By laying out the assumptions and the major independent variables in the theory of predatory rule, I hope to have clarified how this theory might be used to account for variations in state policy. But the next step, the application of the theory, will decide the extent to which it can achieve all it sets out to do.

The case studies in chapters 4–7 have been selected from vastly different periods and places in history: Republican Rome, medieval and Renaissance France and England, eighteenth-century Britain, and twentieth-century Australia. By choosing cases from different periods of history and "modes of production," I hope to demonstrate the generality of the model.

The basis of selection was threefold. First, each case occurs in a period of transition, when there was a fundamental change in the structural factors that I posit as the determinants of transaction costs and relative bargaining power. This permits me to explore the influence of changes in relative bargaining power and transaction costs on revenue production policies. If the policies do not change in the expected direction, my model is disconfirmed.

Second, in each case the ruler has different powers and power resources and must bargain with different sets of constituents. Moreover, these powers and power resources change over the course of the period covered by the case. This permits evaluation of the influences of both ruler autonomy and class power on policy outcomes. It also permits me to compare instances where the ruler is the principal or the agent.

Third, each of the cases illustrates a different aspect in the history of transaction costs. Costs of monitoring, measuring, and enforcing policies change with new techniques and with extensions (or contractions) of citi-

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Of Rule and Revenue

zenship and citizen rights. The choice of cases permits exploration of both the influence of transaction costs and the interaction of one kind of transaction cost with another.

My model, if successful, will be consistent with history and will illuminate history. However, before proceeding to the empirical material, I wish first to engage in a brief excursus on state formation. Then I shall take up one additional question for theoretical elaboration: How do rulers create compliance with revenue production policies without constant resort to direct one-on-one coercion?

Excursus on the Acquisition of Rule

Before I proceed to the analysis of revenue production policies, let me take a quick detour to try out the theory of predatory rule on one of the primary issues of political theory: the question of state formation.

Rarely, if ever, in history has a state emerged full blown from society. In general, the term *state formation* refers to the consolidation or takeover of an organization that already performs at least some of the functions of a state. Nonetheless, the analysis of the related processes of formation and transformation remains an important aim of theoretical inquiry, and there are, consequently, innumerable theories of state genesis, ranging from relatively concrete and historical accounts¹ to philosophical exercises on the emergence of government from the state of nature.² One common argument is that the state evolves as a specialized agency of justice and protection when the population of a society exceeds that of a community able to engage in face-to-face interactions and generalized reciprocity. Once in place, the state makes it more likely that the society will survive and

¹ Anthropological accounts include Carniero (1970), Service (1975), Wright (1977), and Cohen and Service (1978). Sociologists and historians have also explored the question of state formation and transformation. For example, see Bendix (1978), Moore (1966), Anderson (1974a), Poggi (1978), Tilly (1975, 1985), and Mann (1977). While the anthropologists tend to focus on the emergence of an institution that can be labeled a state, these analysts tend to investigate the emergence of the modern state. One theorist who addresses the question across many time periods and countries is, of course, Weber ([1922] 1968).

² Political philosophers address the question of state emergence in still another way. The great works in this literature abound, but among the most important older texts are Hobbes ([1651] 1962), Locke ([1690] 1968), and Rousseau ([1762] 1950).

grow without splintering. There is considerable debate about what the relevant size is and what determines it.³ The focus here, however, is not so much on state formation itself as on how rulers achieve and maintain control over the state apparatus.

What is clear, from Hobbes to modern-day anthropologists, political sociologists, and economic historians, is that the first step in the process of state creation is to build a monopoly of organized violence. Both the provision of protection and the ability to engage in war are crucial aspects of state making, and both depend on the extraction of sufficient resources to pay for organized violence (North and Thomas 1973; North 1981; Tilly 1985). The great economic historian Frederick Lane argued (1958, 402) that "the violence-using, violence-controlling industry was a natural monopoly at least on land. . . . A monopoly of the use of force within a contiguous territory enabled a protection-producing enterprise to improve its product and reduce its costs." Both economies of scale in violence and the use of superior military capacity to defeat enemies enable government to monopolize protection.

But who benefits from this monopoly varies over time and place. So, too, does the ability of rulers to extract a surplus or, alternatively, to extract so much that the payer can no longer maintain production (Lane 1958, 403). The causes of variation lie in the political, economic, and military resources possessed by constituents and agents—that is, as Lane puts it, who "owns" the monopoly or, as I prefer to think about the issue, who can bargain with and/or control the predatory ruler.

Persons who wish to attain and maintain positions of rulers almost always face rivals. Much of history is the story of potential rulers vying for leadership of a state organization, and conflict seldom ceases with victory. Elected officials rarely lack opponents. Monarchs often worry about the Macbeths and Richard IIIs within their courts. Demagogues and charismatic leaders fear that another will prove more compelling than they. The internecine struggles that marked the Middle Ages in Europe, the fourteenth through the sixteenth centuries in Japan, and the nineteenth and early twentieth centuries in China are evidence of the difficulties faced by leaders who attempt to impose their rule in the face of strong competitors with relatively equal resources. Challengers from subjected populations can also put a ruler's position in jeopardy.

Rulers aim to develop sufficient coercive capacity to defeat rivals and maintain control over the countryside defined as their territory. Only in the

³ For a neoclassical economic view of these issues, see Auster and Silver (1979, chap. 2).

presence of a small, isolated community where all are unarmed except for the one person who possesses a six-gun is it possible even to conceive of rulers as able to obtain power without allies and support. This turns out to be a fanciful scenario even for the American West, where everyone, in fact, possessed a six-gun (Umbeck 1981). Rulers always depend on others for some of the resources necessary to acquire and sustain rule. They depend on the generals and even the soldiers of their armies, on the owners or managers of economic wealth, on the church officials who justify their status, or on the scientists or inventors of new technologies of force.

Moreover, few rulers can survive if they plunder all constituents. In Border and Sobel's (1985, 20–22) formal "theory of plunder," it is not in the interest of revenue-maximizing brigands to plunder, which is costly, if all they would get is what they would be offered in tribute. To elicit the most from the peasants in the way of tribute, rulers must make a credible commitment not to take more later. Both to ensure stable rule and to keep their costs down, rulers must offer positive benefits to "a minimum winning coalition" (Gamson 1961; Riker 1962) of the population in return for allegiance.⁴

Taylor (1982, 129–39) summarizes recent evidence on state formation in primitive societies where coercion is distributed relatively equally. One determinant is the presence of some strain—due to ecological pressures, external enemies, or both. Another determinant is limitations on emigration from or on fissioning of the existing community. Under the combined conditions of strain and high opportunity costs of exit, the population may agree—or be compelled—to trade some degree of liberty for state-provided benefits. The result, however, is the creation of an organization specializing in violence, an organization that benefits some more than others. In contrast with Engels's account ([1884] 1973), economic inequalities seem to follow rather than precede the concentration of coercive power into an organization with the characteristics of a state.

The transformation of a state that is able to make and enforce few property rights into a state that exercises considerable control over its population is also a function of strain and high opportunity costs of exit—although here economic inequality may well be a factor in causing strain. For example, Hechter and Brustein (1980; also see Kornmesser 1981) attempt to account for the pattern of state development in sixteenth-century western Europe by modifying Engels's argument that the state

⁴ Emerson (1983) neatly develops this point with reference to state formation in Baltistan.

"arose from the need to keep class antagonisms in check" but that "it is, as a rule, the state of the most powerful economically dominant class" (Engels [1884] 1973, 231). They observe that an absolutist state is necessarily based on a landed aristocracy but that in the sixteenth century there were three major modes of production in western Europe, and only in the feudal regions did the conditions exist for the emergence of modern centralized states. For them class competition is indeed the catalyst to state transformation, but only where the property rights of an economically dominant class are threatened by an encroaching class. In these circumstances the members of the stronger class will form a coalition to establish a state to enforce property rights beneficial to them. Their aim is to force their ruler on the rest of society while they still possess the military superiority that comes with economic and political dominance.

Whatever the catalyst, individuals will consider joining with others in a state organization only when they face a common enemy or problem. In the early stages, the benefit may merely be coordination into larger groupings. A state organization becomes necessary to prevent recurring competition among the members of the group. The underlying choice is between loss of economic advantages and the chance to protect or even improve these advantages. Groups develop only where the individuals who participate receive a larger benefit from joining than from abstaining. The benefit to each participant is a state capable of securing property rights, of minimizing the strains on the contracting population, and of enforcing the compliance of the others to a mutually beneficial policy. Generally, it is only through collective action that these ends can be achieved at all, for seldom does a single individual have sufficient resources to win the battle alone. Rulers tend to be heads of coalitions, to whose membership they are initially accountable.

The stability of the state organization, once it is formed, requires a mechanism for enforcing compliance with its rules and ruler. Otherwise, individuals who oppose the concentration of force in general or in the hands of a particular ruler will resist, and those individuals who seek the benefits of the state will free-ride. Over time, even the members of the ruling group may be distracted from their common purpose by the conflicts that arise among them. The concentration of coercive capacity in the hands of rulers is at the root of all mechanisms to ensure compliance, for rulers must have sufficient power to prevent shirking from and breaking of the most important contract terms.

One stunning example of several elements of this process was the agreement made by all rulers of the independent, nonunified, and often

competitive heads of the Greek kingdoms when they sought the hand of the most beautiful woman of her time, Helen, in marriage. Each wanted her enough to fight for her. Helen's father, fearful of making enemies of the rejected suitors, accepted the solution proposed by the "brilliant" Odysseus, who sought the hand of Helen's sister Penelope. The young king of Ithaca suggested that an oath be sworn by all the suitors to bear arms against any who subsequently tried to harm Helen's father or bridegroom and any who tried to abduct the bride. Agamemnon, brother of the husband chosen for Helen and a chieftain eager for power, became head of the coalition, and Helen became a property right protected by law and by the institution of an organization of defense, a metastate, to enforce the law. However, by the time Paris stole her off to Troy, several of the previous suitors no longer wished to honor the agreement they had made. Among these was Odysseus, whose famous wife had led him to seek the contract in the first place and to attempt to break it in the second. The agents of Agamemnon had to make the reluctant honor their agreements. All the kings sailed off to Troy and the infamous war that followed. The issue was no longer Helen but the invasion of property rights represented by her abduction.

This little story tells a tale of state development. Individual, self-interested actors are united in the face of threats to their individual and common property rights. The threat can be internal, external, or both. They form a coalition aimed at dominating the state apparatus, as a means not only to combat their common enemies and delimit their own destructive rivalries but, equally important, to enforce each individual's agreement to cooperate. However, they are successful only if they themselves give up power to a leader who then controls the apparatus of violence, is able to coordinate the members of the ruling group, and can ensure compliance through a selective use of rewards and coercion.

The victory of the ruling group does not signal the end of its members' problems with external competitors or with one another. Groups are unstable over time, with the members tending to revert to their original status as distinct and conflicting individuals. Most rulers have to exert considerable energy to hold a group together. Usually they must direct attention to new issues and threats that will invoke a recommitment to a contract of mutual support. Rulers often manipulate wars and crusades to this end.

Nor do all rulers prefer to maintain the coalition that helped them achieve power. Some rulers perceive the members of the coalition as their potential rivals and so practice a strategy of divide and conquer while

seeking to develop support elsewhere, perhaps in the people as a whole. Louis Bonaparte is the classic example of a ruler who broke with the coalition that put him in power (Marx [1852] 1974). The candidate of an uneasy alliance between the two major factions of the capitalist class, he played the factions off against each other while he appealed to the mass electorate, the peasantry. The success of this strategy was largely due to the conditions of peasant life, which prevented peasants from engaging in coordinated action on their own behalf; their only hope for economic improvement lay in the aggregation of votes, each an individual act, for a leader who represented their interests. Despite his initial success, this second Bonaparte was doomed to failure. Ultimately, his rivals, in this case the class that had gotten him elected in the first place, had sufficient resources to overthrow him, particularly given the failures of his military policy.

Because the interests of rulers differ markedly from those of their backers, tensions inevitably result, even when they do not take the extreme form of Bonapartism. Rulers are often agents whose principals seek to ensure the promotion of their own interests. While the victorious coalition will use the state organization to extract from the populace a disproportionate share of society's wealth, the original grant of power to the coalition's agent-ruler has created a rival. Similarly, while rulers will use control of the state organization to achieve personal ends, they are dependent on those who help them maintain their position. If rulers fail to deliver and fail to create an alternative base of support, they are likely to be overthrown.

A process of collective action underlies the acquisition and maintenance of rule. To become ruler requires first coordinating a group of individuals who face a common enemy or problem, but rule ultimately rests on control of resources necessary to enforce participation in the dominant group by the individuals who agreed to become its members. Successful rulers are those able to maintain the group, able to maintain its relative dominance over the opposition, and able to build sufficient coercive power to block rivals.

Such a view makes scholastic the distinction between conflict and contract theories of state genesis.⁵ All rulers are part of a contract, yet all

⁵ Bates (1987, chap. 2) makes a similar argument in his discussion of state formation in Africa through the process of political centralization. Using historical and ethnographic data on thirty-six African societies, he arbitrates competing claims of those who believe that the state promotes collective advantage and those who argue that the state is a mechanism of expropriation. He concludes that the "literature has offered a false choice" (41). The state is an instrument of those who seek private advantages, but to hold power requires concessions to followers.

engage in conflict. The contract is with those who agree with the selection of a particular individual as ruler; the conflict is with those who do not. The contract is with those who gain from the trade of revenue for protection and other services; the conflict is with those who are plundered or victims of a protection racket. The form of government—whether it be tyranny, oligarchy, or democracy, to use the classic three—reflects what percentage of the population is part of the contract every ruler must make. Bargains made with the constituents and agents on whom rulers depend underlie the acquisition and maintenance of rule. Rulers are always predatory, but they cannot always do as they please.

Creating Compliance

The establishment of revenue production policies, the subject of the last chapter, is a problem in comparative statics. Within a given set of constraints, rulers have a given set of options. Rulers bargain a tax policy at one point in time for future points in time. They are establishing the rules of the game. However, over time taxpayers may begin to feel their taxes are too high relative to what is received in return. Compliance becomes increasingly problematic among those who feel that they are not getting as good a deal as they bargained for. No compliance procedures will work forever. Knowledge of gains and losses, acquired over time, can alter choices. So can the transformation of relative bargaining power, which makes possible another, better contract.

The focus of this chapter is on what Brennan and Buchanan label "in-period" rather than "constitutional" choices (1980, 2-3). The emphasis is on the dynamic element in revenue policy, that is, variation in compliance with an existing tax contract. Tax evasion has become a major issue in the United States, Australia, and other advanced industrial democracies, but it has always and everywhere been a problem. My purpose is not to join the debate as to whether evasion is on the rise. My purpose is to investigate tax compliance as a strategic interaction between rulers and constituents and among constituents.¹ I hope to understand the means by which rulers can encourage as well as the conditions that increase or decrease compliance.

¹ There is an extensive economics literature on tax avoidance and evasion. Much of it is quite formal. For less formal analysis, see, for example, Kay (1979) and Feldman and Kay (1981).

A polity's rules and procedures for extracting and collecting revenue comprise its "fiscal constitution." The bargaining of this fiscal constitution establishes the operative definition of a fair revenue production policy. It also enhances expectations that compliance will be widespread. The creation of the initial revenue policy is usually a quite public event, accompanied by a high degree of negotiation from a wide range of potential taxpayers. The institution of tax farming in ancient Rome, of the national tax systems in France and England, of the income tax in Britain, and of the uniform income tax in Australia are all examples of such extraordinary events.

Once a policy is understood as a contract between ruler and agents or ruler and constituents, compliance with the contract becomes problematic. Immediately, the free-rider problem raises its omnipresent head. It is in each person's interest to make a contract and then break it, thus receiving the benefits without incurring the costs. No contract is ever perfectly specified. Enforcement is nearly always imperfect. Even with considerable coercive power and effective techniques of measurement and monitoring, a ruler cannot achieve total compliance unless there is a policeman on every corner, a fed under every bed. There is always room for shirking and cheating.

The problems of achieving compliance are exacerbated by the slow but steady transformation of the terms of exchange that accompanies the return of politics as usual. Special interest groups negotiate alterations in the contract favorable to themselves. Some people find ways to avoid and evade taxation. At the same time, the revenues collected by government enable it to grow in both scale and scope. It takes on more employees and new tasks. The defense establishment increases in size, or welfare programs expand beyond what they were when taxation was publicly discussed and established.

The ordinary taxpayers may not be attentive at first to the effects of these changes on the return they receive for their revenue, but at some point they are likely to come alive to any deteriorations in their situation and to government expenditures of which they strongly disapprove. It is then that noncompliance should increase,² thus setting the stage for a renegotiation of the tax contract.

In effect, rulers can reduce the costs of compliance in three ways: through the use of coercion, the establishment and maintenance of norms

² Heimer (1985, 209-14) raises some similar issues in her discussion of insurance fraud and outdated contracts.

of compliance or ideological compliance, and the creation of quasi-voluntary compliance. I shall take up each in turn, but my emphasis will be on the last. My major argument in this chapter is that rulers take advantage of or seek to create institutions that promote cooperation.

COERCION

Coercion, the Hobbesian solution to the social contract, underlies taxation policy. It is illegal to evade taxes. People who do not pay their taxes or who underreport taxable material face sanctions, often serious sanctions. Despite coercion and monitoring, individuals still cheat. No ruler eliminates noncompliance altogether.

It is costly to use coercion to enforce compliance. However, some technologies of enforcement are more expensive than others. One critical factor in the cost is the effectiveness and efficiency of monitoring. The easier it is to identify the noncompliant, the less costly is enforcement. Using communal institutions to collect revenue—for example, the Roman gens (see chapter 4)—makes coercion unnecessary; no one can hide. Withholding taxes on income achieves the same end in a large polity. The affected taxpayers have no means of evading and avoiding payroll taxes.

Monitoring is not always effective or cost-effective, however. For example, seventeenth- and eighteenth-century Britain was plagued by smugglers escaping customs and other taxes. The excise tax, on the other hand, was a model of effective monitoring—but at a very high price in surveillance of the excisemen (see chapter 6).

To lower, let alone prevent, tax evasion and avoidance, rulers seek cheaper and improved means for obtaining tax compliance. Government officials, past and present, have searched for alternative means of promoting compliance.

IDEOLOGICAL COMPLIANCE

Coercion induces compliance out of motivations of self-interest. However, individuals do sometimes act out of a strongly held normative or ideological conviction. Certainly, some proportion of behavior is nonrational, irrational, or imperfectly rational, or can be accounted for only by extrarational motivations. Such behavior is outside the model of rational choice. Nonetheless, ideologically motivated compliance is one important source of variation in compliance.³

³ Discussions with Lee Alston helped me considerably in my formulation of ideological compliance.

The problem with reliance on ideology (or norms) as a causal variable is that the concept still remains insufficiently specified and, therefore, difficult to separate from other factors.⁴ A better theory of the emergence of norms would represent a major step in providing social scientists with a useful concept.

There are attempts to do just that.⁵ One of the most promising is North's (1981, chap. 5; 1985). For North "Ideology consists of the set of individual beliefs and values that modify behavior. It can be measured by the premium people are willing to incur not to free ride" (1985, 394). North argues that ideology is most likely to influence choice where the costs of its use are low. For example, he points out, the independence and lifelong tenure of U.S. Supreme Court justices and the insulation of complex committee structures in which U.S. legislators operate account for why these two sets of actors are as likely to vote their consciences as their interests (North 1985, 394-95). Democratic rules in which citizens perceive their vote as having little consequence for the outcome may also promote ideological expression (Brennan and Lomasky 1985; also see Brennan and Buchanan 1984).

North makes a strong case that ideology matters. He begins to clarify the conditions under which ideology causally influences behavior independently of self-interest. He does this—as do I in my model—by treating ideology as a residual category for those situations in which self-interest is clearly not explanatory. However, ideology does not always promote compliance. Institutions that make ideological expression relatively cheap may elicit expressions of ideological dissatisfaction with the tax system. Moreover, North does not acknowledge that ideology also may intensify or confirm self-interested behavior.⁶ One would expect—with North—that where normative concurrence is costly, compliance will decline. However, one would also expect that compliance should be highest where ideology and self-interest reinforce each other. For example, an ideological conviction

⁴ A review of the best of the literature makes clear the difficulties with its use and definition. For example, Wilson (1973) and Moe (1980) are convincing in their argument that purposive incentives motivate some individuals, but they fail to offer observable measures of when and in what amounts such incentives exist. Hechter (1987, esp. chap. 2) and in his discussion of socialization theory in chap. 4) offers a useful critical perspective on the reliance on norms in social science explanations.

⁵ Ullman-Margalit (1977) makes an interesting, if not wholly successful, attempt to conceptualize norms from games. See the critique by Hardin (1980). Axelrod (1984) offers some insights. Hardin (forthcoming) and Coleman (forthcoming) promise progress.

⁶ North (1985, 394) explicitly states that he is "not concerned here with ideology when it merely justifies self-interested behavior" (my emphasis). However, the fact that many people may be doubly motivated by self-interest and by ideology makes that "merely" quite an important category for investigation.

tion in favor of a welfare state is at least part of the story of some contemporary compliance with taxation.

Rulers can promote institutions and structures that make compliance relatively cheap. Moreover, they can—and do—invest in rituals, symbols, and propaganda meant to encourage compliance. The problem analytically is to determine how much of the variance in compliance is due to ideology as opposed to positive inducements or the effectiveness of monitoring and coercion. From a ruler's point of view, however, promoting ideology *may* reduce the costs of enforcement. Certainly, rulers throughout history have believed that it does.

North's framework raises the question of the extent to which rulers can construct or take advantage of institutions that make it cheap for taxpayers to comply out of public-spiritedness or normative conviction. It is a tricky problem, for not complying can put more money in one's pocket while compliance most certainly takes it out. What kinds of institutions promote compliance is the subject of the next section. Here my concern is with the fact that ideology exists.

In the area of taxation, ideology affects compliance by defining existing norms of fairness. Rulers may try to socialize the population or mold the conception of fairness or justice to fit their policies. The factors affecting a ruler's ability to promote a particular ideology is beyond the scope of my text. I argue below that it is possible to model how the failure of rulers to live up to the prevailing norms of fairness undermines compliance. However, I am offering no theory on the emergence or transformation of the norms that underlie an existing tax contract. I attempt to specify the role ideology plays in the explanation of compliance, but I am not attempting to explain the source and content of the ideology itself.

QUASI-VOLUNTARY COMPLIANCE

One way that rulers can reduce the costs of enforcement is to create or encourage situations where taxpayers engage in quasi-voluntary compliance. It is *voluntary* because taxpayers choose to pay. It is *quasi-voluntary* because the noncompliant are subject to coercion—if they are caught. The fact that compliance is not only a matter of principle distinguishes quasi-voluntary compliance from ideological compliance. Taxpayers make a calculated decision based on the behavior of others. Nor is quasi-voluntary compliance purely self-interested behavior. It cannot be accounted for solely by coercion and only rarely by positive selective incentives.

Quasi-voluntary compliance will occur only when taxpayers have confi-

dence that (1) rulers will keep their bargains and (2) the other constituents will keep theirs. Taxpayers are strategic actors who will cooperate only when they can expect others to cooperate as well. The compliance of each depends on the compliance of the others. No one prefers to be a "sucker."

Quasi-voluntary compliance requires rulers to behave like political entrepreneurs (Frohlich, Oppenheimer, and Young 1971; Popkin 1979, *sup.* 259–66). To create and maintain quasi-voluntary compliance, rulers search for noncoercive strategies that produce a high level of constituent cooperation. They must create confidence in their credibility and their capacity to deliver promised returns for taxes. They must convince taxpayers that taxpayer contributions make a difference in producing the desired goods. They must coordinate the actions of taxpayers so that each perceives others doing their share, too.

I argue that rulers can increase compliance by demonstrating that the tax system is fair. A perception of exploitation—that is, an unfair contract—promotes noncompliance. Presumably, those who are "exploited" will resist paying if they can. Gains from trade and exploitation are not mutually exclusive, of course.⁷ However, if individuals are not getting the gains they bargained for or if they feel they are being "suckers," they will try to withdraw from the contract.⁸ Favoritism toward special interest groups, programs that they disapprove of, declining return for their taxes, the failure of some to comply can all violate taxpayers' norms of fairness. The consequence will be a decrease in quasi-voluntary compliance.

Dissatisfaction with the contract will have only a slight initial impact on compliance, especially among those whose only motivation for compliance is coercion. However, as dissatisfaction increases, more people will con-

⁷ Roemer's theory of exploitation (1982) as an unfair contract hinges on such a distinction. Also see North and Thomas (1973), who make this point in relation to feudal arrangements, and North (1981, 50). Brenner's (1982, 76–84) description of the deals between French peasants and kings in the sixteenth century demonstrates historically that gains from trade can exist side by side with exploitation.

⁸ Although taxation is a common enough historical rationale for rebellion, passivity is a more common response to taxation, even among those who would count as the most exploited—by any definition. Moore (1978, 455–57) recognizes this when he discusses exploitation as nonreciprocity that can exist even when people do not react to it. Moreover, people vary in their ability to resist. The same group can fluctuate over time, developing, losing, and then rediscovering its capacity to fight back (Shorter and Tilly 1974; McCarthy and Zald 1977; Levi and Hechter 1985; Scott 1985). Outright rebellion reflects improvements in the rebels' organizational capacity as often as it reflects changed relationships between rulers and ruled. However, resistance can take forms other than outright rebellion; for example, it can take the form of high productivity, individualistic tax avoidance, or even free riding. What causes resistance, I argue, is not only the recognition of exploitation but also, and more important, the ability to act. Resistance is as likely—indeed more likely—to come from those with resources as from those without.

sider noncompliance. As people break the law and get away with it, more people are likely to begin to break the law. Becker (1968), Stigler (1970), and Posner (1981) claim that government tries to find an efficient level of enforcement that suffices to deter most offenders while keeping costs down. In these models individuals use marginal utility analysis to calculate the expected net utility of committing a punishable offense. If, as Becker, Stigler, and Posner claim, effective coercion rests on a sufficient supply of deterrence to dissuade those considering lawbreaking, the coercive apparatus may be inadequate to deal with sharp shifts in noncompliance. In other words, quasi-voluntary compliance bolsters mechanisms of monitoring and enforcement. For that reason, if for no other, it is in the interest of rulers to act consistently with prevailing norms of fairness.

Quasi-voluntary compliance rests on the effectiveness of sanctions when enough constituents are already cooperating. Rulers can then focus scarce resources on those constituents most likely to be noncompliant. Most rulers calculate that the marginal cost of universal enforcement is too high. Most are willing to tolerate imperfect enforcement as long as they can ensure that there is relatively general compliance, which, I argue, requires quasi-voluntary compliance.

Quasi-voluntary compliance can work with or as an alternative to ruler-provided coercion. Those engaging in quasi-voluntary compliance are complying not out of fear of punishment; they are not being deterred in the Becker-Stigler-Posner sense. Indeed, in many instances they are choosing not to free-ride in situations where they are fairly certain of escaping detection. The decision to comply quasi-voluntarily has a normative root in that the compliant would prefer to promote the social good the tax bargain represents. But the decision also has a strong element of rational calculation. The importance of deterrence is that it persuades taxpayers that *others* are being compelled to pay their share.

Quasi-voluntary compliance is one aspect of what is generally labeled legitimacy. However, my formulation permits me to separate analytically (although not always empirically) the elements of legitimacy that rest on strategic calculations and gains from trade and those that rest solely on ideology, that is, norms and beliefs. Quasi-voluntary compliance can decline even if the ideological views of taxpayers stay constant. What changes is the bargain or the perception of the bargain rather than ideas about what a good or fair contract is.

My conceptualization of quasi-voluntary compliance is consistent with the logic of game theory and the logic of collective action. I am neither engaging in game theory here nor arguing that the game theoretic applies

ably to the complex and n -person situations I am investigating. Rather, I am identifying empirical versions of mechanisms that game theorists have suggested are effective for resolving problems of conflict, coordination, or cooperation. In particular, I argue that rulers try to establish or take advantage of institutions that transform problems of zero-sum conflict into matters in which individuals are best off when there is coordination or mutual cooperation.

Collective action generally has the structure of an n -person prisoner's dilemma (Hardin 1971, 1982). The returns from individual defection are higher than the returns from mutual cooperation. For Player X (whose choices are on the left), the payoffs in a game with Player Y (on the right) are:

	X	Y
1.	D,C	
2.	C,C	
3.	D,D	
4.	C,D	

where C = cooperation and D = defection; and where 1 is the highest and 4 the lowest payoff.

This is the collective action problem as posed by Olson (1965). It is also the Hobbesian world. In a one-play prisoner's dilemma, the dominant strategy is defection. The outcome is payoff 3. Individual rational action leads to both an individually suboptimal and a Pareto inferior outcome. Each defects, and everyone is worse off.

Tax payment to produce collective goods is, at least initially, a collective action problem. Individuals will always calculate whether they are better off complying or not complying. In many instances the dominant strategy is to avoid or evade payment even if the best social outcome is universal payment. Thus, rulers will try to alter individual calculations by changing the costs and benefits or the nature of the game.

MANIPULATING GAINS FROM TRADE AND THE NATURE OF THE COLLECTIVE GOOD

Revenue extraction represents an exchange with the rulers by those people who have some say in establishing its terms: citizens in ancient Rome, lords and nobles in medieval Europe, voters (through representative institutions) in modern democracies. Exchange requires gains from trade,

and gains from trade are the prerequisites of quasi-voluntary compliance. Unless there is a material benefit, the question of compliance becomes moot. But gains from trade are not the cause of quasi-voluntary compliance. Their very existence, particularly in the form of collective goods, is what makes the free-rider problem a dilemma.

Rulers offer constituents private as well as collective goods. In some cases this may be a direct exchange, in which free riding is not an issue. The sale of offices for revenue is an example. Protection rents are another. However, there are also many instances where one group pays while another benefits. This is a common complaint about the tax systems of all the advanced industrial democracies. It was also the concern of nobles whose monarchs could not tax the church and of colonials who watched their countries drained of resources to support a luxurious lifestyle in the imperial center. When those who do pay feel exploited—that is, feel they are in an unfair contract—they are less likely to comply quasi-voluntarily. Underlying quasi-voluntary compliance are norms of fairness as well as material benefits.

The potential for free riding is obvious when rulers offer collective goods in return for taxes. The most common collective goods are protection from internal and external enemies and the administration of justice, both of which presume the institution of property rights. However, these are the minimum a state provides. Even Adam Smith admitted that “the invisible hand” might leave some important areas of social life untended. In consequence, he argued, government would have to provide military defense, the administration of justice, and certain public works and institutions that no individual would have an incentive to fund (Smith [1776] 1937, 653–768).

It is to the advantage of most rulers to offer positively valued goods as well as sanctions that taxpayers wish to avoid. Frohlich and Oppenheimer (1974, 59) conclude a highly formal analysis of taxation policy, “Even when the taxpayer is only interested in maximizing the profit of a tax operation, they will not specialize in either coercion or the supply of positively valued goods. They will supply some mixture of the two for each level of expenditure.” Rulers will seek the “optimal mix” of threats and offers. It turns out that the kinds of positive goods provided, and the amounts provided, also affect quasi-voluntary compliance. Groves and Ledyard (1977) have demonstrated mathematically that the proper mix of collective goods reduces free riding.

Without a perceived benefit, there is absolutely no reason for a rational actor even to consider assuming the costs of taxation. War, the threat of war, depressions, wide-scale poverty, and natural disaster are among those

events that demand cooperative behavior. Throughout history rulers have used or even manufactured such events as a way to raise additional revenue—although, as we shall see in chapter 5, monarchs who regularly posed war threats that came to nothing found it increasingly difficult to convince revenue-paying constituents of their veracity or need. A more common theme in contemporary politics is the promise of economic improvement through expensive and expansionary programs. The deterioration of public school systems, the increase in crime and the breakdown in services despite major social programs, and, perhaps most important, the failure of Keynesian programs to prevent recession fueled the flames of tax revolts.

The existence of positive benefits increases the probability that taxpayers will comply quasi-voluntarily, without direct coercion. However, as long as the benefits are collective goods, they are more likely to produce than to solve free-rider problems.

There are some exceptions to this rule. The nature of the collective good may affect the level of quasi-voluntary compliance. The prisoner's dilemma flows most clearly from collective goods that can be modeled with a linear production function; that is, each contribution produces more of the good. Following Schelling's (1973) typology of binary choices with externalities, Frohlich and his colleagues (1975) demonstrate that strategic individuals may develop contingent, as opposed to dominant, strategies when the collective goods have either S-shaped or step production functions. What each does depends on what others do.

Protection in a small polity often has an S-shaped function (Emerson 1983, esp. 430–33). A contribution to a little protection is a waste of the contribution. A contribution to the “right” amount of protection can make all the difference in the world. If there is “enough” protection, contribution once again makes no difference.

Lumpy goods are represented by step functions (and are often called step goods). They require a certain level of contribution before any of the good is produced—for example, before a bridge is built or a polluted lake cleaned. In these cases taxpayers calculate that they receive a greater payoff from contributing than from defecting, if they are certain that others will also contribute. There is some question about whether the prisoner's dilemma characterizes the provision of lumpy goods,⁹ but lumpy goods certainly affect individual strategy. For example, Hirschman's description

⁹ Hardin (1982, 55–61) thinks that it can, but he admits that the application is not simple. On the other hand, Taylor and Ward (1982) think that many lumpy goods are best represented as chicken rather than prisoner's dilemma games.

of public education (1970, 45–52) exemplifies a lumpy collective good that rests on the contributions of a critical number. Once too many exit, decline will set in. It must be noted, however, that education, the environment, and other collective goods whose quality can be improved with increased contributions are lumpy goods with sloping risers. They have a linear production function after the initial production threshold is crossed. Thus, once minimum production is achieved, they may again take on the form of the prisoner's dilemma (cf. Hardin 1982, 59).

For many taxpaying is a binary choice: to pay or not to pay. Furthermore, it is a choice with externalities, for one's decision affects the amount of collective goods that are available to others—and, even, whether the good will be provided at all. Where there is a binary choice with externalities, the decision of whether to contribute may hinge on whether the good is lumpy or continuous, whether one values the good enough to pay for it oneself individually or as part of a coalition, and how many others are contributing.

There is one sort of lumpy good that clearly provokes contributions. Indeed, it poses no free-rider problems. All contribute, and the good is provided. If some do not contribute, the good will not come into being. Such a case is Hirshleifer's (1983, 371) mythical island where floods will wipe out everyone if even one property owner—and even the smallest landowner has access to the sea—does not build an adequate dike. Such collective goods have the structure of an assurance game (Taylor and Ward 1982, 353–54). Its payoffs to Player X (left-hand column) against Player Y (right-hand column) are as follows:

	X	Y
1.	C,C	
2.	D,C	
3.	D,D	
4.	C,D	

where C = cooperation and D = defection; and where the highest payoff is to 1 and the lowest to 4.

This is a game with two equilibria and no dominant strategy. Each will cooperate with the "assurance" that others will also cooperate, and each will defect in the absence of such assurance (see discussions in Elster 1979, 20ff. and 146; Elster 1983b, 29; Sen 1967).

In the prisoner's dilemma, the highest payoff is for individual defection as long as others cooperate. In the assurance game, it is for mutual

cooperation. Assurance games most clearly apply to disasters that can be prevented only with reciprocity practices. There will be no protection unless everyone contributes. Each has an effective veto over the provision of the good. Each perceives herself as making a difference, as being the "weak link" who can make or break the chain.

The socially optimal provision of the good is more likely to occur in this situation than where the situation resembles a prisoner's dilemma.¹⁰ Because it is an assurance game, disasters provoke heroism and self-sacrifice. However, the effective veto of the "weak link" also raises the possibility of blackmail.¹¹ One person can hold all the others up for ransom. The only protection against possible blackmail is a situation where the marginal benefits of a ransom would be less than the marginal benefits of cooperation. Either the potential blackmailer will lose too much should the ploy fail or depends too heavily on the future cooperation of the other players.

The achievement of mutual cooperation in an assurance game situation requires perfect information. Perfect information is possible only if it "is supplied from the outside (e.g. by the rulers acting as a coordinator) or if the community is sufficiently small and stable so that everyone can really come to know everyone else" (Elster 1979, 22). Information and coordination can also affect the outcome in large-number prisoner's dilemmas (Frohlich and Oppenheimer 1970, 119). If taxpayers sufficiently value the collective goods whose provisions are made possible, they may want to consider paying rulers for their services as coordinators. Certainly, rulers tend to claim coordination as an important task that justifies a charge beyond the cost of the collective goods.

It is not always clear how assurance games are established, nor are there obvious collective goods whose creation and maintenance depend on the contribution of all, or even most, of the population in large polities. Nonetheless, this brief excursus on assurance games highlights both the important entrepreneurial role of the rulers and the contingent calculations of taxpayers. These factors, I argue, affect taxpayers' behavior even when they are not players in an assurance game.

Assuming that taxpayers seek the goods and services for which taxes are being collected, the payment of taxes often has the structure of a prisoner's dilemma, in which the payoff from defection is higher than the payoff from payment. Rulers can alter this calculation by manipulating the nature of the collective goods so that an individual's strategy becomes contingent on

¹⁰ See Hirshleifer's (1983) discussion of the "weakest-link social composition function" as opposed to either the "best-shot" or the "summation."

¹¹ Philip Hoffman raised this point.

what others do. In the process, rulers may have changed the game from one of exchange (or cooperation) to one of coordination. Rulers coordinate taxpayers to assure them that others are also contributing. Rulers also coordinate sanctions. Indeed, they may need relatively few sanctions if they use them effectively, so that each individual calculates the likelihood of punishment to be high. One basis of ruler power lies in such coordination, particularly in the absence of organized protest.¹²

Even so, some taxpayers will not benefit at all, and others will always prefer to free-ride. For these people direct coercion is the sole cause of compliance. To ensure their cooperation is clearly a prisoner's dilemma problem.

Quasi-voluntary compliance affects those who desire a collective good enough to consider paying. These are the individuals who have ideological motivations for complying, that is, who believe the revenue production bargain is fair. Their cooperation is more a coordination than a prisoner's dilemma problem. With coordination rulers can increase the likelihood of compliance by those with a "taste" for compliance. The argument here is that such taxpayers will comply quasi-voluntarily only as long as they are confident that others are also contributing and only as long as they are relatively certain that the good will be provided once paid for. Thus, their quasi-voluntary compliance requires assurance not only about other taxpayers but also about the actual delivery of the perceived benefit. Before rulers can coordinate the expectations of cooperation, they must first become credible in regard to their own commitments. I shall take up this question next.

GAINING CREDIBILITY

The first task of predatory rulers in their efforts to create or maintain quasi-voluntary compliance is to provide reassurance that they will deliver the promised goods and services. Taxpayers will not voluntarily pay taxes if they expect to be duped by their rulers. Precommitment strategies are a principal means by which rulers provide this assurance, especially in large polities. Conditional cooperation can also be effective, especially in small polities or for small groups within a larger polity.

¹² In a recent paper, Hardin (forthcoming, p. 6) states, "The gunman theory might well be called the coordination theory of state power. It depends on coordination at the level of government and on lack of coordination at the level of any potential popular opposition. The state need not compel everyone at gunpoint, it need merely make it virtually in everyone's clear interest to comply with the law."

Precommitment Precommitment is a device for ensuring that individuals will carry out decisions in the future that were agreed to at an earlier time, that they will not succumb to "weakness of will." It provides "causal machinery that will add force to your inner resolution" (Elster 1979, 37). Precommitment involves a choice by the actor to submit to rules and punishments that make it impossible to act otherwise than previously committed (Elster 1979, esp. 37-47).

Since rulers, like other individuals, will be tempted to use tax money for unspecified, often personal, purposes, rulers precommit themselves to spend it as contracted. In modern democracies presidents and prime ministers submit budgets, to which they are then bound. The rulers have the "right to be sued" (Schelling 1960, 43; Hardin 1982, 211-13). They put themselves in a position to be sanctioned—or at least legally and publicly rebuffed—if they overstep the precommitted limits. Precommitment by the rulers can also involve abdication from power (Elster 1979, esp. 89-103). For example, Renaissance kings legally bound themselves to pay for taxes only for certain purposes. The result of these partially self-imposed restraints on their power is, in principle, an increase in the ability of rulers to collect the taxes they do impose.

A further precommitment strategy is for rulers to make themselves the residual claimants. They behave like self-policing entrepreneurs (Barzel 1983). The rulers bear the major and, often, the initial costs of providing the good or service and are the residual claimants of any surplus from the project for its creation, maintenance, or use. Thus, rulers have a double incentive to come through on their promises. Entrepreneurs in general (Popkin 1979, 263) and rulers in particular are demonstrably likely to front the start-up costs of the construction of silos, dikes, public buildings, and other public works, as well as the costs of providing protection and administration. Alternatively, rulers can make "credible commitments" by standing to lose valuable resources if they renege, by forfeiting "hostages," either literally or figuratively.¹³ The result of such strategies is an increase in ruler credibility and, presumably, an increase in quasi-voluntary compliance.

When rulers are clearly the principals, as were many traditional monarchs, they will design precommitment mechanisms that maximize their revenue in two ways. First, reassured by "credible commitments," constitu-

¹³ See Williamson (1983; 1985, chaps. 7-8) on the use of hostages in structuring incentives in the principal-agent relationship. Williamson claims that the hostage strategy is one of many ways around the prisoner's dilemma, which, in his view, is an overrated problem.

ents are presumably more willing to pay without direct coercion, thus minimizing ruler costs. Second, rulers will ensure that they receive significant rewards for fronting the necessary revenue or coordinating the necessary effort.

Rulers are sometimes the agents of constituents, however. This is arguably the case in contemporary democracies. The agent-rulers will still engage in precommitment that reassures their principal(s) yet maximizes their benefits. For example, a prime minister will threaten to resign if he does not receive parliamentary support on cherished legislation. On the other hand, the principal(s) will be trying to design incentives that provoke the best effort by the agent-rulers on behalf of the principals. The major problem is uncertainty about the future and lack of information about the extent of the actual effort, let alone what would constitute a "best effort." Periodic elections represent one such attempt to subject rulers to reevaluations that are meant to induce high performance.

Conditional Cooperation Between Rulers and Constituents Rulers also can achieve credibility by promoting conditional cooperation between themselves and constituents. The decision by constituents to comply quasi-voluntarily is reversible. Tax payment is an ongoing contractual relationship in which the decision to comply is continually being made and remade. Taylor ([1976] 1987), Hardin (1982), and Axelrod (1984), among others, have shown that with iteration defection may no longer be the dominant strategy. What each individual does becomes contingent on what others do.¹⁴ Moreover, if players have sufficiently low discount rates so that they care about future payoffs, the benefits of cooperation can outweigh the costs of defection. It then becomes rational to engage in a tit-for-tat strategy. The result is the evolution of "contract by convention" (Hardin 1982, chaps. 9–12)—that is, a tacit agreement to comply—or conditional cooperation (Taylor [1976] 1987, *passim*), in which one individual's compliance is conditional on the compliance of others.

Both contract by convention and conditional cooperation depend on the acquisition of information, although not necessarily perfect information, about the other players and on sanctions imposed by players on each other. A capacity to monitor is crucial (Hechter 1987). Repeat transactions provide such sanctions and information and enhance monitoring. These transactions can occur in the reciprocal relations of a community (Taylor 1982, esp. 25–38 and 91–94), the overlapping memberships of a larger polity (Hardin 1982, esp. chap. 11), or repeat market transactions.

¹⁴ This was Frohlich and Oppenheimer's point in their 1970 critique of Olson.

Conditional cooperation presumes sanctions that are neither centrally coordinated nor centrally provided. Within a group of people who share some common beliefs and norms and have multifaceted and reciprocal relationships, each person will cooperate only as long as others do. Conditional cooperation depends on the establishment of institutions in which the players not only engage in repeat transactions but actually perceive that they are engaging in repeat transactions with other actors. For conditional cooperation to be viable, each actor must have confidence that the others are indeed cooperating.

These factors enhance "common knowledge" (Schofield 1985) about the past behavior and preferences of the relevant actors and permit intelligent guesses about future behavior. A monarch with a reputation for renegeing will have a harder time getting nobles to pay taxes quasi-voluntarily than will a monarch with a reputation for keeping bargains.

Some historical parliaments were institutions that made conditional cooperation viable (see chapter 5). Parliamentary procedures tend to reveal both rulers' and members' preferences, and they can provide a forum for repeat transactions. Parliaments have evolved in all constitutional democracies as institutions that help keep rulers to their bargains. They also are important in ensuring that all the constituents who have agreed to comply (or are bound by the agreement to comply) actually come through. Members of parliament must continually meet each other again. In the Renaissance they depended on each other for defense and "good" (read profitable) marriages. In modern times they depend on each other for support of legislation, especially pork barreling and logrolling.

Conditional cooperation requires public discussion and public actions from time to time. The contributor then acquires and reacquires knowledge of both the current terms of the contract and the behavior of others. Parliaments fill this role neatly.¹⁵

However, not all parliaments—historically or contemporaneously—promote conditional cooperation. Military dictators and other rulers who monopolize most of the significant bargaining resources can bend parliaments to their wills. The consequence may be compliance, but it is hardly voluntary. It rests straightforwardly on coercion. On the other hand, the establishment of institutions that link potential contributors rather than keep them atomized can pose dangers to a ruler. The other side of compliance is defection, individual and collective. Should rulers break their

¹⁵ My analysis of the development of institutions within the state bears some similarities to Keohane's (1984) analysis of international institutions and regimes.

pacts, they face already organized resistance. Parliaments are both bulwarks for legitimacy and hotbeds of rebellion, a seemingly contradictory but nonetheless logical conclusion.

ENHANCING EXPECTATIONS OF COOPERATION

Quasi-voluntary compliance requires taxpayer confidence that other taxpayers will keep their side of the bargain with the rulers, that is, pay their taxes. I have already argued that conditional cooperation among parliamentary members provides one device for promoting and monitoring the compliance of others. Rulers can also enhance the expectation of taxpayer compliance through the use of selective incentives, the promotion of conditional cooperation through communal responsibility for taxes, and more general coordination.

Selective Incentives The most straightforward way for rulers to provide assurances that others are paying is to get them to pay. The Olsonian solutions to noncompliance are, of course, side payments, other selective inducements, and coercion.

Side payments in the case of taxes generally go to already privileged groups. The relationship between mobile assets and bargaining power (Bates and Lien 1985) has already been noted. Contemporary corporations may threaten to leave one state for another if their taxes are not kept low. A monarch might offer a position in the court in exchange for tax compliance. Merchants and industrialists engage in rent-seeking behavior that wins them protective tariffs. These and other examples suggest that side payments are most effective for appeasing those with significant bargaining resources—especially those constituents from whom it is better to get some tax than no tax. Relative bargaining power can determine the kinds of tax reductions, cutbacks, extra services, or other concessions a constituent receives. It is difficult to imagine cases where rulers use positive inducements to obtain quasi-voluntary compliance with tax payment among ordinary citizens.

The fear of coercion obviously increases compliance. Auditing and other monitoring devices that increase the probability of being caught make the threat of sanctions more effective. However, if coercion is straightforwardly the reason people pay their taxes, then they are simply complying. Quasi-voluntary compliance is not at issue.

Conditional Cooperation Among Constituents Historically, rulers have promoted communal institutions as a means of administering a polity indirectly and with low cost. This in effect creates conditional cooperation among the members of the community, who then produce social order or enforce a policy among themselves.

A modern example that has little to do with revenue production but everything to do with promoting conformity, encouraging self-sacrifice, and enforcing discipline is the institution of the Committees for the Defense of the Revolution (CDRs) in Cuba.¹⁶ Developed during the Bay of Pigs, the CDRs were organized as local military units. Each neighborhood had its own CDR, and everyone in the neighborhood belonged. By 1974 the members of the CDRs were supervising each other's behavior; that is, they saw to it that everyone kept to the rationing and other rules. The CDRs also were organizations for discussing any proposed new laws. This feature enabled people to voice objections, which would then be carried through the organizational network to the center. It also ensured that everyone understood the provisions of the laws and could monitor each other's behavior. Compliance became quasi-voluntary in that state coercion and monitoring were seldom needed.

Relatively small units have similarly benefited historical revenue collection. The gens, tribes, and centuries, connected by family and ethnic ties, were responsible for the collection of certain revenues in the Roman Republic (see chapter 4). The manor was the locus of revenue production during the medieval period. Root (1987) provides an account of the resurrection and use of communal institutions to collect taxes for the king in *ancien régime* France. Such arrangements lower the transaction costs of measurement and monitoring by creating or maintaining small groups. If the groups are small enough and their members have overlapping activities, they may promote conditional cooperation.

The state can use such groups to its advantage. Olson's federal solution is one in which the central government provides sufficient incentives to its constituent units so that they mobilize the individuals in the smaller group to contribute to the provision of collective goods (Olson 1965, 62–63). In other instances the state, an encompassing organization, may “piggyback” its aims on extant and more narrowly focused organizations (see Hardin 1982, 43–44).

In the cases cited, the constituents monitor and enforce policies among

¹⁶ This discussion of the CDRs, organizations built around where people live, is based on my own observations in Cuba in 1974. Taylor (1982, 125–26) discusses moral incentives, a similar policy in Cuba.

themselves. They control each other, not the rulers. The use of a hierarchical federation of gens, villages, or even states and provinces as a device for overcoming the collective action problems of revenue production evolved in response to complex problems of monitoring and control in relatively primitive technological and political economic conditions. As central governments develop sophisticated techniques that enable them to control and monitor individuals more easily, the device of federation is superseded.¹⁷ Decentralization occurs frequently enough, but few decentralized units qualify in size as small groups where there is regular face-to-face interaction and a strong sense of mutual interdependence. Where decentralization is established as a means to reduce free riding, my argument implies that alternative forms of control and monitoring are too costly.

Nonetheless, rulers can use one of the principles that underlies conditional cooperation—namely, the necessity of a low discount rate—to their advantage. The discount rate will vary with the kinds of collective goods taxes are meant to pay for. War encourages people to exploit resources in the present; otherwise, there will be no future about which to be concerned. Education encourages long-term planning among people with children or among employers who benefit from the skills an education imparts. National parks are not everyone's idea of recreation but are priority for protection by those people who highly value the preservation of a natural environment as their playground. Despite all the differences among people and among goods, it is possible to imagine, nonetheless, that many taxpayers will have a low discount rate relative to at least some bundle of goods their taxes are meant to cover.

This suggests that rulers who want to promote quasi-voluntary compliance should offer collective goods that take time to provide and that their constituents are likely to continue to value over time. Rulers who rely on wars as the primary means to gain consent to taxation often find themselves in serious fiscal difficulties once the war is over. Urban development, industrial planning, and competition to produce superior weaponry are more likely (but hardly certain) to promote continuing quasi-voluntary compliance.

Coordination and Loyalty Another means available to rulers for promoting quasi-voluntary compliance is to coordinate the populace by providing information and assurances that others are in fact cooperating. Most

¹⁷ I thank Russell Hardin for this observation.

important, rulers must coordinate sanctions in such a way that the potentially compliant are convinced the sanctions can and will be directed at others.¹⁸ Even when people prefer to pay, they still require assurances that others also are paying. Otherwise, they will feel like “dupes” and “suckers” who must reconsider their own willingness to contribute. Thus, rulers invest in deterrence that constituents perceive as directed toward others.

In addition, rulers spread the knowledge that noncompliant individuals are being punished. Specifically, they publicize accounts of high levels of compliance and quash publicity about outbreaks of evasion and avoidance. They also make speedy, effective, and, again, public reprisals against tax rebellions and resistance.

Part of the purpose of ruler coordination is to promote loyalty to the regime. By clarifying their role in producing and promoting contributions to valued collective goods, rulers enhance their own value to the taxpayers. Rulers are most successful at such self-promotion when there is uncertainty that enough people will contribute to make provision of the collective good viable. When there is certainty, the rulers receive little credit for achievement. Only in conditions of uncertainty will their role receive the kind of appreciation that promotes loyalty and what Emerson (1983, 433–37) labels “authority-validating coalitions.” The “function of loyalty,” as Hirschman (1970, chap. 7) points out, is to maintain a level of compliance and contribution when noncompliance becomes most attractive—that is, in the face of competition, deteriorating collective goods, or exit by others.¹⁹ Loyalty, as defined here, contributes to quasi-voluntary compliance and results from the coordinated and contingent contributions of taxpayers to valued goods. It is a strategic decision based on the calculation of costs and benefits.

CONCLUSION

Unless they are coerced, induced, or otherwise motivated to pay, constituents will minimize their tax payments or, should the circumstances permit, try to get out of paying them altogether. My claim here is that some of the variation in compliance is accounted for by the extent to which, given a belief that they are benefiting from the tax contract, taxpayers are assured that both other taxpayers and the rulers will live up to the contract. If the

¹⁸ This is one of Emerson's (1983) important insights in his discussion of state formation in Baltistan.

¹⁹ Frohlich and Oppenheimer (1974, 53–56 and 60) offer an interesting formal analysis of the “loyalty function.”

terms of the contract shift without the consent of the taxpayers or if taxpayers can negotiate a better bargain, noncompliance should increase. If there begins to be evidence that rulers are not delivering promised goods and services or that others are not paying their share, defection should increase.

The argument is often made that rulers or government can reduce the transaction costs of enforcing a contract by an "ideology" in which people are duped into believing that it is in their interest to comply; by concerted "socialization" of people into feeling a responsibility to comply; or by "legitimization" of a policy, so that it appears to be offering what people expect is their due. The terms *ideology*, *socialization*, and *legitimization* have come to mean almost as many things as the people writing about them, but the definitions usually include a strong dose of what Marxists call "false consciousness" or what rational choice theorists might label irrational behavior. It is uncontested that people sometimes act contrary to their own interests, but my claim is that people generally understand their situation.²⁰ They either have no choice, or there are incentives to comply. One of the incentives may be ideological, that is, a taste for compliance with a fair contract. However, without assurances that the contract is indeed fair, compliance will decline.

By conceptualizing quasi-voluntary compliance as a rational act responsive to certain specified factors, I have attempted to clarify what part of variation in compliance is due to quasi-voluntary compliance, as opposed to coercion and norms. Strictly normative compliance occurs in the absence of either coercion or assurances of fairness. It is nonstrategic voluntary compliance. It is neither coerced nor quasi-voluntary. Quasi-voluntary compliance, on the other hand, combines strategic interactions and norms.

Quasi-voluntary compliance is a way to reconceptualize legitimacy. If legitimacy means generalized consent to rules of conformity enforced by rulers on the polity, the concept of quasi-voluntary compliance is, I believe, a first step in developing a more precise model of how consent is manufactured and achieved.

Quasi-voluntary compliance rests on norms but is backed by material incentives and by coercion.²¹ The material inducements with which I am concerned include but are wider than financial rewards, standard of living,

²⁰ Several sociologists have made similar arguments although they have reached their conclusions by quite different methods than mine (see, esp., Moore 1978; Abernethy, Hill, and Turner 1980).

²¹ I concur with Stinchcombe (1968, 160) that "A legitimate right or authority is backed by a nesting of reserve sources of power set up in such a fashion that the power can always overcome opposition." However, I think this definition is too narrow.

and working conditions, the kinds of incentives Przeworski (1985a, chap. 2) discusses in his elaboration of consent in advanced capitalism. They include the sanctions, incentives, and reciprocity practices that produce social order and conditional cooperation without central state- or ruler-imposed coercion (see, for example, Taylor 1982). Laiten's description (1985) of the resurrection of tribes and tribal authorities by the English colonial authorities is a nice case in point.

There are, of course, other definitions that share with this one a primarily material, as opposed to normative, basis. One of the most common, derived from Weber, is that what is legitimate is what it is legal for rulers to do. Legitimacy then becomes a resource of rulers.²² The focus tends to be on what attributes rulers possess and manipulate rather than on how the rulers find or manufacture the appropriate means to achieve consent.

To minimize the costs of enforcement and to maximize the output that can be taxed, rulers have to create quasi-voluntary compliance. Quasi-voluntary compliance rests on reciprocity. It is a contingent strategy in which individual taxpayers are more likely to cooperate if they have reasonable expectations that both the rulers and other taxpayers will also cooperate. The key lies in what rulers and other government officials do to create mutual expectations of tax payment. They might establish institutions that promote conditional cooperation or contract by convention. They might emphasize collective goods that have the structure of assurance games or that have S-shaped supply functions. They certainly have to provide coordination, whose costs they may use to justify even more taxes. Moreover, increased dependence by constituents on coordination by rulers tends to enhance the power resources of rulers. The empirical chapters of this book (chapters 4-7) investigate some of these possibilities.

The achievement of significant quasi-voluntary compliance within a population is always tenuous, however. Individuals will be less likely to continue to comply quasi-voluntarily if they suspect that others are not complying. If multiple defection makes it unlikely that the valued collective good will actually be provided, the benefit of compliance is even further reduced. On the other hand, the continued provision of the collective good, despite considerable noncompliance, would make contributors wonder

²² Elchman and Uphoff (1971, 73-89) discuss legitimacy in relation to taxation and, as I do, note that it requires an exchange between the taxer and taxed. However, they then proceed to argue that legitimacy is a resource of statesmen derived from their authority and political prestige. Przeworski (1985a, 141) argues, "Legitimacy thus refers here not to any states of mind . . . but merely to the correspondence between the uses of force and the rules which specify when it can and should be used." Although this formulation makes legitimacy a resource of the rulers, their major concern is consent formation.

why they are the ones bearing the burden. In either scenario, free riding, once begun, is likely to increase. Once quasi-voluntary compliance has declined, it is extremely difficult to reconstitute. Its reestablishment often requires an extraordinary event—such as war, revolution, or depression—that makes people willing to negotiate a new bargain.

Consequently, rulers or governments must try to keep benefits derived from defection low and the advantages of compliance high. A failure to make clear the gains from trade, a change in tax law that encourages (or at least does not adequately discourage) individual defection, or publication of the extent to which free riding is taking place will all have the effect of increasing noncompliance.

The cost to the rulers of occasional defections lies less in the loss of revenue than in the possibility of massive free riding. Therefore, Axelrod argues, government will overinvest in deterrence and punishment in order to secure its reputation for toughness (1984, 155). But does this action constitute “overinvestment” if the alternative is massive noncompliance?

There is one other aspect to the creation of compliance, a social consequence that should not be overlooked. Even in the Hobbesian formulation, rational, self-interested actors prefer cooperation. Hobbes advocated imposition of a strong state to enable people to achieve the peaceful and cooperative social order they actually wanted. The prisoner’s dilemma is the war of all against all. However, once peace or, in this case, the benefits of mutual cooperation are secured through precommitment, conditional cooperation, and coordination, people will be able to operate according to the golden rule—but only as long as they believe that others are doing the same.

Revenue Production in Republican Rome

The motives that had restrained dreams of personal glory (and enrichment) and of the aggrandizement of the Roman People in accordance with the censor’s ritual prayer, had largely been social and political ones. They had gradually ceased to operate. . . . After Sulla, men could seek power and profit without fear of really firm opposition.

Ernst Badian
Roman Imperialism in the Late Republic

The story of taxation during late Republican Rome exemplifies the institutional responses of a simple state to an increasingly complex political and economic environment. Territorial expansion and growing specialization and division of labor led to realignments in the traditional distribution of power. Experiments with new techniques of taxation occurred within a context of intense rivalries for rule and new economic and political resources. The costs of achieving compliance increased with the transformation of the institutions of governance and with the imposition of taxes on non-Roman peoples. This was a period of transition in both the economy and the government. The constraints on rule were transformed.

This chapter has two goals. The first is to demonstrate that changes in relative bargaining power, transaction costs, and discount rates have determinant effects on the choice of the form of taxation. The second is to demonstrate that changes in the constraints on rulers¹ will determine how likely they are to use revenues to promote the general welfare or to advance personal ends.

The case study focuses on the rise and demise of tax farming and on the variation in opportunism (or what Pareto labels spoliation) by tax farmers and rulers. Tax farmers purchase contracts to collect revenue in a given area

¹ Although Roman historians generally contend that the concept of ruler is meaningless in the late Republic, particularly with the rise of the Gracchi, there were few years that could be designated as lacking in rulers by my definition.