

A Theory of Political Favoritism and Internal Conflicts

SHORT VERSION SLIDES

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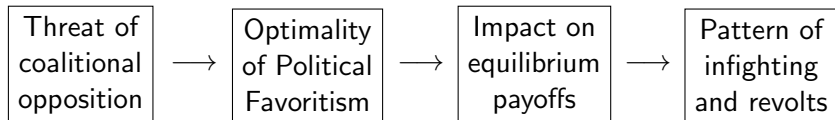
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Preview

Throughout history, rulers with no monopoly over violence

(Medieval Europe, Inka Empire, China, Swazi society, Colonial Empires ...)

- ① systematically resorted to
 - **Political favoritism**: organizing social groups into ranks and granting privileges based on relative status;
 - **Regressive** policies, as richer groups obtained higher status.
- ② with similar implications for internal conflicts:
 - Resentment of **lower ranks** as driver of revolts;
 - Ambition to **rise in the ranks** as cause of subjects' infighting



Closest literature: Acemoglu, Robinson & Verdier 2004; Francois, Rainer & Trebbi 2015; Besley & Persson 2010, 2011.

Model: two phases game

- Society divided in $n + 1$ groups (warlords, ethnic groups, geopolitical units, interest groups..)
- Each group i endowed with economic resources B_i and military resources W_i , affecting odds of winning any dispute.
 - Economic resources produce military power according to a continuous and convex function $w(B_i)$.
- **Phase 1: Conflict**
 - Groups fight to change the distribution of resources in society.
- **Phase 2: Taxation**
 - One group (the ruler) demands taxes ($T_j \in [0, B_j]$) from each subject.
 - If every subject pays, payoffs of subject j and the ruler are:

$$B_j - T_j \quad \text{and} \quad B_{ruler} + \sum_{\ell=1}^n T_{\ell}$$

Taxation Game

- Subjects choose whether to pay taxes or resist ($i \in \text{resist}$).
- Resisting induces disutility c . If resistance is successful, resisting subjects pay no taxes, otherwise their payoff is 0.
- Probability of success is share of military controlled by resistance:

$$\frac{\sum_{i \in \text{resist}} w(B_i)}{w_{\text{tot}}} \quad \text{where} \quad w_{\text{tot}} = \sum_{j=1}^{n+1} w(B_j)$$

- Endogeneity of *resist* allows for cascade effects: j would join the resistance iff

$$\frac{\sum_{i \in \text{resist}} w(B_i)}{w_{\text{tot}}} B_j - c > B_j - T_j$$

Taxation Phase: Timing

- 1 The ruler announces tax vector \mathbf{T} .
 - 2 Subjects observe \mathbf{T} and sequentially choose whether to *resist*.
- Lemma 1: the order of play of subjects does not matter.
 - All results hold with subjects' simultaneous moves, selecting the ruler's least preferred equilibrium.
- ⇒ the largest resisting coalition compatible with \mathbf{T} will form.
- Lemma 2: there is no resistance in equilibrium.
- ⇒ Ruler must avoid individual as well as coalitional resistance.

How to deal with coalitions

- Consider two identical subjects with $w = w(B)$. Their expected payoff from joint resistance is

$$\frac{w + w}{w_{tot}} B - c$$

- Symmetric strategy:** avoid resistance matching expected payoffs

$$B - T_i = B - T_j = \frac{w + w}{w_{tot}} B - c$$

- Divide-and-conquer:** meet the expected payoff of one group to isolate the others. Offer the following:

$$B - T_i = \frac{w}{w_{tot}} B - c < B - T_j = \frac{w + w}{w_{tot}} B - c$$

Examples of divide and conquer

- Example from Late Medieval/Early Modern “textbook for Kings”:

Jul 1465	• Louis XI of France besieged in Paris by coalition of magnates. They start negotiations.
	• Louis' strategy: <i>satisfy all demands of the strongest. With strongest on his side, erode demands of 2nd-strongest. With 1st and 2nd pushing for peace, better deal with 3rd. ...</i>
Oct 1465	• Treaty of Saint-Maur-des-Fossés: “Louis had succeeded in imposing, on princes sworn to have his skin, a treaty which dismissed their armies by concessions that mocked their demands”

- Divide-and-conquer logic at the basis of political status quo also according to Kant, Madison, Coke, and European colonial officers.

Optimality of Political Favoritism

Theorem (Optimality of Political Favoritism)

In any SPE, if we rank subjects based on economic resources (i.e. $i < j$ if $B_i > B_j$), then

$$B_i - \hat{T}_i = \frac{w(B_i) + \sum_{\ell > i} w(B_\ell)}{w_{tot}} B_i - c$$

- **Political favoritism:** systematically order social groups into ranks and grant privileges based on relative status
 - even identical subjects assigned to different ranks (thus different tax).
 - richer groups obtain higher rank (thus a lower tax rate).
- Privileges backed by military power of lower-ranked groups.

Social Unrest: Pattern of Revolt

- Suppose something goes wrong:
 - behavioral type who revolts,
 - subject with higher than anticipated resources,
 - unanticipated solidarity among different groups.

Then

- Resistance is triggered.
- If subject i resists, all subjects ranked lower than i would follow.

⇒ **Rebellions fueled by poorest and most discriminated groups.**

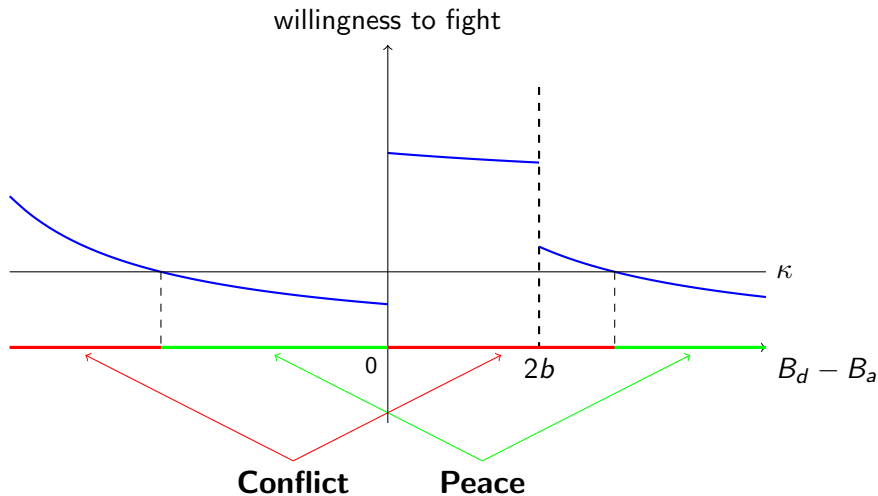
Social Unrest: Subjects' Infighting

- In contemporary societies there seems to be “a connection between changes in group relative incomes and subsequent conflict” (Ray & Esteban 2017, p.277)
- **Subjects' Infighting:** Stochastic and possibly inefficient transfer of resources from one subject to the other whose odds depend on relative military power.
- **Illustrative Setting:** Subject a has the option to attack subject d and induce the following change in the distribution of resources:

$$\begin{cases} (B_a^1, B_d^1) = (B_a^0 + b, B_d^0 - b) & \text{with probability } \frac{W_a}{W_a + W_d} \\ (B_a^1, B_d^1) = (B_a^0, B_d^0) & \text{with probability } \frac{W_d}{W_a + W_d} \end{cases}$$

- Let $\kappa > 0$ be disutility from conflict.
- No side-payments: limited commitment

Conflicts Between Subjects



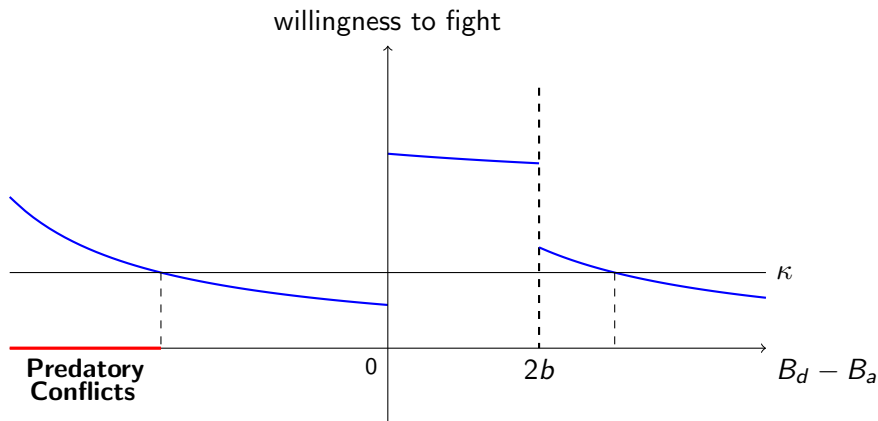
Logic: Interdependence

Order subjects from weakest to strongest; i 's equilibrium payoff is

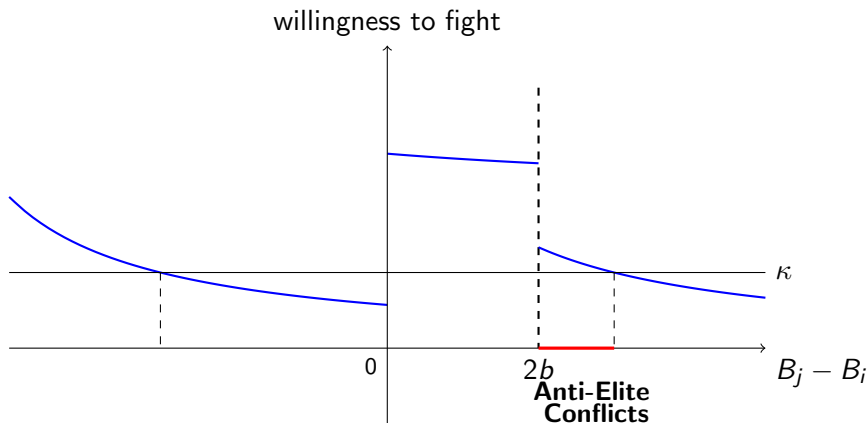
$$\hat{V}_i(\mathbf{B}) = \begin{cases} B_i \frac{W_i}{W_{tot}} - c & \text{if } W_i < W_1 \\ B_i \frac{W_i + W_1}{W_{tot}} - c & \text{if } W_1 < W_i < W_2 \\ \dots \\ B_i \frac{\sum_{j \in I} W_j}{W_{tot}} - c & \text{if } \max_{\ell \in I} W_\ell < W_i \end{cases}$$

- Positively affected by the resources of lower-ranked subjects
- Negatively affected by the resources of higher-ranked subjects
- Discontinuity when i becomes stronger than another group

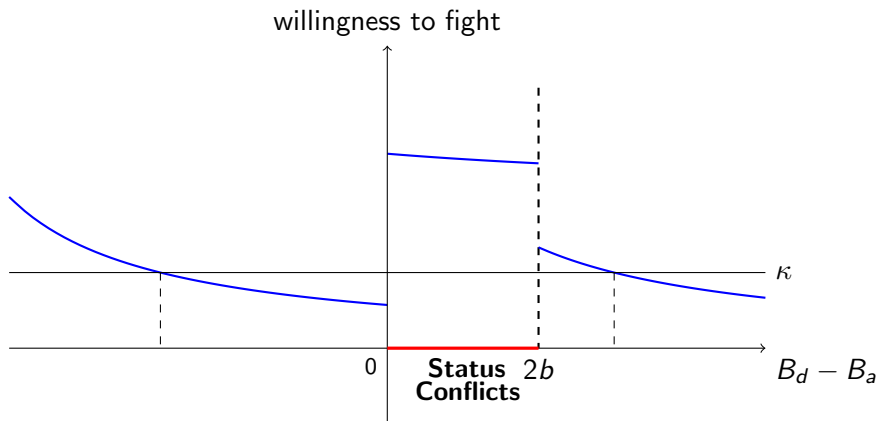
Conflicts Between Subjects



Conflicts Between Subjects



Conflicts Between Subjects



Focus: Subjects' Infighting in Early Modern Germany

- Status gains depend on changes to relative rather than absolute levels of endowments.
- ⇒ conflicts may be rational even if both the winner and the loser end up with a smaller endowment than before.

Subjects infighting (seigneurial wars) in Early Modern Germany:

- One of the most “salient characteristic” is the **disproportion** between value of contested rights and costs of conflicts (Zmora 2020, p.221);
- But “[u]nderlying all [conflict motives] was the concomitance of the **competitions** over accumulation and concentration of land-lordship and territorial lordship” that “were in large part controlled or distributed by princes.” “[Seigneurial wars] brought [winners] to the fore and then closer to the prince (..) [and] [t]heir status rose concordantly” (Zmora 2003, pp.116-118)

Extensions

- Endogenous ruler:
 - Despite the ruler being fully extractive, the strongest group would gain the largest support (\Rightarrow polarization correlates with civil wars).
- Non-discriminatory taxation:
 - Poorest groups would protest in equilibrium.
- Alliances and Common identity:
 - If two groups are able to credibly act as one they benefit, the ruler loses, and other groups weakly lose.
 - If there is uncertainty on whether the union holds then there might be resistance in equilibrium, some of the members might be worse off, the ruler is worse off, and some of the excluded groups might benefit.

Conclusion

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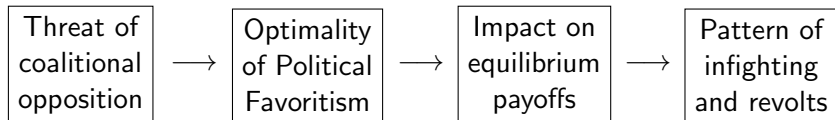
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Thank you!

Theoretical Literature Review

1) Distribution of political rents in the shadow of violence:

- Coordination of subjects, but no personalized offers.

Acemoglu & Robinson (2000); Shadmehr & Bernhardt (2011)

- Personalized offers, but no coalition-building.

Acemoglu, Verdier & Robinson (2004); Francois, Rainer & Trebbi (2015)

RQ: Optimal policy with both coalition-building and personalized offers?

2) Internal conflicts:

- General motives: resource appropriation.

Baliga & Sjöström (2010); Bates, Greif & Singh (2002); Mitra & Ray (2014); Dal Bó & Dal Bó (2011)

- State-based motives: genocides, civil wars/coups, repression.

Besley & Persson (2010, 2011); Esteban, Morelli & Rohner (2015)

RQ: Impact of government policies on subjects' infighting?

Determinants of Social Status: Militarization Index

- Suppose that subjects that do not resist are loyal to the ruler:

$$f(W_{resistance}, W_{ruler}, W_{loyal}) = \frac{W_{resistance}}{W_{tot}}$$

Theorem (Militarization Index)

Status is determined by the order of militarization index $\theta_i = \frac{W_i}{B_i}$.

Re-ordering subjects s.t. $\theta_n \geq \theta_{n-1} \geq \dots \geq \theta_1$, we have:

$$T_i^* = \underbrace{\left(1 - \frac{\sum_{j=1}^i W_j}{W_{tot}}\right)}_{\text{Tax rate decreasing in } i} B_i + c$$

Note: higher B_i , more to lose; higher W_i , greater externality on others.

Determinants of Social Status: Economic Resources

- Suppose that economic and military resources are related:

$$W_i = g(B_i)$$

with $g(x)$ and $\frac{g(x)}{x}$ increasing in x , e.g. g convex.

Theorem (Optimal Regressive Taxation)

Status is determined by the order of B_i and optimal taxation is regressive. Re-ordering subjects so that $B_n \geq B_{n-1} \geq \dots \geq B_1$ we have

$$T_i = \underbrace{\left(1 - \frac{\sum_{j=1}^i W_j}{W^{tot}}\right)}_{\text{Tax rate decreasing in } i} B_i + c$$

- From now on we assume $W_i = B_i - S$.