

How Is a Dictatorship (Not) Like a Firm?

Scott Gehlbach*
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*Based on work with Zhaotian Luo (Chicago) and Spencer Pantoja (Stanford)

Dictatorships as Firms: Metaphors

Organizations

- ▶ East German Stasi was the “Firm” (Bruce 2010)



Dictatorships as Firms: Metaphors

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- ▶ East German Stasi was the “Firm” (Bruce 2010)
- ▶ Chinese Communist Party is the “Organization” (*zuzhi*)



Dictatorships as Firms: Metaphors

Leaders

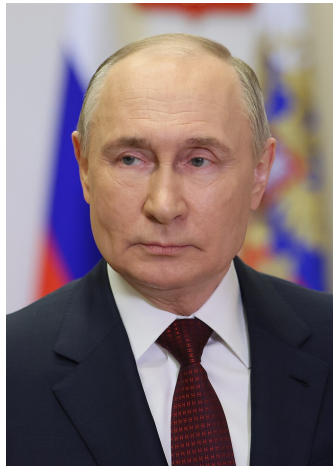
- ▶ Deng Xiaoping was “CEO” of Great Leap Forward (Chung 2013)



Dictatorships as Firms: Metaphors

Leaders

- ▶ Deng Xiaoping was “CEO” of Great Leap Forward (Chung 2013)
- ▶ Putin is CEO of Russia (Treisman 2011: “his true vocation not political but business”)



Dictatorships as Firms: Metaphors

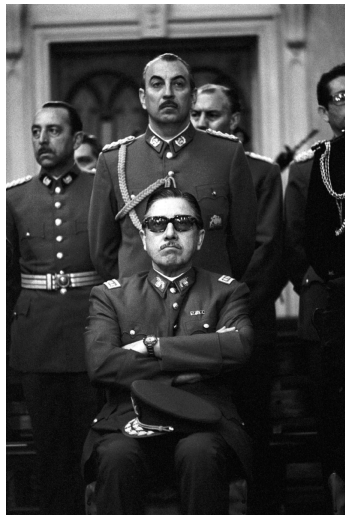
Goals

- ▶ “Tinpot” dictators minimize expenditures / maximize profits (Wintrobe 1990, 1998)



Dictatorships as Firms: Metaphors

Governance: Dictators have “executive suites” of varying loyalty and competence (Schubert 2024)



Dictatorships as Firms: Metaphors

Industrial organization:

Contemporary autocracies collude, operating “not like a bloc but rather like an agglomeration of companies” (Applebaum 2024)



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► Common characteristic: **hierarchy** (nested agency relationships)

- Firm: management/workers, shareholders/management
- Dictatorship: rulers/agents (bureaucrats, security services, media), citizens/rulers
 - Simon (*Administrative Behavior*, 1947): formal hierarchy vs. informal authority
 - Svoboda (2012): authoritarian power-sharing, authoritarian control

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- ▶ Various theories of the firm, distilled by Gibbons (2005) as arguments related to:
 1. **Rent-seeking** (Williamson 1971, 1979, 1985; Klein et al. 1978)
 2. **Property rights** (Grossman and Hart 1986; Hart and Moore 1990; Hart 1995)
 3. **Incentive systems** (Homstrom and Milgrom 1994, 1994; Homstrom and Tirole 1991; Holmstrom 1999)
 4. **Adaptation** (Simon 1951; Williamson 1971, 1973, 1975, 1991; Klein and Murphy 1988, 1997; Klein 1996, 2000a)

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 4. **Adaptation** (Simon 1951; Williamson 1971, 1973, 1975, 1991; Klein and Murphy 1988, 1997; Klein 1996, 2000a)
- ▶ Markets and firms coexist, but a visitor from Mars might conclude that it is markets that are exceptional (Simon 1991)

Why Dictatorships?

- ▶ Why not... markets? Why not democracies? Possible answers:
 1. Dictatorship is efficient, relative to other forms of governance (essentially no empirical evidence)
 2. Dictatorship is inefficient, but society is incapable of bargaining to an efficient outcome

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 2. Dictatorship is inefficient, but society is incapable of bargaining to an efficient outcome
- ▶ Why inefficient political institutions?
 1. Transaction costs in political market (North 1990)
 2. No third party to enforce contracts (Acemoglu 2003)
 3. Voluntary agreements and free riding (Olson 1993; Dixit and Olson 2000)

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- ▶ Democracies are exceptional: autocracy is the “natural state” (North, Wallis, and Weingast 2009)

Looking Ahead

- ▶ Contrast **governance** of dictatorships and firms—two “unexceptional” organizational forms
- ▶ Bracket transitions between autocracy & democracy
- ▶ Summarize prevailing (and preliminary) explanations for variation in autocratic institutions
- ▶ Offer some suggestions on boundaries of the dictatorship (vis-à-vis market and democracy)

How Is a Dictatorship *Not* Like a Firm?

Superficial differences

- ▶ Contracts (firms) vs. propaganda and censorship, co-optation, repression (dictatorships)
- ▶ But firms manipulate information (e.g., earnings), and co-optation and repression are just forms of contracts

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Deep differences (of degree $\Rightarrow$ of kind)

- ▶ Dependence of incentives on **survival of principal**
- ▶ Availability of **formal** contracts
- ▶ Ability of agent to **replace** principal

First Difference: Incentives Depend on Survival of Principal



- ▶ Reelection in 2001 with 76% of the vote
- ▶ “A landslide first-round victory is a must—one can never know if the bureaucracy would change its mind in between the two rounds.”
- ▶ Promises/threats only good so long as ruler remains in power

Motivating Effort Under Uncertain Rule

- ▶ **Uncertainty** about ruler's hold on power **reduces power of incentives**
 - Repression more expensive $\Rightarrow$ less likely to be employed (Tyson 2018)
 - Old and ill rulers must spend more to retain loyalty (Bueno de Mesquita and Smith 2025), [Video](#)
 - Related: Poorly performing rulers less likely to be replaced if *selectorate's* hold on power insecure (Besley and Kudamatsu 2008)

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- ▶ **Electoral manipulation incentivizes effort**
 - Electoral manipulation $\Rightarrow$ *agent* effort (Gehlbach and Simpser 2015)

Gehlbach/Simpser (and related models)

- ▶ Election does not *directly* determine ruler's survival but, in equilibrium, may provide information about ruler's hold on power
- ▶ Manipulation observable but only probabilistically determines election outcome (Blackwell experiment, Bayesian persuasion)
- ▶ Ruler has limited control over effectiveness of manipulation (Rundlett and Svolik 2016: decentralized electoral fraud)

Gehlbach/Simpser: Implications

- ▶ Manipulation more likely when **manipulation is moderately effective**
 - Too low: not worth the cost
 - Too high: not persuasive
- ▶ Manipulation more likely when bureaucrat's (marginal) wage w large, i.e., manipulation more likely when **bureaucrat is dependent on ruler**

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 - $\rightarrow$ Electoral manipulation $\Rightarrow$ *incumbent* effort (Farace 2025)

Second Difference: Formal Contracts Are Unavailable

- ▶ No third party to enforce contracts $\Rightarrow$ incentivize effort?
- ▶ The Leviathan problem
- ▶ Solution suggested in details of *Leviathan* frontispiece



Institutional Substitutes for Formal Contracts

- ▶ Building blocks
 - Councils, legislatures, and ruling parties are ubiquitous in autocracies
 - Institutions function as **commitment mechanisms** (North and Weingast 1989; Acemoglu and Robinson 2000, 2001, 2006)

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 - Institutions function as **commitment mechanisms** (North and Weingast 1989; Acemoglu and Robinson 2000, 2001, 2006)
- ▶ **Common knowledge** enables coordination among agents, which ties the ruler's hands
 - Members of ruling coalition observe compliance with power-sharing agreements (Boix and Svolik 2013; Luo and Rozenas 2023)
 - Captains observe compensation of other captains (Myerson 2008)
 - Party cadres (investors) observe expropriation of other cadres (Gehlbach and Keefer 2011)
 - Citizens observe whether elections held (Fearon 2011)

(Simple) Myerson: Environment

- ▶ **Ruler** faces challenge to rule at $t = 1$, again at $t = 2$ if survives first period
- ▶ Each of two **agents**, $i = 1, 2$, chooses effort

$$e_{i1} \in \{0, 1\},$$

$$e_{i2} \in \{0, 1\} \text{ if ruler survives first period}$$

- ▶ At $t = 1$, again at $t = 2$ if ruler survives first period, ruler survives with probability

$$1 \text{ if } e_{1t} = e_{2t} = 1$$

$$\lambda \text{ if } e_{1t} \neq e_{2t}$$

$$0 \text{ if } e_{1t} = e_{2t} = 0$$

(Simple) Myerson: Timing

Period 1

1. Each agent $i = 1, 2$ chooses effort, $e_{i1} \in \{0, 1\}$
2. Ruler survives/not
3. If ruler survives, provides wage w_i to each agent i (not contractible, not constrained to be same for each agent)

Period 2 (if ruler survives first period)

4. Each agent $i = 1, 2$ chooses effort, $e_{i2} \in \{0, 1\}$
5. Ruler survives/not

(Simple) Myerson: Analysis I (Institutions)

Institutions: Payment of wages is publicly observed (council, legislature, party)

- ▶ Agents coordinate on *Effort* in Period 2 if and only if Ruler has paid *each* agent $\bar{w}$, where $\bar{w}$ incentivizes mutual *Effort* in Period 1
- ▶ Ruler prefers paying both agents if $\underbrace{R - 2\bar{w}}_{\text{Pay 2}} \geq \underbrace{0}_{\text{Pay 0}} > \underbrace{-\bar{w}}_{\text{Pay 1}}$

Myerson: Analysis II

No institutions: Each agent observes only her own wage payment

- ▶ Ruler can renege on paying wage to one agent and still receive effort from the other
- ▶ Ruler prefers paying both agents if

$$\overbrace{R - 2\bar{w}}^{\text{Pay 2}} \geq \max \left(\underbrace{0}_{\text{Pay 0}}, \overbrace{\lambda R - \bar{w}}^{\text{Pay 1}} \right)$$

- ▶ (Potentially) stricter condition to pay both agents than with institutions $\Rightarrow$ harder to incentivize effort

Myerson: Key Implications

- ▶ Institutions facilitate coordinated punishment (cf. Levin 2002 on multilateral contracting and Fahn and Zangarone 2022 on transparency in relational contracts)
- ▶ Only *strong* rulers have commitment problem that institutions can solve

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 - Citizens observe whether elections held, elections themselves mechanism for accountability (Fearon 2011)
- Also: authoritarian institutions are **fora for bargaining** ⇒ reduced transaction costs (Gandhi and Przeworski 2006, 2007; Gandhi 2008)

Third Difference: Agent Can Replace Principal



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- ▶ Illustrative cases
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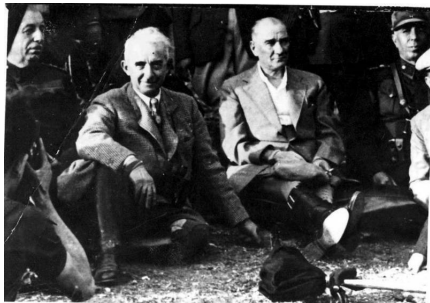
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Relational Contracts in the Shadow of Coups

- ▶ Gehlbach, Luo, and Pantoja (2025): **dynamic** agency model with **matching** in which **agent can attempt to replace principal**
- ▶ Stable regime: compensation, effort, no coup attempt
- ▶ Equilibrium matching
 - Incompetent rulers earning high “natural” rent from office are more likely to rule “alone” (Idi Amin principle)
 - Rulers recruit agents who are neither too competent nor too incompetent (Molotov principle)
 - Competent rulers are more willing to recruit competent agents (Atatürk principle)

Stepping Back: How Is a Firm *Like* a Dictatorship?

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- ▶ Ability of agent to replace principal
 - Workplace democracy, socialist self-management
 - OpenAI: Ilya Sutskever simultaneously Chief Scientist and board member

Varieties of Autocracy

- ▶ Autocracies vary greatly, and most obviously, in presence of institutional substitutes for formal contracts
 - Institutionalized ruling **parties** (Gandhi and Przeworski 2007, Gehlbach and Keefer 2012)
 - (Competitively elected) **legislatures** (Wright 2008, Gehlbach and Keefer 2012)
 - **Power-sharing** arrangements (Meng et al. 2023)

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 - **Power-sharing** arrangements (Meng et al. 2023)
- ▶ Does autocratic governance matter for autocratic performance?
 - **Survival** (Svolik 2012, Geddes et al. 2018)
 - **Conflict** (Weeks 2012)
 - **Investment and Growth**
 - Early work (Gandhi 2008, Wright 2008, Gehlbach and Keefer 2012), then pause
 - Blattman, Gehlbach, and Yu (2025): To the extent there is an autocratic growth penalty, it is concentrated in personalist regimes

Whence Variation in Autocratic Institutions?

- ▶ We know not enough! (Whence variation in firm governance?)
- ▶ Two ideas:
 1. Governing coalitions must be immune to **holdup** (Myerson 2010; Gehlbach and Keefer 2011; Luo, Liu, Qiu, and Yu 2025)
 2. **Revolutionary coalitions** determine post-revolutionary institutions (Colgan and Weeks 2015; Geddes et al. 2018; Levitsky and Way 2022; Meng and Paine 2022; Clarke et al. 2025)
 - Shared experience $\Rightarrow$ mutual trust (Luo 2024)
 - Leaders more likely to share power (e.g., less likely also to serve as minister of defense)

Boundaries of the Dictatorship

- ▶ We know not enough! (Still working on boundaries of the firm)
- ▶ Media control
 - Bargaining between ruler and private media involves **transaction costs** (Besley and Prat 2006)
 - Temptation to nationalize media (“make” media bias) greater when advertising market large (Gehlbach and Sonin 2014)

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- ▶ Repression
 - Violence can be outsourced (paramilitaries, Romanian miners)
 - Dilemmas of repression: **guardianship dilemma** (Meng and Paine 2022; Paine 2022), **dictator's dilemma** (Wintrobe 1990, 1998; Gehlbach, Luo, Shirikov, and Vorobyev 2025), **punisher's dilemma** (Bueno de Mesquita et al. 2024)

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- ▶ Local self-governance (**China**: Oi 1992, Walder 1995, Ang 2016, Martinez-Bravo et al. 2022; **Imperial Russia**: Nafziger 2011; Castañeda Dower, Finkel, Gehlbach, and Nafziger 2018)

Final Thoughts

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- ▶ SIOE is the ideal community in which to realize these gains from trade

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(Simple) Myerson: Preferences

- ▶ Ruler
 - Receives exogenous payoff $R > 0$ if survives through second period
 - Bears cost equal to endogenous wages paid, $w_1 + w_2$
- ▶ Each agent i
 - Bears exogenous cost $c > 0$ each period exerts effort
 - Receives payoff equal to endogenous wage w_i
 - Receives exogenous payoff $r > 0$ if 1) ruler survives through second period, and 2) exerted effort in second period (continuation payoff)
- ▶ Assume

$$\lambda r < c < r < \left(\frac{2 - \lambda}{1 - \lambda} \right) c$$