

POWER, PHILANTHROPY, AND PRESTIGE: THREE ESSAYS ON THE
ECONOMICS OF NON-PRICED ENVIRONMENTS

by

Charity-Joy Acchiardo
A Dissertation
Submitted to the
Graduate Faculty
of
George Mason University
in Partial Fulfillment of
The Requirements for the Degree
of
Doctor of Philosophy
Economics

Committee:

_____ Director

_____ Department Chairperson

_____ Program Director

_____ Dean, College of Humanities
and Social Sciences

Date: _____ Spring Semester 2013
George Mason University
Fairfax, VA

Power, Philanthropy, and Prestige: Three Essays on the Economics of Non-Priced
Environments

A Dissertation submitted in partial fulfillment of the requirements for the degree of
Doctor of Philosophy at George Mason University

by

Charity-Joy Acchiardo
Master of Business Administration
Monterey Institute of International Studies, 2009
Bachelor of Science
Excelsior College, 2002

Director: Christopher J. Coyne, Professor
Department of Economics

Spring Semester 2013
George Mason University
Fairfax, VA

ACKNOWLEDGEMENTS

I am very grateful for the many people who supported me in this effort. My advisor, Chris Coyne, was incredibly encouraging and patient with me. His guidance and many practical suggestions helped me through this process to its timely completion. I am proud to be among his first dissertation students. My other committee members, Dick Wagner and Pete Boettke, also strongly influenced this work through their lectures, writing, and conversation. I am honored to have had the opportunity to get to know, learn from, and work with this committee. Mary Jackson is a ray of sunshine that brightens the entire department. I am so grateful for her smiles, hugs, chats, chocolate, and constant encouragement – as well as the reminders to take care of all the administrative requirements of the program. I am blessed to call her a friend. My fellow students enriched my experience in the program. So many come to mind right now; I am so fortunate to have been surrounded by such a wonderful group of people. I am especially grateful to Dima Yazigi, Ryan, Langrill, and Jesse Gastelle for their friendship and our many lunchtime conversations. They challenged my reasoning, sharpened my arguments, made helpful suggestions and inspired new ideas, but most of all, they were there so I didn't have to make this journey alone. Walter Williams set the foundation for my economic reasoning as I began the program and continued to support me both financially and with his knowledgeable counsel. He will remain an inspiration for me. I am also grateful to the Weaver family for their financial support.

I had an extraordinary support system outside the university as well. My parents, “Bob & Pop,” spent many hours listening to me tell of my troubles and triumphs throughout these four years. They always supported, encouraged, and rejoiced with me. Thank you for the many prayers and pep talks. My brother, Dave, and his wife, Holly, were also a great source of encouragement. It is nice to have a brother who intimately understands both the pain and joy of writing and can empathize with me in that way. My extended family supported me with love and prayer as well. Janet Everhart was at first my roommate but quickly became my cherished friend. I am so very grateful that I was able to be a part of her home. She helped me keep my sanity and an anchor to the world outside of GMU’s economics department. Likewise, Michelle Hayes made sure I put down my books occasionally and went out for some girlfriend time. I treasure our friendship. Finally, and most importantly, I acknowledge and express my deep gratitude to my Lord and Savior, Jesus Christ who has taught me many things through this part of my journey. I know there are many more to be learned.

TABLE OF CONTENTS

	Page
List of Figures	vii
Abstract	viii
Introduction	1
1. The Dictator's Knowledge Problem.....	2
2. Unintended Returns: The Unplanned Role of Nonprofits in The Economy and Society	5
3. The Jasmine Revolution: Sweet Fragrance for all Tunisians?	6
4. Conclusion.....	8
The Dictator's Knowledge Problem	10
1. Introduction	10
2. The Literature: Separate pieces of the same puzzle	13
3. The Dictator's Knowledge Problem.....	16
3.1 Who Supports and Who Opposes?	19
3.2 Which Means of Support?	21
3.3 Exogenous Factors.....	22
3.4 The Dictator-Citizen Relationship.....	23
4. Feedback Mechanisms to Resolve the Dictator's Knowledge Problem	27
4.1 Legislatures.....	30
4.2 Business and Professional Associations	34
4.3 Protests	36
4.4 Is One Mechanism Better Than Another?	40
5. Conclusion.....	41
Unintended Returns: The Unplanned Role of Nonprofits in The Economy and Society. 43	
1. Introduction	43
2. The Nonprofit's Unplanned Roles	45
3. The Roles of the State	51

4. Changing Roles and Incentives	54
5. Responding to Incentives: Unintended Consequences.....	58
6. Conclusion.....	64
The Jasmine Revolution: Sweet Fragrance for all Tunisians?.....	69
1. Introduction	69
2. Consultation and Constitutions	74
3. Historical Narrative	78
4. Reason and Revelation	85
5. Conclusion.....	89
Conclusion	91
References.....	96

LIST OF FIGURES

Figure	Page
Figure 1: Regimes of Reason and Revelation.....	86

ABSTRACT

POWER, PHILANTHROPY, AND PRESTIGE: THREE ESSAYS ON THE ECONOMICS OF NON-PRICED ENVIRONMENTS

Charity-Joy Acchiardo, Ph.D.

George Mason University, 2013

Dissertation Director: Dr. Christopher J. Coyne

Monetary prices provide buyers and sellers with the information they need for economic calculation and direct their resource allocation decisions. However, in some situations these decisions are made in the absence of prices and alternative guides must be used. Decisions may be informed by an elite few or may incorporate knowledge disbursed among many individuals. This dissertation looks at how the political environment influences how information is discovered and used and the subsequent effects on political and economic outcomes.

The first essay analyzes the “dictator’s knowledge problem” with particular emphasis on the process through which a dictator discovers the necessary information to maintain his position of power. Three alternative information revelation mechanisms employed by dictators – legislatures, business and professional associations, and protests – are analyzed. The analysis clarifies the informational role of these features in real-

world dictatorships and shows why institutional arrangements that at first appear counterintuitive to the principles of dictatorship make sense when one realizes the primacy of the dictator's knowledge problem. The second essay examines the process nonprofit organizations engage in to discover how they create value for their stakeholders and how that process is affected when the state is included as a stakeholder. At each step in the process, nonprofits serve valuable economic and social functions that can be impeded when the state becomes a stakeholder. The third essay looks at how social beliefs in Tunisia regarding the authority and knowledge of the ruling elite contribute to the persistence of institutions that determine the allocation of resources and political power. Though Tunisians appear to participate in the process of political and economic change described by current models, they continue to repeat the same cycle without lasting change due to the lack of constraints placed on the ruling elite.

INTRODUCTION

Monetary prices provide buyers and sellers with the information they need for economic calculation and direct their resource allocation decisions. However, in some situations these decisions are made in the absence of prices and alternative guides must be used. Decisions may be informed by an elite few or may incorporate knowledge disbursed among many individuals. This dissertation looks at how the political environment influences what information is used and subsequently affects political and economic outcomes.

The following sections give a brief overview of the essays that follow. The first explains how a dictator engages in a process to uncover knowledge that aids him in deciding whether to allocate his resources to repression or reward in order to avert a revolution. The second discusses a similar process employed by nonprofits to guide them in the use of their resources and why it is important to take into account how nonprofits attain and act upon local knowledge instead of simply evaluating their output. It considers the effects of government intervention on the process and shows how those effects are not constrained to the provision of public goods but also have other important social and economic repercussions. The third essay investigates the persistence of political and economic institutions in Tunisia as a result of social beliefs that hold a

powerful government, and specifically its leaders, responsible for planning the provision of public goods.

1. The Dictator's Knowledge Problem

Modern political economy models of dictatorship are based on equilibrium analysis that assumes the dictator has perfect information regarding citizens' preferences for the regime. With this information, the dictator can factor in his own preferences and come up with a solution for the exact amount of repression and reward needed to avoid a revolution and maximize his wealth. These models divert attention from the true nature of the dictator's problem – determining privately held preferences in a dynamic environment. This essay corrects this oversight by developing a theory of feedback and information revelation based on the assumption that dictators do err in their calculation.

Current theories of dictatorship recognize that the dictator must decide how to allocate scarce resources. They also go to great lengths to identify the different pieces of information necessary for the dictator's calculation and how they all fit together in a static state of equilibrium (Acemoglu & Robinson, 2009; Bueno de Mesquita, Smith, Siverson, & Morrow, 2003; Haber, 2006; Wintrobe, 1998). To illustrate this point, consider the model Acemoglu and Robinson present in which elites are bound by a revolutionary constraint and must choose between repression, redistribution, or democratization to maintain power (2009). To make this decision, the costs of each of the three choices must be accurately determined as well as those of the potential revolutionaries. This includes knowing variables that quantify wealth that will be destroyed if there is a revolution, citizens' preferred tax rate, and non-pecuniary benefit

from participating in the revolution, to name just a few. Furthermore, they assume that if the citizens' cost of revolt falls below the costs of the status quo, the citizens are able to resolve the collective action problem inherent in revolution and revolt. There is little room for error on the part of the dictator.

The same problem exists in Wintrobe's *The Political Economy of Dictatorship* (1998). Interestingly, during the first part of the book, he emphasizes the problem that imperfect information creates for the dictator. The "Dictator's Dilemma" is that he does not know to what degree citizens would support him were they not incentivized to do so by his use of redistribution and repression. Yet his model in which the "dictator's task is to face up to this state of uncertainty and devise and maintain a set of incentives that leads the subjects to make the right decisions" assumes that the dictator knows the optimal mix of incentives to prevent a revolution. Should he fail in this task, the dictator will be deposed.

Recognizing that the dictator does not possess all the information he needs to make these decisions, we must ask how he is able to maintain his power given the conclusions of these models. The answer lies in his ability to detect and correct his errors in a timely manner. What is the process by which his actions generate feedback that allow him to move toward an equilibrium that allocates his resources in a way that prevents revolution while maximizing wealth?

Similar to a buyer engaged in the market process, a dictator can be viewed as a buyer of support for his regime. He offers just as much reward and repression as he believes will be sufficiently high to induce citizens to give him their support. His lack of

complete information will cause him to err in one direction or the other. Unfortunately, for the dictator, he is not able to detect his mistake as easily as buyers in a competitive market; nevertheless, mechanisms do exist to aid him in discovering and adjusting to an error in judgment.

Legislatures and protests are two examples of how a dictator may uncover information. The legislative process provides the dictator with increased knowledge of local preferences and conditions through discussions of and requests for particular legislation. Additionally, the dissemination of information regarding committee proceedings and similar reports can be controlled. Much of the population will be unaware of compromises or concessions the dictator might make. Another way to encourage citizens to disclose their private preferences is to lessen the repercussions of publicly voicing dissatisfaction with the regime, such as participating in protests. Presumably, joining a protest is costly to the citizen, so if he has chosen to participate in the protest, this tells the dictator something about the potential level of opposition among citizens and degree of miscalculation on his part.

This essay analyzes the use of three alternative information revelation mechanisms employed by dictators - legislatures, business and professional associations, and protests. The analysis clarifies the informational role of these features in real-world dictatorships and shows why institutional arrangements that at first appear counterintuitive to the principles of dictatorship make sense when one realizes the primacy of the dictator's knowledge problem.

2. Unintended Returns: The Unplanned Role of Nonprofits in The Economy and Society

“How do I know I’m getting the most bang for my buck?” In the nonprofit sector, this is a question both donors and the organizations they support would like to answer. Nonprofits must be able to find ways to discover and utilize knowledge that alerts them to better uses of their resources. Prices serve to coordinate information about the relative scarcity of goods and their value in the market. How then is this type of knowledge transferred to nonprofits that do not price their goods? The nonprofit engages in a discovery process that guides how it chooses to allocate its resources. The process consists of recognizing an opportunity to improve a particular situation, developing ideas to employ towards that end, experimenting with the operationalization of those ideas to find those that are able to successfully compete for scarce resources, receiving feedback on the implementation of those ideas, and adjusting to that feedback.¹

This process encourages the creation of new ideas, the use of local knowledge to find and suggest improvements, and the practice of skills contributing to effective self-governance. The role the state plays in the nonprofit arena impacts the capacity of the nonprofit to provide an opportunity to develop these skills. These skills are transferrable and enhance the problem solving capabilities of actors in the political and market arenas as well; thus, the effects of any interference in this discovery process reach beyond the nonprofit sector. However, research analyzing the effects of government involvement with nonprofit activities remains focused on the capacity of nonprofits to provide specific public goods and largely ignores these less explicitly stated yet vital functions.

¹ Kirzner (1978) describes this process in for-profit environments.

This essay shows the centrality of private stakeholders in the process that guides the nonprofit's allocation decisions. The participation of these stakeholders in a continuous feedback process helps the nonprofit discover how their work is valued in the communities they seek to serve and adjust to changing preferences and circumstances within those communities. Without their input, the nonprofit's access to local knowledge is diminished as is their ability to provide goods and services in a manner consistent with the values of their stakeholders.

This essay also explores the roles the state may play in the nonprofit arena and how these change the conditions under which the nonprofit operates. The nonprofit faces a different set of incentives depending on the role of the state. This alters their behavior and the weight they give to the knowledge and preferences of private stakeholders. When the state becomes a major stakeholder in the operation of the nonprofit, local knowledge takes a back seat to government "expertise." The nonprofit increasingly relies on top down guidance in its allocation decisions. This affects the nonprofit's role in providing public goods valued by its private stakeholders as described above and its role in providing a forum for citizens to come together and participate in providing for their own welfare rather than letting the state assume that responsibility.

3. The Jasmine Revolution: Sweet Fragrance for all Tunisians?

During the past century, Tunisians have been governed by three different regimes, all of which were increasingly oppressive and extracted resources from the economy to further their personal ambitions. Each time the previous regime was successfully removed, Tunisians called for a change to existing institutions to allow for a more

equitable distribution of power and resources. The incoming regimes promised such changes, and the population was temporarily pacified. Yet soon, the former patterns of abuse of power would begin to emerge and Tunisians would find themselves in the same situation as before. Why is it that a population that can perform as impressive a feat as ousting a political regime three times in the course of sixty years, not install institutions effective in preventing misuse of power and resources?

The answer lies in understanding social beliefs in Tunisia regarding the authority and knowledge of the ruling elite. Predating the introduction of Islam to the region, Tunisian society revolved around clan and tribal groupings. The leaders of these groups held a powerful position and considerable influence over how resources were allocated within the group. An individual's position in the group and connections with others in more prominent positions determined the share of resources he was able to obtain. Later, Tunisians were introduced to Islam and widely adopted its practice. Its hierarchical organization and belief in the preeminence of its leadership reinforced and integrated well with indigenous beliefs. Likewise, these traditional beliefs have lent legitimacy to the authoritarian and patrimonial regimes that have governed Tunisia since its independence (Anderson, 1986; Murphy, 2004).

This essay examines the work of Bin Dayif (1872/2005), a prominent Tunisian scholar in the nineteenth century, as he worked through the problem of restraining the selfish impulses of the ruler while remaining true to the tenets of Islam. His work sheds light on the incompatibility of traditionally held Tunisian and Islamic beliefs with robust political institutions. He proposes to limit the ruler's power by adopting institutions

associated with a democratic government. He recommends that a constitution that clearly defines the ruler's responsibility be implemented together with a consultative council that can advise the ruler when he is not fulfilling his duties. However, final authority, including the authority to amend the constitution, still rests in the hands of the ruler. With the propensity of individuals to act in their self-interest, the democratic quality of these measures will soon disappear.

This, in fact, has been the case since the introduction of Tunisia's (and the Arab world's) first constitution in 1881. The constitution has been rewritten three times following each regime change. In each instance, those tasked with this assignment have belonged to the political party of the country's new chief executive (who incidentally is the party head as well). Tunisians call for commitments to plurality in the legislature and a guarantee that the new government will look after their welfare (Chrisafis, 2011; Harris & Kossler, 2004; Perkins, 2004), yet they give that government the authority to write and enforce the commitment as well as collect and redistribute resources according to its own plan. This essay shows how the way in which they implement "democratic" institutions aligns with their traditional beliefs in a virtuous leader who provides for the needs of his people, but lacks the robustness required to both constrain the leader from pursuing his own ends and determine the best allocation of goods.

4. Conclusion

Much work has been done by Austrian economists to draw attention to the essential role the market plays in determining efficient allocation of resources, but less consideration has been given to non-priced situations where the typical model still

assumes perfect information and equilibrium conditions. This dissertation shifts the focus of the analysis toward the process of discovery in situations complicated by a lack of prices to determine resource allocation. It also draws attention to the role political institutions play in determining how resources are allocated and their effect on the discovery process.

THE DICTATOR'S KNOWLEDGE PROBLEM

So the ruler can safely gaze at Figures 5.1 and 5.3 (or 5.4), decide on the optimal π , B, and C, and then look at Figure 5.2 to find the division of B – C between R and L.

– R. Wintrobe (1998, p. 116)

1. Introduction

How does a dictator remain a dictator? This question has captured the attention of a number of social scientists. Their explanations usually incorporate a variety of variables to explain the calculations the dictator must make to maintain his power. He carefully analyzes his country's economic situation and monitors the pulse of public sentiment when deciding his best course of action. Ever mindful of the threats to his power, he skillfully balances policies of redistribution and repression that maximize his utility and avert revolution. However, a powerful regime and peaceful society are not always so easily reconciled. After twenty-four years of successfully maintaining his hold on power, Zine El Abidine Ben Ali was forced to flee Tunisia in the wake of mounting riots and demands for the removal of his regime, setting off a violent chain reaction in the region that is still ongoing. Events like those of the recent Arab Spring illustrate that remaining in power is not as easy as the models might predict.

One familiar with current economic models of dictatorship may well believe the dictator's problems are answered. The dictator need only solve a simple utility

maximization problem. However, this requires that the dictator has complete knowledge of the variables that enter his calculation. It is at this point the limits of equilibrium models in addressing the dictator's true problem become evident. By assuming complete information, these models allow utility to be maximized, but in a scenario of incomplete information, as reality dictates, no such solution is attainable (Ikeda, 1990). The real problem is how the dictator finds the information so critical to his survival.

The market-process view of price theory is well suited to address the issue, since its focus is on the way individuals make decisions in non-equilibrium situations and how their interactions with one another generate the information they need. I reexamine the dictator's problem in this light and find that he engages in a process of information discovery similar to that of buyers and sellers in a market of priced goods. However, the information he needs is not relayed by monetary prices, so he must rely on alternative information mechanisms. I look at the features of an ideal mechanism and use that insight to analyze three different mechanisms dictators may employ. The analysis reveals that dictators may find it advantageous to use a combination of complementary mechanisms to attempt to secure the information needed to remain in power. This information is discovered and acquired under conditions where knowledge, which is dispersed and often tacit, is constantly evolving

In addition to extending the application of the principles of market process theory to nonmarket situations, this paper contributes to the literature discussing institutional arrangements within dictatorships. The function of specific institutions, particularly those more commonly associated with democracy, has been a subject of debate for some

time. Very recently, some scholars have explored the informational uses of these institutions (Abdukadirov, 2010; Congleton, 2001; Escribà-Folch, 2009; Ghandi, 2008; Ghandi & Przeworski, 2006, 2007; Moore & Salloukh, 2007; Smith, 2005). I provide a way of analyzing the suitability of certain institutional arrangements to be used as mechanisms that facilitate the discovery of and adaptation to new information that guides the actions of both dictator and citizens. My analysis broadens our understanding of how institutions can be utilized to discover and develop information and provides an alternative explanation for the puzzling presence of democratic institutions in stable dictatorships. At first blush, it appears contradictory for a dictator to establish and respect democratic institutions. My analysis clarifies this puzzle by identifying democratic arrangements as mechanisms for information revelation that allow the dictator to remain in power. Exploring the processes and mechanisms by which dictators discover the information they require to allocate their resources towards reward and repression can help us understand the durability of this form of government, even in the wake of “Third Wave” of democratization, and evaluate interventionist efforts to encourage transitions to democracy.

Four sections follow this introduction. In the next section, I will provide a brief overview of the literature relevant to this analysis. Following that, section three explains the nature of the dictator’s knowledge problem in detail. Section four describes three different information mechanisms dictators may use to guide their decisions. The final section concludes.

2. The Literature: Separate pieces of the same puzzle

Authoritarian regimes account for most of the governments in world history.

Following the “third wave” of democratization in the 1980’s and 90’s, many scholars were hopeful that authoritarianism would be replaced with more representative forms of government. However, it has become increasingly apparent that many governments once classified as “transitional” are still clearly authoritarian despite adopting some “democratic” institutions (Carothers, 2002; Diamond, 2002). While many scholars continue to focus their research on the determinants of democratic transition, a few have begun to explore the more common scenario, an enduring authoritarian government. The long-term survival of these regimes depends on the ruler’s ability to discover and adjust to the plans of others to either support or undermine the regime. Equilibrium models are useful in identifying what information is needed, but an alternative approach is required to study how this information is discovered and acquired under conditions where knowledge, which is dispersed and often tacit, is constantly evolving. Research on institutions as well as market process theory provides helpful insights into understanding this problem.

Economists have proposed a number of models to describe the calculations a dictator must make to maintain power (Acemoglu & Robinson, 2009; Bueno de Mesquita, Smith, Siverson & Morrow, 2003; Haber, 2006; Olson, 1993, 2000; Olson & McGuire, 1996; Tullock, 1987; Wintrobe, 1990, 1998). These models share common characteristics. They are equilibrium models in which the dictator, operating with complete information, chooses an optimizing strategy that maximizes benefits and minimizes costs. In each model, the dictator chooses some form and quantity of reward

and repression subject to his budget constraint in order to limit opposition and gain support. These models are useful in identifying the information required by the dictator, but by assuming this information is known, they divert attention from the true locus of activity – discovering the information needed to make these decisions.

Though they use rational choice models dependent on complete information, some economists still acknowledge the seriousness of the problem that incomplete information poses for the dictator. For example, Tullock (1987, 2005) writes about the drawbacks of employing a secret police force, a common method of obtaining information in dictatorships. Rewards offered for information incentivize citizens to become informants even if they do not have the most reliable information. Moreover, those who have to report directly to the dictator often withhold information that would upset him and jeopardize their own safety. Wintrobe (1990, 1998, 2012) draws from Tullock's work to expound upon the effects of repression on the willingness of citizens to reveal their true preferences toward the dictator and his policies. An increase in repressive action adversely affects the dictator's access to the information he requires resulting in the "Dictator's Dilemma." Kuran (1989, 1995) presents an in-depth model of citizens' public and private preferences and the role they play in their calculation to support or oppose the dictator. Information on private preferences unknown by both citizens and dictator contribute to the volatility of the regime to revolutionary "sparks." These studies emphasize that the dictator's problem is not simply one of performing the correct calculations. His lack of knowledge severely impedes his ability to successfully

decide his optimal course of action and leaves him vulnerable; thus, much of his effort is devoted to discovering the knowledge he requires.

The “knowledge problem,” as Hayek (1945) called it, is not particular to dictators. It is the same “economic problem of society [that] is mainly one of rapid adaptation to changes in the particular circumstances of time and place.” Hayek goes on to explain how monetary prices convey this knowledge to buyers and sellers resulting in the coordination we observe in markets. Kirzner (1963) later provides a step-by-step explanation of how buyers and sellers participate in the market process to adapt to new information and discover the ever-changing market clearing price of a commodity. Dictators, however, choose between alternatives whose relative values are dependent on changes in citizen preferences that are not reflected directly in monetary prices. Chamlee-Wright & Myers (2008) show that in the absence of price, alternative mechanisms, though not as efficient as monetary prices, relay information of time and place to guide allocation decisions. Their analysis is directed toward nonprofit organizations yet has useful application to the dictator’s knowledge problem.

Recently, a number of authors have begun to explore how different institutions may be used as information mechanisms. Their work has been motivated by the puzzling existence of democratic institutions in stable dictatorships. One prevalent view has been that the existence of certain institutions is an indicator that a country is transitioning to democracy (Huntington, 1991; North, Wallis & Weingast, 2009). However, it has become increasingly apparent that many regimes once classified as transitional have remained steadfastly authoritarian despite the adoption of democratic institutions. Some

maintain that democratic institutions are useless except as a façade of legitimacy (Carothers, 2002; Lust-Okar, 2009) while others acknowledge their role in stabilizing the regime (Brownlee 2002, 2011; Magaloni 2008). Recently, the capacity of these institutions to generate information has captured the interest of some scholars (Abdukadirov, 2010; Congleton, 2001; Escribà-Folch, 2009; Ghandi, 2008; Ghandi & Przeworski, 2006, 2007; Moore & Salloukh, 2007). My analysis illuminates the specific features that contribute to their information generating capacity and shows that these features can be generalized across institutions. In this way, the strengths and weakness of particular mechanisms can be categorized and the complementarity of different institutional arrangements becomes apparent.

It is not the question of which model he should use to guide his decisions that keeps the dictator awake at night. Instead, he is troubled by his lack of knowledge about the threats to his power. A more complete explanation of this problem and the actions the dictator takes to resolve it can be provided by synthesizing the different strands of literature presented above. Rational choice models identify the information that comprises the dictator's ultimate calculation, while market process theory elucidates the discovery process and the specific operation of certain institutions functioning as information mechanisms that allow or prevent the dictator to discover the relevant information necessary to engage in such calculations.

3. The Dictator's Knowledge Problem

The dictator faces a complex decision when choosing the best way to allocate his resources in order to maintain power. He uses his resources to either repress citizens or

reward them. His goal is to keep the citizen's perception of the relative cost of supporting the regime below that of supporting the opposition. He needs to know what combination of reward and repression will best achieve this goal at the least cost to him. Equilibrium models only scratch the surface of his problem. The real issue he is confronted with is his lack of knowledge. He needs the support of others to maintain his position of power, and to gain that support he first needs to know the calculations his citizens make when deciding whether or not to support him and the magnitude of the threat they pose should they choose to oppose him. Following that, he needs to know which method of obtaining support is the most effective, least cost alternative. The long-term survival of his regime depends at least as much on his ability to discover this information as it does on his ability to perform the calculations presented in the previous section.

Discovering the information he needs is not a one-time event. The information is not available as static values that are unknown simply because they have not yet been discovered. It is generated by interactions between the dictator and those he rewards or represses, and it changes with each subsequent exchange. Therefore, it is necessary for the dictator to engage in an ongoing process of discovery.

Kirzner (1963) gives a simple explanation of a similar problem. He describes the process buyers and sellers engage in to discover new information that helps them converge on a market-clearing price, a price that emerges out of this interaction. A buyer places a bid for a commodity based on its marginal utility to him and "the lowest price that he *believes* sufficiently high to induce sellers to sell," (p. 122, emphasis in the

original). Most of the time he will offer a bid that is either too high or too low due to his uncertainty regarding the seller's inclinations. He discovers the latter error when the seller refuses to sell the commodity, and he is forced to revise his bid upward. The former error is found by those who are aware of lower prices elsewhere. If they take advantage of this opportunity for arbitrage, their actions will move the price towards equilibrium; however, that precise point continually adjusts to the changing preferences of buyers and sellers, so the process is ongoing.

In the context of dictatorship, without complete information, the dictator is unable to make the precise calculation necessary to optimally reward or repress. Instead, he must propose a "bid" to obtain support for his regime. He offers as much reward and repression as he *believes* will be sufficiently high to induce citizens to give him their support. Like the buyer in Kirzner's example, his lack of complete information will cause him to err in one direction or the other. His interactions with citizens in this process reveal valuable information about their preferences and the direction of his error so that he may adjust his plans to better secure his hold on power. The dictator does not have as informative and efficient a mechanism as price is to buyers and sellers in the market; nevertheless, there are other mechanisms available to him that transmit some of the information he requires.

In order to effectively analyze these mechanisms, we must first understand the fundamentals of the dictator's problem. The first step to unraveling the knowledge problem is to examine the information he needs and why it is necessary for his decision-making. There are three, broad categories of information required by the dictator: who

supports and opposes him, which means of garnering support will best achieve his desired ends, and what are the exogenous variables that bear on his decision. These will be discussed in sections 3.1, 3.2, and 3.3. The process of discovering and adjusting to this information will be addressed in section 3.4.

3.1 Who Supports and Who Opposes?

It comes as no surprise that a dictator needs to know who supports him and who does not. He needs to know both numbers and identity. A particular person or group of people may pose a greater threat than another. His task is to ensure that those with greater resources or influence, and thus, greater capability to overthrow him, remain supportive of the regime. Yet, this task is not so straightforward as it would seem due to what Wintrobe (1998) dubs the “Dictator’s Dilemma.” The dictator cannot allow public opposition that would threaten the security of his regime, so he takes measures to ensure that it is eliminated either by co-opting the opposition or forcibly silencing it. Yet this does not resolve the issue of finding out who *privately* opposes to the regime. Knowing this is the case, the dictator assumes a certain percentage of his population secretly opposes him, yet he has difficulty identifying who they are, because he incentivizes them, via actual or threatened repression, to hide those preferences.

Kuran’s analysis of revolutions provides a useful distinction between the private and public preferences of citizens towards a regime (1989, 1995). The former is described as the preference a citizen would express on a secret ballot. The latter is the preference he reveals to those around him. When determining this preference, a citizen takes into account the benefit he will receive from others because of his position for or

against the regime. This will depend on the number of people who share that preference and their ability to defend it. A general's preference will carry more weight in the citizen's decision than a peasant's, because the general will have more influence over whether or not a regime maintains power. He must estimate the private preferences of his fellow citizens, since public preferences are not reliable indicators of private ones in an environment where you may be harshly punished for revealing opposition to your leaders. For this reason, he may greatly over or under estimate actual private preferences regarding the regime. Overestimating citizen preference against the regime can be quite costly, so it is reasonable to assume that the citizen will be conservative in his estimation of opposition strength. Thus, this information asymmetry between citizens often works to the advantage of the dictator. For this reason, it is important to him to maintain a public appearance of support for the regime.

There is a problem with this strategy though from the standpoint of the dictator. Discouraging public displays of opposition means that opposition that does exist will be kept private and, consequently, will be much more difficult to detect. Why do private preferences matter as long as public support is maintained? There is always a chance that private preferences will be revealed. What Kuran describes as a "spark," an unexpected incident that compels some to reveal their private preferences against the regime, will cause others to consider that they may have misjudged the extent of opposition and, therefore, the potential to overthrow the regime (1989). Thus, private preferences are an important consideration for the dictator. To the extent he knows of them, he can better calculate the potential threat and take action to reduce it.

3.2 Which Means of Support?

Should a dictator be as repressive as his resources allow (Tullock, 1987)? Or is he instead compelled to act as a benevolent “stationary bandit” in order to maximize his long-term wealth and accrue sufficient resources to protect his citizens and himself from other bandits (McGuire & Olson, 1996; Olson, 1993, 2000)? Perhaps he should use his resources to co-opt potential opposition (Bueno de Mesquita et al., 2003; Ghandi, 2008; Lust-Okar, 2009). How much do his personal preferences factor into his decisions (Wintrobe, 1998)? Choosing between reward and repression to gain the support a dictator needs is a critical decision. The varying long and short-term costs associated with each impact the survival of his regime. The dictator needs to understand the costs of the method he chooses to employ both in terms of resource use and how his actions will affect his citizens’ calculus and the ramifications this will have on his long-term capability to stay in power.

Consider a simple illustration of the decision that faces the dictator and what information he needs to best achieve his ends, whether they be for power or prosperity. The dictator knows of a citizen who poses a threat to him in some way. Perhaps this potential opponent is well liked among the population or is a very cunning military strategist. The dictator may determine he can either quietly make him disappear or promote him. This initial outlay may be less for one option than the other, but this is only one component of his decision. He must also look at how this will affect the actions of this citizen and others, necessitating his further action to ensure their support. If the dictator chooses to promote the citizen, he will need to expend resources to make sure the new promotee does not take advantage of his position to threaten the dictator.

Additionally, there may be some who feel he was promoted unfairly, so this action will move them away from supporting the dictator. If the dictator executes or imprisons the citizen, this will also have an effect on other citizens as they incorporate this new information on the relative price of supporting the opposition into their calculations. The demonstrated physical costs of supporting the opposition causes them to revise their estimate upward, and if the dictator's action violates their sense of justice, the psychological costs of supporting the regime will also increase. The dictator's action sets off a chain of reactions.

The dictator cannot possibly know how each citizen will respond, but he needs to be aware of how his actions change the relative price of supporting him versus the opposition. Repression encourages people to hide their preferences against the regime, making it more costly for the dictator to detect them. If it is perceived as unduly harsh or unjust, it may also increase the number of people who privately oppose the regime. Rewarding citizens for supporting the regime leads to increased effort towards political entrepreneurship and can incentivize activities detrimental to economic growth, an important factor in the stability of the regime. The interaction between the dictator's choices and his citizens' responses will be discussed in greater detail in section 3.4.

3.3 Exogenous Factors

There are a third set of variables that enter the dictator's decision and may be considered exogenous to the dictator/citizen exchange. These variables, unique to the time and place of each particular situation, affect the costs of repression and reward. For instance, regimes that rely more upon the productivity of their citizens rather than

abundant natural resources may find a higher cost associated with repression (Escribà-Folch, 2008; Gandhi & Przeworski, 2007; Smith, 2005). Ethnic, religious, and geographical divisions that have led to the creation of strong minority groups may make coopting them a less costly alternative than continuously suppressing protests. Regimes that receive significant funding from international donors will need to consider how their actions will affect future aid (Brownlee, 2002). Even if they are not dependent on aid, their actions may affect relationships with their international trading partners. Additionally, natural disasters, political instability in neighboring countries, and other exogenous shocks affect the resources available to the dictator as well as the payoff to the citizen from choosing to support the regime versus the opposition. Though not the focus of this analysis, these factors are important to be aware of. The dictator must be alert to how they shift the equilibrium “price” of support and adjust his actions accordingly.

3.4 The Dictator-Citizen Relationship

The next step in understanding the dictator’s knowledge problem is to recognize how the information he requires is dependent on his interactions with his citizens. Since the information he incorporates into his decisions is incomplete, he must adjust his calculations when new information is discovered. His actions reveal information to his citizens who then adjust their calculations and corresponding actions, which again reveals new information to the dictator. The very process of discovery and adjustment changes the information; thus, it is an ongoing feedback loop between dictators and citizens. This section will discuss this process that produces the information both dictator and citizens

use to decide their course of action and its importance for detecting errors in the dictator's calculations that threaten the durability of his regime.

Through their interactions in the market, buyers and sellers discover that their bids are either too high or too low. Repeated interactions allow them to learn from their mistakes and adjust their bids towards the market-clearing price. The process reveals new information that affects the price; therefore, market actors must continually engage in this learning process to converge towards the new price.

The dictator and citizens face the same type of knowledge problem as buyers and sellers in the marketplace. The dictator does not know the exact "price" that is required to secure the support he needs, and citizens do not know exactly how much the dictator is willing or able to offer. As they interact with one another, they begin to uncover this information and adjust their calculations accordingly.

Imagine a scenario where a citizen expresses his dismay at a new law imposed by the dictator. The dictator needs to know the amount of reward or repression that will "buy" this citizen's support. There are certainly variables he may already be aware of that will factor into his decision to make a bid, such as economic performance, the physical resources of this potential opponent, etc. Indeed, the dictator's response will vary depending on *who* this individual may be, but because he lacks information about this individual's private preferences, he will not know whether the amount he offers is sufficient until he actually makes his bid and observes the response of the citizen. Suppose the citizen is brought to the local police station to be interrogated regarding his brazen actions. What is his response to police intimidation? Does the citizen desist, or

are harsher measure required? If the citizen does not change his behavior, the dictator knows that his bid was insufficient. If, in contrast, the citizen does change his behavior, the bid was sufficient, but the dictator still does not know if he could have offered less, perhaps a small fine, and elicited the same response. Additionally, the citizen, as well as others who learn of this interaction, will gain new knowledge as well. They now know the dictator is willing and able to offer at least this amount of repression, and will factor this into their decisions to exhibit opposition in the future. Both the dictator and citizens gain new information through this interaction and adjust their calculations accordingly.

The necessity of knowing if your bid was sufficient, from the point of view of the dictator, is clear. The dictator must be able to obtain a certain level of support to stay in power. However, it is also beneficial to learn if he has erred in the other direction by offering too high a bid. This is most easily seen by considering what may happen at the extreme. Consider a dictator that deploys his full forces in response to every display of opposition no matter how minor. At some point, it will be abundantly clear that the marginal benefit of one more tank is much less than the cost to deploy it. If he continues, he will quickly exhaust his resources and, relatedly, his ability to stay in power. Instead, he uses the information available to him to assess the situation and does what he calculates as necessary to maintain power and legitimacy.

Information about where the minimum “price” lies is also important because both repression and reward take their toll on the economic activities of citizens.

Entrepreneurial talent is channeled away from productive market activities towards strengthening political ties that can provide protection from harsh treatment or higher

returns in the form of pecuniary rewards and political favors (Baumol, 1990). This is detrimental to economic performance and affects the resources available to the dictator and his ability to reward or repress in future periods (McGuire & Olson, 1996; Olson, 1993, 2000). Declining economic performance also reduces the benefit of supporting the regime and the relative price of supporting the opposition (Acemoglu & Robinson 2009; Kuran 1989; Wintrobe, 1990). The dictator concerned with the longevity of his regime must include these factors into his decision.

Excessive repression can actually work against the dictator's intentions and increase the relative price of supporting the regime. Besides the immediate physical costs associated with overestimating the required level of reward or repression, there are psychological costs that affect the private preferences of citizens (Kuran, 1989). The perceived injustice of repression or favoritism can increase these costs for the citizen, thereby increasing the relative price of supporting the regime. Wintrobe (1990, p, 48-49) also describes opposing effects from repression. The substitution effect of repression refers to how the relative price of opposing the regime increases as the level of repression is intensified for participating in such activities. This effect normally dominates; however, increased levels of repression lower individuals' overall income, which decreases the benefit of supporting the regime. This income effect counters the substitution effect, and bears more weight as the level of repression increases.

Discovering information about private preferences is particularly problematic. As mentioned earlier, information on these preferences is important because it can alert the dictator to the potential volatility of the population to "sparks" that ignite revolutionary

action. This information is also valuable to citizens who use it to estimate the relative price of supporting the dictator. Their estimate of the cost incurred by opposing the regime varies directly with their estimate of the level of support for the regime. Therefore, the dictator prefers they remain ignorant of any anti-regime sentiments. This complicates the discovery process as the dictator searches for ways to find the information he needs about private preferences without also revealing this information to citizens.

The dictator does not have complete information; therefore, he must choose whether to reward or repress based on estimates of the variables included in his decision. His actions evoke reactions by his citizens that reveal information and help him detect errors in his estimates. Errors are costly; therefore, the dictator has incentive to discover his them and adjust his actions. The specific feedback mechanisms he uses to aid him in this discovery and the way in which citizens interact with them are discussed in the following section.

4. Feedback Mechanisms to Resolve the Dictator's Knowledge Problem

In his seminal essay, "The Use of Knowledge in Society," Hayek describes the function of prices as a "marvel" (1945). Prices coordinate the plans of buyers and sellers by consolidating and relaying the knowledge dispersed throughout society that is needed to calculate the costs of different alternatives. Actors in non-priced environments lack this marvelous mechanism, yet they are not left entirely without guidance when deciding between alternatives. Different means of discovering information, though less efficient than prices, direct their actions. This section will examine the features of monetary

prices that make them such excellent information mechanisms and apply this insight to evaluate the effectiveness of three different mechanisms, legislatures, professional associations, and protests, used to inform the decisions of dictators. The analysis reveals that the dictator may benefit from employing a combination of mechanisms whose collective strengths mitigate their individual weaknesses.

How do prices address the “economic problem of society” and allow for “rapid adaptation to changes in the particular circumstances of time and place,” (Hayek, 1945)?

There are five features of price make it an excellent mechanism to solve this problem:

Prices...

1. Convey local knowledge
2. Consolidate this knowledge
3. Relay new knowledge quickly
4. Allow low-cost participation in the adjustment process
5. Incentivize participation ²

Local circumstances will affect the supply and relative price of different factors of production, but it is not necessary for the user of these factors to know those circumstances. The price is sufficient to convey the knowledge of relative scarcity that he needs to calculate its use. Through this mechanism, the relevant information is consolidated and relayed in a timely manner. It is not costly to adjust prices or adjust to them; quite the opposite, it is costly to ignore this information, and risk a shortage or glut

² This list is adapted from the work of Chamlee-Wright & Myers (2008), Hayek (1945), and Mises (1949)

of resources. For that reason, buyers and sellers are highly incentivized to participate in the adjustment process.

As discussed in Section 3, dictators need knowledge regarding the relative prices of reward and repression and the relative price of supporting the dictator as perceived by his citizens. This knowledge is dispersed among his citizens. He requires mechanisms that continuously reveal this changing knowledge in an easily accessible and consolidated form. This is not in itself an easy task; however, it is further complicated by the fact that the dictator has additional considerations when choosing a mechanism. Two features are added to his ideal mechanism:

6. Maintain the regime's legitimacy
7. Relay information asymmetrically

It is imperative that the dictator's actions do not jeopardize his position or his citizens' perception of the regime's legitimacy. Legitimacy can be associated with either the ability of the regime to maintain control or the level of citizen support (Tullock, 2005, p. 225). By this definition, a regime not supported by its citizens remains legitimate as long as it is capable of maintaining its hold on power. Likewise, the regime may not have this ability, but it is still legitimate if citizens support its claim to rule (p. 225). Furthermore, if the first condition exists but citizens believe otherwise, they will be more likely to attempt to overthrow the regime, requiring costly measures on the part of the dictator to subdue the opposition. If the opposite is true, the regime can maintain power despite its inability to adequately defend itself. Thus, the *perception* of legitimacy is important.

Closely related to legitimacy, information asymmetry, in this context, refers to the desirability of keeping citizens ignorant of others' private preferences as discussed in Section 3. This again goes back to influencing citizens' perceptions of the regime. If they perceive that the regime has capable defenses and a wide base of support, their estimate of the relative price of opposition will be higher. It benefits the regime to hide information about its weaknesses and the level of discontent among the population.

The seven features listed above are interrelated. The ability to relay local knowledge in a timely manner is dependent on the incentives and costs associated with utilizing a particular information revelation mechanism. However, the features specific to dictators, maintaining legitimacy and information asymmetry, often counteract the features relating to participation, weakening the effectiveness of the mechanism. Evidence of these tradeoffs will become apparent as the specific mechanisms are discussed below.

In addition to differences in the degree to which they possess the various features characteristic of monetary prices, the dictator's information mechanisms also vary in the type of information they convey. Some are better suited to help him discover the minimum reward required for certain support. Others more efficiently reveal private preferences.

4.1 Legislatures

Dictators are characterized by their ability to control the people around them in order to maintain their hold on power, yet almost 70 percent of dictatorships in existence between 1946 and 2008 had elected legislatures (Cheibub, Gandhi, & Vreeland, 2010).

Why would a dictator voluntarily agree to share his power with a large group of legislators? Is his use of democratic institutions just a show to curry favor with those who espouse such ideals? Certainly, this could be a means of coopting his competition, but its usefulness extends beyond handing out political favors to a select group of elite citizens. A legislatures' capacity to provide the dictator with relevant information regarding the conditions in his country and the effectiveness of particular policies in generating support for the regime is extremely valuable to him (Boix & Svobik, 2011; Congleton, 2001; Gandhi, 2008; Gandhi, Gochal, & Saiegh, 2003), and the presence of a legislature has been shown to be correlated with longer political survival (Aksoy, Carter, & Wright, 2012; Boix & Svobik 2011; Gandhi & Przeworski, 2007). In fact, the informational capacity of legislatures was one of the primary benefits Stalin anticipated from the Supreme Soviet. "In our Soviet country we must evolve a system of government that will permit us with certainty to anticipate all changes, to perceive everything that is going on among the peasants, the nationals, the non-Russian nations, and the Russians; the system of supreme organs must possess a number of barometers which will anticipate every change, register and forestall...all possible storms and ill-fortune." (Stalin quoted in Towster, 1948, p. 186)

How well do legislatures exhibit the five features of an ideal information mechanism? The legislative process provides the dictator with increased knowledge of local preferences and conditions through discussions of and requests for particular legislation. The information is not presented separately by each individual; rather, it is consolidated in the form of a bill, budget item, etc. It is not an especially fast process,

since it takes time to propose and negotiate taxes, subsidies, special projects, and many other policies. Moreover, participation in this process is not inexpensive. In addition to the time and effort expended by those participating directly in the process, it often requires significant resources to participate indirectly by strengthening connections with those who can influence legislation. Participation is highly incentivized, though, by the distribution of political favors for those who participate in the process. Even those who are not likely to be the recipients of many political favors, like those belonging to minority political parties, may be incentivized to participate simply because it is one of the few legally sanctioned outlets they have to voice their objections to proposed policy and negotiate their interests (Aksoy, Carter, & Wright, 2011; Lust-Okar, 2009; Phillips, 2008; Schwedler, 2006). Though this is not an expedient mechanism, it is useful to the dictator to learn something about the expectations of his citizens in terms of minimum distribution of resources and maximum acceptable tax burden and other consequences, especially in a relatively stable environment.

In regards to the two additional features specific to dictatorships, legislatures are an especially attractive information discovery mechanism. They both maintain the regime's legitimacy and allow information flows that alleviate some asymmetries while preserving others in a manner beneficial to the dictator. The legislative process allows different groups with competing interests to voice their dissent to policy and request changes in a manner approved by the regime. Thus, they can disagree with the dictator without portraying defiance. Additionally, the dissemination of information regarding committee proceedings and similar reports can be controlled. Much of the population

will be unaware of compromises or concessions the dictator might make. On the other hand, those directly involved in the process, will gain more accurate information about the regime and its budgetary constraints. This information, along with the institutional constraints of the legislative process, gives credibility to the regime's commitments to reward supporters and has a stabilizing effect on the regime as these rewards are tied to its survival (Gandhi & Przeworski, 2007). Furthermore, the dictator can participate in the process through agents rather than directly. If a mistake is made, blame rests on the unlucky legislator or councilmember while the integrity of the dictator remains intact. The combination of strength in these two features, as well as the first, second, and fifth, allow the dictator to gain information on the private preferences of citizens and bargain towards an equilibrium price in a manner that doesn't threaten the legitimacy of the regime and allows fairly good control over information flows to citizens.

The operation of the Sejm, the legislature of the People's Republic of Poland, demonstrates an information feedback process between citizens and the state. Though the authority of the Sejm was severely limited under communism, there are indications it was not simply a "rubber stamp" legislature. Deputies (legislators) were valued for their access to local information and used their knowledge to suggest amendments to regime-sponsored policies (Olson & Simon, 1982, p. 78). Local People's Councils were established to work with Sejm deputies and allow the legislature to "adjust national plans to particular territorial and local needs." (Gripp, 1973, p. 119). Under communist rule, the number of special committees in the Sejm rose, which was subsequently accompanied by an increase in the number of bills committees amended or blocked (Olson & Simon,

1982, pp. 67-79). The legislative committee structure allowed information to be shared and negotiations to be made in a manner the regime could control.

In Yemen, members of Parliament are keenly aware of their deliberate informational role and the legislature's ability to "serve as a gauge of public opinion – as an early warning system for mounting tension in society." (Phillips, 2008, p. 81). In 2001, they recognized and responded to growing public tension over laws concerning compulsory military service, a situation that had not been addressed by the regime. Many more men were entering the age where two years of service was required than the army could accommodate, and the existing law required them to pay for either an exemption or a postponement. Though the move to suspend the law was initiated by members of parliament, Saleh's regime was happy to take credit and boost public sentiment in their favor (p. 82). The Yemeni parliament served its purpose as an early warning system and helped the regime "buffer out some of the excesses of its policies," (p. 83). The dictator learns information about the direction of citizen preferences, and he gains more accurate information regarding the extent of action he must take to secure citizen support.

4.2 Business and Professional Associations

Business and professional associations are another mechanism employed by dictatorial regimes to learn more about citizen preferences. Sometimes, such as in the former USSR, the state taps the capacity of existing organizations to provide "a reliable communications system ...with specialized knowledge of local conditions," (Friedgut, 1979, pp. 16-17). In many Middle Eastern countries, these associations are recognized for their access to information and are the outcome of "deliberate political strategies ...by

ruling regimes bent on ensuring their survival in power,” (Moore & Salloukh, 2007).

Associations are included in policy-making specifically for the information they contribute as well as their ability to relay information back to their constituencies.

Business and professional associations maintain numerous local chapters. Citizen involvement at that level provides the association with knowledge specific to different localities. The association serves as a channel to consolidate this information and relay it upward. Though communicating through the association’s hierarchy takes some time, associations with an established channel to the state will likely be heard before groups with no such connection. Therefore, it is to citizens’ advantage to make use of these associations as it provides them some voice, even in situations where the regime exerts significant control over the association’s activities. The fact that the association is sanctioned by the regime makes participation less costly than other means of making preferences known (i.e. protests) and regime’s willingness to include association members in policy-making incentivizes participation.

In addition to the benefits outlined above, associations that have been authorized by the regime do not threaten its legitimacy simply by their existence. Though there is evidence of a certain level of autonomy in these organizations (Moore & Salloukh, 2007; Saich, 2000; Unger, 1996), it is to the benefit of both the regime and the association to coordinate efforts and limit public displays of contention. In terms of information asymmetry, the general population has more access to the activities of business and professional associations than the activities of the legislature, but the information associations receive about the regime is also more limited.

China has embraced the idea of business associations as “bridges” providing “two-way flows of information” between citizens and state officials (Foster, 2002). Foster studied these associations in Yantai, China and found that most were created by the state in conjunction with more market-oriented reforms. While business owners gained some autonomy over operating decisions, the associations allowed the state to keep an eye on their activities and monitor any trends that could threaten the security of the regime. As Chinese business associations have evolved, they have become more adept at relaying the preferences of their constituencies and influencing policy (Pearson, 1997; Saich, 2000; Unger 1996). Through these communications, the regime learns what measures are needed to “buy off discontent” and can more effectively allocate resources to prevent more forceful opposition (Pearson, 1997, p. 143).

4.3 Protests

Protests are considered one of the more volatile threats to the dictator. They undermine the legitimacy of his regime (Goldstone et al., 2004; Tullock, 1987, 2005) and cause other citizens to revise their estimates of the strength of the opposition (Kuran, 1989, 2005). Additionally, potential participants struggle to overcome free rider problems and are reluctant to face the consequences of joining a protest. It may be surprising, therefore, to find that protests can be used as valuable information mechanisms.

We often recall images like those of the Tiananmen Square Massacre or the more recent, violent reactions to the protests of the Arab Spring when we think of the consequences of voicing dissent in dictatorships, but the reality is that public

demonstrations are not that uncommon in many regimes (Lust-Okar, 2009; Moore & Salloukh, 2007; Shirk, 2007; Tanner, 2004). In such situations, there are informal norms that define the limits of permissible protest. O'Brien (1996) uses the term "rightful resistance" to describe protests where participants profess to support the ideals espoused by the regime and complain instead of particular conditions that are contrary to those ideals. In this way, they cannot be accused of opposing the dictator; rather, they are holding his agents accountable to the regime's own rhetoric. The repercussions of participating in these kind of protests are often less severe than displaying outright defiance (Shirk 2007; Tanner, 2004), and the dictator can learn valuable information about citizen preferences and negotiate an acceptable "price" for their support.

Joining a protest is costly to the citizen, even if he does not expect to suffer severe consequences at the hand of the regime. Thus, if he has chosen to participate in the protest, this gives the dictator information about the citizen's perception of the relative price of supporting the regime and the potential level of opposition among the population. Protestors communicate information about specific issues that is often moderately consolidated in the form of a list of demands. Protestors may also provide a more accurate measure of public sentiment than state intelligence agents who are reluctant to relay negative reports to the dictator. However, the primary advantage of the protest *qua* information mechanism is the speed in which it relays changes in citizen preferences.

While protests expediently capture the attention of the regime and force the dictator to negotiate in some manner, whether it is through repression or concessions, they have obvious weaknesses in the dictator-specific features listed above. The severity

of penalties for protesting will affect citizens' decisions to participate; yet, they cannot be lessened to the degree that the regime's legitimacy and its ability to effectively deal with the opposition is questioned (Tullock, 1987). Information asymmetry is also difficult to preserve. Protests may be carefully monitored, contained, and censored from media reports, but because of their public nature, there will be a large number of witnesses who may also share the information they have learned with others. These weaknesses make protests a precarious mechanism.

An example of this mechanism in action is found in accounts of the Gafsa mining protest that occurred in Tunisia during 2008. Prior to this event, Ben Ali's regime allowed peaceful displays of opposition on a limited basis. Participation tended to be low due to the fact that police recorded names of dissenters who then became the targets of police harassment or found their employment opportunities suddenly curtailed (Garon 2003). Nevertheless, penalties were not so severe as to deter all public voicing of opposition. In 2008, citizens complaining of unfair hiring practices by the Gasfa Phosphate Company whose managers were conspicuously connected with the regime, participated in hunger strikes, marches, and sit-ins. Police were deployed to secure the area and ensure that the events remained contained within the town limits in which they occurred. Reporters were not allowed access to the area, and witnesses were not allowed to leave. However, it was not until three months after the initial demonstrations that Ben Ali decided to launch a major repression campaign, which was mainly a response to escalating violent outbursts. Army troops were brought in; police made numerous arrests, and protest leaders were sentenced to several years in prison. However, Ben Ali tempered

the upward adjustment in repression with promises of new jobs and infrastructure in the region (Gobi, 2010).

This incident demonstrates careful calculation and negotiation on the part of both the regime and protesters. The limits of Ben Ali's tolerance were steadily tested until protesters learned the point at which repression would increase enough to raise the cost of opposing the regime beyond what they were willing to bear. Their willingness to protest gave Ben Ali information on how valuable their demands were to them relative to supporting the regime. He gained knowledge about the level of repression that was required to "buy" public support as well as the level of reward citizens perceived to be fair compensation.

This type of protest has long been observed in authoritarian regimes of the Middle East and North Africa, but it is a growing phenomenon in China. After Tiananmen Square, the regime was wary of similar incidents occurring that had the same potential for turning the tide of public sentiment against the regime. Their strategy changed to more peaceful tactics. They began to take the side of the protestors and blamed local authorities for not resolving citizens' grievances. This change in the relative price of protesting led to an increase in protests. In 1993, China's police recorded 8,700 "mass incidents." That number steadily increased, reaching 74,000 in 2004 (Shirk, 2007, p.56). Officials keep detailed records of protests, where they occur, the demographics of participants, and outcomes. In this way, they have been able to measure trends in public sentiment such as the level of unrest among the rural, peasant population, a particular concern of the regime (Shirk, 2007; Tanner, 2004). They can also learn what actions they

must take to gain the support of disgruntled citizens. For instance, in 2005, thousands of villagers around Dongyang voiced their dissatisfaction with the pollution from nearby chemical plants by setting up camp on the roads and blocking traffic in the region for several weeks. Officials and protestors worked out a compromise to close some of the plants (Shirk, 2007, p. 60). This seems like an unlikely feedback loop, but it benefits both the regime and citizens. It relays information of local conditions to regime officials as well as information to citizens about the regime's willingness to make concessions.

4.4 Is One Mechanism Better Than Another?

In order to allocate their resources in a manner that promotes the survivability of their regime, dictators need information. They need to learn the preferences of their citizens so they know the quantity and costs of the resources necessary to buy their support. They also need to be alert to changes in those preferences and respond expeditiously. Legislatures, associations, and protests are three of a number of feedback mechanisms that provide the dictator with information that helps him more effectively and efficiently allocate resources, yet each exhibits different strengths and weaknesses:

- Legislatures support the legitimacy of the regime and retain significant control over potentially damaging information flows to citizens; however, they are slow to transmit changes in local knowledge and participation is limited.
- Business and professional associations attract participation from a greater number of citizens, but their hierarchical nature can also slow the communication of information.

- Protests quickly relay local information and changes in public preferences, yet they undermine the legitimacy of the regime. Additionally, controlling information flows is increasingly difficult with the growing use of cell phones and social media sites.

No single mechanism is capable of transmitting information as efficiently as monetary prices convey changes in local knowledge. For this reason, a dictator may find it advantageous to employ a combination of mechanisms to mitigate their individual weaknesses.

5. Conclusion

Standard economic models of dictatorship provide a good starting point for analyzing the decisions dictators must make to stay in power. They highlight the importance of specific factors that affect relative price calculations - supporting versus opposing the regime from the citizen's perspective and rewarding versus repressing citizens from the dictator's perspective. However, since the variables in these calculations are assumed to be known, the models do little to explain the behavior of citizens and dictators to discover this information. It is in an environment of uncertainty that they make these decisions, and this is the situation that must be analyzed.

In this context, it is the discovery of information relevant to the dictator's survival that drives his actions. He is not preoccupied with specific calculations; he is obsessed with what he does not know about the security of his position (Tullock, 1987). Institutional arrangements that at first appear counterintuitive to the principles of dictatorship make sense when one realizes the primacy of the dictator's knowledge

problem. Arrangements more commonly associated with democracies, those that allow representation and free speech, are particularly useful as information feedback mechanisms. It should not be surprising that many dictators seek to manipulate these institutions to obtain their informational benefits while still maintaining control over citizens' actions.

Analyzing specific information feedback mechanisms provides insight into the stability of different dictatorial regimes. This paper has examined three mechanisms: legislatures, business and professional associations, and protests. These mechanisms imperfectly relay information about local conditions that helps the dictator more efficiently allocate resources and maintain power. Each one has specific strengths and weaknesses; therefore, a combination of mechanisms is required to provide more robust information flows to the dictator.

Standard economic models of dictatorship are limited in their capacity to address the processes dictators engage in to discover the information relevant to their decision-making; thus these critical economic activities have been largely ignored by economists. Reexamining the dictator's problem under conditions of imperfect knowledge leads to interesting questions about his behavior and reveals possible explanations for some of his seemingly counterintuitive actions. Further research on the institutional arrangements employed by dictators to inform their allocation decisions and keep them apprised of changes in citizen preferences could provide insights into questions about the stability of different regimes, the effects of international efforts to promote democratic institutions, the existence or absence of particular institutions, and many more.

UNINTENDED RETURNS: THE UNPLANNED ROLE OF NONPROFITS IN THE ECONOMY AND SOCIETY

1. Introduction

The nonprofit organization is typically viewed as a provider of particular public goods outlined by their mission. This conception of the role of nonprofits leads to questions of whether the nonprofit is offering the right kind of good, producing the optimal quantity of the good, or providing it to those who need it most. As people search for ways to achieve the optimal mix of public goods, they often consider how government involvement in their provision, sometimes as a competing producer and other times as a funder of private nonprofits, might improve the situation. This has given rise to a contentious debate over the impact of state involvement in the nonprofit sector. Many advocate increased opportunities for joint efforts (e.g. Abramson, Salamon, & Steuerle 2006; Reid, 2010; Salamon, 1987) while others claim these types of partnerships negatively affect the nonprofit's capacity to provide public goods (e.g. Boettke & Prychitko 2004; Husock, 2010; Lohmann 1992; Wuthnow 2006). Still others see both good and bad aspects and remain undecided about the net benefit (e.g. Brinkerhoff, 2002; Gazley, 2007; Smith, 2006; Young, 2006). Attention is focused on the ability to achieve the intended outcomes identified by the nonprofit's mission statement – increase awareness for a cause, eradicate a disease or social malady, care for the needy. With this emphasis, it is easy to overlook the critical social functions of nonprofits that are not so

explicitly outlined in the mission and, therefore, inadequately assess the full effect of state involvement.

Nonprofits provide an arena for people to come together and address their common problems by engaging in a discovery process. They can identify situations within their society that could be improved, brainstorm ideas for improvement, put them into operation, evaluate their success, and make adjustments.³ The role the state plays in the nonprofit arena impacts the capacity of the nonprofit to provide an opportunity to develop these skills. These skills are transferrable and enhance the problem solving capabilities of actors in the political and market arenas as well (Boettke & Coyne, 2008; Ostrom, 1997); thus, the effects of any interference in this discovery process reach beyond the nonprofit sector.

Moreover, placing the emphasis on the nonprofit as a public goods provider whose interactions with the state are limited to receiving funding and complying with the tax code discounts the complexity of the relationship. The nonprofit is seen as a operating in its own environment separate from the state's and can choose to interact or not with the state in the provision of various public goods. The reality is that the state has a stake in the operation of the nonprofit and will participate in that arena, to include changing the rules governing nonprofit operations, in a way beneficial to it.

Because the focus of current literature is on the role of the nonprofit as a provider of public goods, the other ways nonprofits contribute to the economy and society receive inadequate attention, and consequently the impact of state involvement in the nonprofit

³ Kirzner (1978) details this process in the contexts of for-profit environments.

sector is not fully evaluated. There are, however, a few authors that acknowledge the importance of the other roles nonprofits play (Boettke & Prychitko, 2004; Boettke & Coyne, 2008; Ostrom, 1997). This essay builds upon their work and uses the ideas behind market process theory to understand the role nonprofits play at each stage in their discovery process. It provides specific examples of how these roles are affected by government participation in the nonprofit sector and also examines the impact these changes have on individual organizations, the nonprofit and for-profit sectors, and society.

This paper is organized into six sections. The one that follows describes how nonprofits engage in a process that guides how they allocate their resources and the different functions nonprofits serve as they engage in that process. The third section discusses the different roles the state may play in the nonprofit sector, while the fourth addresses how the state's role changes the incentives that influence the behavior of the nonprofit. Implications of increasing state involvement with nonprofits are explored in the fifth. The final section concludes.

2. The Nonprofit's Unplanned Roles

Many studies that emphasize the role nonprofits play in increasing the quantity of public goods available also acknowledge their role in providing them in ways that better address the heterogeneous preferences of citizens (Boris, 2006; Reid, 2010; Smith, 2006). However, these studies do not give adequate consideration to the importance of this role beyond increasing the variety of public goods. The nonprofit engages in a discovery process that guides how it chooses to allocate its resources. Focusing solely on the final

output obscures other aspects of this process that serve important functions in the economy. The process consists of recognizing an opportunity to improve a particular situation, developing ideas to employ towards that end, experimenting with the operationalization of those ideas to find those that are able to successfully compete for scarce resources, receiving feedback on the implementation of those ideas, and adjusting to that feedback. In contrast to the top-down plans of the state for public goods provision, nonprofits allow this process to unfold from the bottom up. This process encourages the creation of new ideas, the use of local knowledge to find and suggest improvements, and the practice of skills contributing to effective self-governance (Boettke & Coyne, 2008; Boettke & Prychitko, 2004; Chamlee-Wright & Myers, 2008; Hayek, 1978, Ostrom, 1997).

There are many ways in which different individuals think their lives could be enhanced by improving the communities in which they live. One has only to look at the panoply of flyers, appeal letters, and holiday cards that arrive in the mail during the Christmas season, just in time to make a last minute donation before the end of the tax year. Children from far away places are featured on glossy brochures. Their big, dark eyes reveal an innocence lost too soon, but their wide grins show gratitude for the gift they just received from the nonprofit whose address appears on the return envelope. From wild animals to adorable puppy dogs, elderly invalids to orphaned infants, or inter-city parks to entire rainforests – the wide variety of causes reflect the differences in individuals’ preferences and perception of the priority that should be given to various social problems.

The ideas for how to address this assortment of social concerns are as varied as the concerns themselves. Every individual's experiences grant him unique knowledge that helps him adapt and thrive in his environment and may lead him to create or improve upon some device or institution that would benefit many other people (Hayek 1978, pp. 22-38). For example, the Society for Education, Action, and Research in Community Health (SEARCH) was started by two doctors whose cultural and medical knowledge helped them recognize an opportunity for improvement in rural Indian communities and devise a solution that worked within that social and economic context. Many neonatal fatalities in rural India are the result of common illness that can be easily treated. SEARCH trains local women to diagnose and treat these illnesses. The villages where these women work have experienced a 70% reduction in newborn deaths (Hudson Institute Center for Global Philanthropy, 2010). When individuals are encouraged to introduce and experiment with new ideas, there are expanded opportunities to discover improvements to the existing use of resources.

As individuals work to put their new ideas into operation, they compete for scarce resources with others seeking to implement their own ideas. Competition is an important part of the process of discovering which innovations are valued by others. People evaluate the alternatives available to them and choose to allocate their resources towards those activities they believe will best help them achieve their desired ends (Mises, 1949). For profit entrepreneurs discover how much their innovation is valued by the profit they receive, but the feedback the nonprofit entrepreneur receives is not quite as straightforward. First, their consumers are not necessarily the same individuals who pay

for their goods and services. For example, a donor may fund the construction of a dwelling that another individual occupies. The nonprofit must consider feedback from both parties, or it will have neither the funds necessary to continue production nor participation from its intended beneficiaries. Second, nonprofits are often trying to “sell” something that is not easily identified or measured. Even those that price their goods for donors do not try to appeal to the donor’s sense of value for the good itself. For instance, Oxfam sends a catalogue of different farm animals that can be purchased to help poor families in need. The description describes the outcome they believe will be achieved by providing the animal. “By providing traditional herders with additional livestock (one cow and a pair of sheep), you increase a family's income substantially and improve their nutrition. The most exciting benefit? Improvements of this magnitude offer life-changing opportunities to a poor family. By increasing a family's income, you create a surplus that can be used to send children to school.” (Oxfam, 2012). An outcome such as “life-changing opportunities” is difficult attribute to a specific action like increasing an individual’s endowment by an additional cow. Donors in this situation demonstrate a certain amount of trust in the expertise embodied in the nonprofit that their gift is indeed being used in a way that will lead to the outcome they value – that they are seeking the same end. Other times, stakeholders may wish to have more say over the particular means used. They may volunteer to serve on financial or strategic planning committees and have greater influence over how the nonprofit pursues its mission. In all these scenarios, the nonprofit is receiving feedback about its operations, the value that is placed

on the expertise it is believed to provide and the particular means it employs to achieve its goals.

Because of the difficulty inherent in measuring and monitoring performance, nonprofits take great care in developing and nurturing relationships with their stakeholders. It is important that what stakeholders know of the nonprofit's operations through their personal interactions convince them that the nonprofit is creating value worth their investment. The willingness of employees, volunteers, and donors to support the nonprofit with both time and money is an important source of feedback for nonprofit managers and lets them know that there is alignment between what these stakeholders value and the work of the nonprofit. Employees are often motivated to work with a particular nonprofit because their beliefs align with its mission. Many work for lower wages than their for profit counterparts, counting the sense of accomplishment they feel from contributing to the betterment of society as part of their compensation (Preston & Sacks, 2010). Volunteers also share these non-pecuniary motivations and are integral to the operation of nonprofits. The hours they give to aid an organization demonstrate the value they assign to its work over alternative activities. Donors provide more explicit feedback in terms of monetary gifts. Nonprofits work diligently to persuade new donors to renew their gift and upgrade to a higher giving level (Center on Philanthropy, 2010a). The renew-and-upgrade cycle is continuous and its success is based upon the nonprofit's ability to sustain the donor relationship by matching donor values with the work of the nonprofit. The greater the potential gift, the more the nonprofit invests in discovering what the donor values. For smaller gifts, many nonprofits send and track differently

worded appeals to find which garners a better response. Major donors, on the other hand, receive invitations to private lunches and tours, so that managers may gain a better understanding of what appeals to them and can better communicate what it is doing in terms of what they value (Center on Philanthropy, 2010a).

It is not enough for the nonprofit to simply collect feedback from stakeholders on its operations. It is inevitable that conflicts between what individual stakeholders value will occur. These cannot be ignored, because they provide information on how stakeholders are willing to allocate their resources and will determine whether the nonprofit is able to continue operating. When monetary prices are not available to guide the choices of nonprofit entrepreneurs, more personal interaction is required to provide the feedback needed to make adjustments in line with what the stakeholder values. These interactions provide opportunities to develop abilities to self-organize and self-govern - the two essential elements of a “democratic way of life” (Ostrom, 1997, p.3). This way of life depends on a culture of inquiry to discover better methods of organization and governance. People take it upon themselves to participate in this process and learn to resolve the conflicts between them.

Nonprofit organizations serve a function far beyond addressing the particular social problem summarized by their mission or providing specific public goods toward that end. They provide an outlet for individuals to try out different ways of improving the society in which they live. Much of the information they require to achieve their goals is not available in the form of monetary prices, so they aid in the development of other means of discovering and utilizing local knowledge to align their actions with what

others value. They also facilitate interactions within families and communities that are crucial to developing the skills necessary for learning how to creatively devise ways of dealing with conflict. They promote a sense of self-responsibility for problem solving rather than relying on someone else to set and enforce rules. These contributions build a society adept at finding the best uses for its resources.

3. The Roles of the State

The state can also fill different roles in society. In *Limits of Liberty*, Buchanan (2000, pp. 53-73) describes these in detail. The first, the “protective state,” emerges from a need to enforce a mutually agreed upon contract among a large group of people. Individuals, each with their own claim to certain productive resources, must expend some of those resources to protect their claim rather than producing goods. In order to reduce this wasteful use of resources, they agree to jointly limit their defensive and predatory behaviors. This is a brilliant idea as long as there is a way to enforce the agreement. There is too great a temptation to cheat on the agreement if the parties to it are left to monitor themselves; thus, the protective state emerges to offer its services as a “referee.”⁴ This state arises at the constitutional stage of the agreement – the time when the rules defining who has a claim on particular resources are agreed upon. The protective state ensures that all parties are honoring the contract, but it does not play a role in defining the contract. It is neutral in its enforcement, does not make judgments on the merit of the

⁴ Buchanan (2000) uses this label throughout his discussion of the protective function of the state. Coyne & Boettke (2006) incorporate this into a model where the state can be either a referee or player. I continue this use of these terms throughout this essay.

stipulations in the contract, and it does not have the authority to amend the contract in any way.

When the individuals that make up the society wish to make post-constitutional decisions regarding the use of public goods, the “productive state” comes into play. This state acts an agent for the individuals of the community to facilitate reaching agreements on providing for, producing, and allocating public goods for the welfare of society. Its purpose is to coordinate the production of goods that can be more efficiently produced collectively instead of individually. This takes the form of redistributing income through collecting taxes and using the revenue to provide goods and services to some citizens. When trying to resolve issues of welfare, the state begins to make judgments on what measures it deems allowable to improve society; it becomes a “player” in the game (Buchanan, 2000; Coyne & Boettke, 2006). At this point, due to the subjective nature of individuals’ valuations of different goods, it is impossible to determine if the state is increasing wealth by providing public goods more efficiently than the private sector or if it is merely redistributing wealth.

When the state takes on this function, the implicit assumption is that it possesses a superior knowledge of how to best provide for the needs of the society. In this role, it encourages dependency on the government. Individuals increasingly rely on the government to resolve the conflicts that arise due to differences in how they value certain public goods. Additionally, as the government provides a source of revenue for organizations providing a service in line with the priorities it has determined, those organizations plan their future actions with that income stream in mind. They will

oppose any reduction of government involvement that interferes with those plans (Buchanan & Tullock, 2004, pp.182-201). As the state moves from being a referee to being a player, opportunities to benefit from a government-granted advantage increase and incentivize entrepreneurs to move towards supporting a larger government (Buchanan, 2000, pp. 147-165).

One advantage comes through government grants and contracts for goods and services and provides a powerful incentive to invite the state into the game as a player. The government does not perform this function as an unbiased, equitable provider of funding. It determines the criteria it will use to decide how to allocate its resources. It is able to set the rules that define which goods and services are provided, how they are provided, and to whom they are provided. In this way, it has growing control over the operations of the nonprofit and subsequent outcomes (Husock, 2010; Smith & Lipsky, 1993; Reid, 2010).

This transition to the player role weakens the government's credibility in its role as a referee. It has its own stake in the operations of the nonprofit and its agents face a new set of incentives; thus, it can no longer be thought of as an impartial judge. Government bureaucrats favor measures that increase the state's budget, since they receive their livelihood from it. Politicians are incentivized to vote in favor of special interests because they receive the benefits of those votes and the costs of their actions are widely disbursed. Whether they are motivated by the belief that the public good can be achieved by government means, the power of political office, or monetary gain, their goals are supported when the state joins the game as a player (Buchanan, 2000, pp. 147-

165). This transition has a profound impact on the nonprofit sector's social and economic functions.

4. Changing Roles and Incentives

The role the government assumes, that of either a referee or a player, impacts the way the nonprofit functions. In the role of referee, the government enforces the law without actively trying to intervene in the nonprofit's activities. As a player, it is actively engaged in the activities of the nonprofit. The particular role changes the incentives that influence the choices of nonprofit entrepreneurs and managers.

When the state functions as a referee, the nonprofit must rely solely on its private stakeholders and cannot petition the government to intervene and impose the plans of the nonprofit on others. It is therefore incentivized to address problems, generate ideas, and innovate in ways that they are willing to support. Competition motivates the nonprofit to seek out ways to use its resources that its stakeholders value above its competitors' endeavors. When those stakeholders consist of many different individuals, their unique knowledge and preferences create diversity in how each one values the use of his resources. The nonprofit is incentivized to pay attention to their feedback and incorporate their knowledge in a manner that sustains sufficient support to continue and improve its operation. It works to resolve conflicts that may arise from differences in stakeholder preferences. The state maintains a passive role without interfering in these activities except to enforce the agreed upon rules.

When the state takes a more active role in the nonprofit arena, its actions must be included in the nonprofit's decisions. It can fund nonprofit activities through grants or

contracts. In 2008, the federal government appropriated \$38 billion in grants and \$18 billion in contracts to nonprofits (Subsidyscope, 2012)⁵. The state can also directly compete with nonprofit providers as a producer. The Department of Housing and Urban Development provides low-income housing in the same communities Habitat for Humanity operates. Finally, the state can introduce or amend legislation that affects nonprofit operations. For instance, nonprofits began to solicit and acquire more stock donations when a change in the tax law allowed donors to deduct the fair market value of appreciated stock and avoid capital gains taxes (Abramson, Salamon, & Steuerle, 2006).

Financial support from government may increase the total budget of the nonprofit. Nonprofits with plans to scale up their operations but without sufficient private resources to do so may be incentivized to pursue government funds.⁶ In some cases, government provided funds might not increase the total budget if they have a crowding out effect on private donations (Andreoni & Payne, 2010); however, if it is less costly to obtain government funding, the incentive to seek those funds and redirect resources towards political entrepreneurship remains. Moreover, the nonprofit entrepreneur may prefer an increase in government funds that decreases his dependency on private support and, subsequently, the need to adjust his plans to meet the demands of private stakeholders. He may be able to secure a government grant that aligns with his own plans to improve society's condition (Rose-Ackerman, 1987).

⁵ The Urban Institute estimated that federal, state, and local governments gave \$323 billion to nonprofits in 2005 (Wing, Pollack, & Blackwood, 2008, p. 134).

⁶ The Nonprofit Finance Fund's 2013 State of the Sector Survey reported that the federal government paid the full costs of services for 17% of organizations surveyed. An additional 14% were completely funded by state and local governments (2013).

The state also takes on a player role when it assumes responsibility for producing certain public goods. As the number of state provided public goods and services grows, competition with existing nonprofit suppliers grows along with it. Individuals may be less willing to support private endeavors to supply public goods if they believe there is a diminished need for them due to existing government supply (Andreoni & Payne, 2010). Nonprofits that cannot compete with the state may be incentivized to partner with it instead. On the other hand, competition incentivizes nonprofit entrepreneurs to seek out innovations that private stakeholders value and differentiate what they produce from state production. Prison Entrepreneurship Program (PEP) has employed successful business strategies to rehabilitate prisoners. Their program capitalizes on the entrepreneurial skills many prisoners possess and have used to run illegal businesses and channels these towards legal activities. PEP has a return-to-prison rate of less than 5%, a stark difference with the national rate of almost two-thirds. An important indicator of how their work is valued is the fact that one in eight donations to their organization are from former program participants (PEP, 2013).

The state can also enter the game by changing the rules. The referee becomes a player when he can alter the rules of play in a way that benefits him (Buchanan, 2000, pp. 91-106). Nonprofits must operate within the constraints of the law as any other organization and are subject to following the bureaucratic processes established for their locality. It is therefore in their interest to lobby for favorable legislation or otherwise participate in the political process. The development of interpersonal relationships with key members of the relevant polity will improve the chances of successfully moving the

issues pertinent to the nonprofit through the legislative process. The Carmel Foundation's recent capital campaign is a good example of this. In 2005, the foundation began planning to rebuild an old hotel it had purchased many years earlier and converted into low-income housing for senior citizens. The foundation had just celebrated its fiftieth anniversary a few years earlier – fifty years, it boasted in its promotions, of being “supported entirely by the generosity of friends.” No government funding was accepted (Carmel Foundation, 2010). The rationale for such a policy was that it preferred to operate as best it saw fit without the intervention of government. Yet nonprofits that refuse government funding still find that they cannot completely extricate themselves from the realm of politics. A look at the history of the capital campaign reveals an intricate web of interactions defining the foundation's relationship with its stakeholders and the local government. The former mayor was on the foundation's board, and the sister of the current mayor was board president. A number of city council members were on the campaign committee. Over the course of a few years, the city waived fees, approved permits, and bended existing rules to facilitate the project (Brownfield, 2006, 2008, 2009).

When the state becomes a player in the game, nonprofits face a different set of incentives. This changes the way they play the game and can affect the different functions they serve in society. Whether the government supplies private providers with funding, produces public goods through its own agencies, or writes the rules that define the way a private nonprofit can legally operate, the relative weight given to input from those it purports to help – those who possess an intimate knowledge of the actual need –

is reduced. Instead, resources are taken from citizens in the form of taxes and redistributed according to the plans of the government and its experts.

5. Responding to Incentives: Unintended Consequences

Just as the role of the nonprofit sector in the economy and society extends beyond the provision of specific public goods, so do the effects of how nonprofits respond to changing incentives as a result of the state's move from the role of referee to player. Consequently, an increasing number of nonprofits function less as a venue to experiment with different ways to contribute to the public good, utilize local knowledge, and organize to solve collective action problems effectively. These changes impact the operations of individual organizations, the composition of the nonprofit sector, and the role individuals play in providing for their welfare.

When the state enters the nonprofit arena as a player, the individual knowledge and preferences of private citizens carries less weight relative to when the state acted only as a referee. The state's preference for which, how, and in what quantities goods are provided enter into the nonprofit's consideration and less importance is placed on private stakeholders' demand. For instance, nonprofits calculate their "fundraising gap" on an annual basis (Center on Philanthropy, 2010b). This process requires an accounting of all expected sources of revenue other than fundraising and usually includes fees for services, allotments from endowments, and returns on investments. This number is then subtracted from the amount required for the nonprofit's operating budget. What remains is the "fundraising gap." At this point, the nonprofit takes a look at its history of donations and evaluates its prospects for the coming year. If it cannot identify sufficient

sources of funding to make up for the gap, the budget must be revised to reflect the remaining difference. This is an excellent practical exercise that helps the nonprofit recognize the level of services the community is willing to support. When the government enters the picture, its contribution is added to revenue, and the increased capacity reflects its demand instead of the community's. As government funding increases relative to private support, the nonprofit drifts further from its private support base and must increasingly rely on the state (Toepler, 2010). In the case of continuous intervention, the nonprofit may increase its capital structure and level of operations but may not realize it is unsustainable until government funding is abruptly cut or reduced and its stakeholders are unwilling to make up the gap. Unfortunately, the government often changes its funding priorities depending on who is currently in a position to make the appropriation decisions, and the nonprofit is left to the mercy of government budget fluctuations and the latest political whim. The statistics do not show that this has affected the extent to which the government plays a more active role in the nonprofit sector as a whole (Abramson, Salamon, & Steuerle, 2006), but it does have dire consequences for particular nonprofits that suddenly lose their most significant funding partner.

Through consistent and substantial government funding, the nonprofit also faces incentives to change its organizational structure to become more like a government bureaucracy as it strives to remain one of the favored grantees. Government funds are not given to nonprofits without some degree of accountability, and in this way, government entities are able to extend their influence into the nonprofit sector (Reid, 2010; Rose-Ackerman, 1996; Smith, 2006). Government grants are accompanied by a

variety of stipulations. These may include who from within the recipient organization is permitted to administer the funds, for what purposes and in what amounts the funds may be used, and compliance with complex reporting requirements. Unofficial stipulations may apply as well compelling nonprofits to undertake reforms that facilitate contracting with the government in order to secure more funding. For instance, government grants typically limit the amount that can be applied to overhead to under eight percent of the total grant and are often awarded to the organization with the lowest overhead costs. This incentivizes a shift in service priorities towards those with lower overhead although that shift may be contrary to private demand (Nonprofit Overhead Cost Project, 2013). In either case, the preferences of politicians are given greater weight in the managerial decisions of the nonprofit than they were previously.

As a player, the state can give an advantage to an organization, a segment of the nonprofit or for-profit sectors, or itself. Smith, Wagner, and Yandle (2010) explain the consequences of government involvement in market affairs with a triadic exchange model. In the model, the state pursues its own interests and growth by influencing the profitability of different market entities by changing how it collects and allocates its resources among those entities. Favoring one entity causes it to grow larger than it would have otherwise. The advantage it receives from the state incentivizes it to support increasing state involvement. The same forces are at work in the nonprofit sector.

The Serve America Act of 2009 serves as an illustration of such a triadic exchange. Through the act, fifty million dollars are appropriated each year for the Social Innovation Fund that, in turn, makes grants to nonprofit organizations. Political support

for the bill was evidenced by the fact that it was signed into law just over a month after it was introduced and received overwhelming bipartisan support from both the House and Senate (Corporation for National and Community Service, 2010). It seems that a bill that calls for Americans to serve their country would be beneficial for all. What is perhaps not so readily apparent is how such a bill may be a means of supporting a particular political agenda. The Social Innovation Fund made generous grants to organizations promoting obesity prevention and sustainable development; both causes are closely related to initiatives supported by President and Michelle Obama. These grants were funded with tax revenues that might have been directed towards other organizations had they remained in the possession of taxpayers. A subtler effect is also at work. The government awarded the funds as matching grants purportedly to promote increased private funding. A number of private foundations responded enthusiastically and pledged their support. What is not apparent is which organizations they would have chosen to support had the government not provided an impetus to look in a certain direction (Husock, 2010).

As the quantity of government funding increases, there is a greater potential for this intervention to benefit more than just a few individual organizations. The composition of the entire nonprofit sector could be affected. This may be most evident by examining the amount of funds funneled to health related nonprofits. In 2003, the government gave away 55.1 billion dollars in grants to this category (Abramson, Salamon, & Steuerle, 2006). This number does not include government contracts for services or payments received from Medicare and Medicaid. It is easy to see how

funding of this magnitude would lead to disproportionate numbers of health related nonprofits.

This growth for a particular section of the nonprofit sector can offer an advantage to complementary for-profit firms as well. Pursuing the U.S. Green Building Council's platinum rating for its Leadership in Energy and Environmental Design certification was key to Chartwell School's capital campaign strategy (Chartwell School, 2010a). One of the results of this decision was the development of a close relationship with the regional Environmental Protection Agency office that led to significant publicity as well as grant money, but Chartwell was not the only beneficiary of this involvement. Chartwell used its campaign funding to contract with Blueline Power to install state-of-the-art solar panels. This small, local business seized the opportunity to ride on the coattails of Chartwell's success, and the project became a central part of their advertising (Blueline Power, 2007). In 2003, the government awarded 1.4 billion dollars in environmental grants (Abramson, Salamon, & Steuerle, 2006), the impact of which reached beyond the nonprofits involved into the supporting "green" industry. At least a portion of this industry growth can be attributed to the state's role as a player in the environmental segment of the nonprofit sector.

What may be the least noticeable changes brought about by increased government participation with nonprofits are perhaps the most profound. They revolve around the way in which individuals' interact with each other politically and socially. Because state involvement can provide an advantage for the nonprofit, it is incentivized to direct its efforts and resources towards that end. However, political entrepreneurship individuals

receive special treatment at the hands of the government, it erodes the trust of those left out of the alliance between the government and the favored party. One group has made known its willingness to leverage political influence to gain an advantage rather than compete on equal footing. Likewise, members of the government have signaled that they are open to providing special assistance to their allies at the expense of those who choose not to partner with them. The competition becomes focused on obtaining political aid and breeds resentment in those on the losing side. The rules of the game have been rewritten without their approval and the results seem unfair. This erosion of trust affects how individuals interact with each other and has detrimental effects on the level of social capital and, consequently, impairs exchange (Granovetter, 1985; Knack & Keefer, 1997; Leeson, 2005; Tabellini, 2010; Williamson, 2010).

Government promotion of some nonprofits over others also allows it to shape social values. Which values receive priority is determined by political process, reducing the influence of privately provided checks on political power inherent in a privately controlled nonprofit sector. The crowding out of private support fosters an apathetic attitude toward serving the community as the population comes to depend on the government to fill this role. The democratic way of life requires personal participation and responsibility from the individuals that make up society; therefore, is in danger of breaking down when people begin to look to government to solve their problems. They develop the habit of relying on the state to take care of them – to devise a one-size-fits-all plan that they can embrace under the guise of promoting equality. In time, as Tocqueville (1945, p.318) lamented, “what remains, but to spare them all the care of thinking and all

the trouble of living?” Ostrom (1997, p. 17) characterizes this as a “sickness of the people” that leaves them in a state of utter dependence on the government and without the ability to reform it.

The level of interpersonal interaction required to guide the actions of nonprofits increases the self-governance capacity of those individuals who have come together to devise a solution to their common problem. Through repeated interactions to address and resolve conflict, citizens practice collective problem solving skills and craft and agree on alternative solutions. This knowledge gained through repeated interactions builds trust, reduces uncertainty in future interactions, and decreases dependency on the state to solve social problems and provide public goods.

When nonprofits respond to the incentives present when the state becomes a player, their function in vetting different ways of improving the lives of the individuals in their communities in ways that are valued by those individuals is diminished. The state’s preferences guide the decisions of the nonprofit and discourage experimentation with other ways of approaching collective problems. Private stakeholders move from being active contributors to passive free riders as the marginal benefit their efforts and resources contribute to the success of the nonprofit is reduced (Rose-Ackerman, 1987). This serves to pave the way for a growing state role in the nonprofit sector, the overall economy and society.

6. Conclusion

Many nonprofits aspire to scale-up their operations, but additional funding is needed for this expansion. They feel they are providing a good that is in too short supply,

so in their opinion, the more they can extend their reach, the better off society will be. Much of this motivation stems from altruistic desires. For instance, Chartwell School offers a state-of-the-art school for students with dyslexia and other learning variations (Chartwell School, 2010b). Not only have they been engaged for several years in a campaign to build facilities that increase their own capacity to provide services to a growing number of students, they also have an active outreach program that assists other schools in developing similar programs and replicating the Chartwell learning environment. The outreach program is not a significant source of revenue. In fact, it actually promotes the creation of programs that would compete with Chartwell's services (Chartwell School, 2010c). They are driven, like many other nonprofits, out of a desire to help right a perceived wrong. It is easy to see how the large sums of money the government offers to nonprofits are tempting despite the numerous strings attached. Indeed, nonprofits struggle with what they see as a moral dilemma – whether to be subject to the influence of government but able to provide more services or to be able to act independently but impact fewer lives (Smith, 2006).

This essay has shown how this view limits the assessment of the government's involvement with the nonprofit to its impact on the organization's provision of specific public goods and fails to account for its not so explicitly stated functions. This omission leads to underestimating the social and economic costs of government intervention. The role the state plays in its interactions with nonprofits changes the rules of the game and corresponding incentives that determine how nonprofits function. Consequently, the role of the nonprofit sector within the economy and society is fundamentally altered. The

increasing consideration given to the preferences of the state diminish the opportunities the nonprofit would otherwise provide to try out competing ideas and incorporate feedback from its private stakeholders. This change also creates an environment of distrust and uncertainty that impedes the role of the nonprofit in providing occasions for individuals to come together and find solutions to their collective problems.

The ways nonprofits perform these functions is best understood by examining the process they engage in to discover how their work is valued. The non-priced environment draws attention to the importance of the subjective nature of what individuals value and the necessity of a process in which individuals can interact to learn how others value certain goods relative to other goods. This knowledge that values are generated through a process rather than being an assignable or inherent characteristic of a particular good had critical implications for recent trends in measuring nonprofit effectiveness.

Many new evaluation techniques have a common thread; they focus on assigning a monetary value to the end result. Consider, for instance, attempts to calculate social return on investment (SROI). The idea behind SROI is to develop a standardized way of valuing the social impact of an organization. Impact is determined by first assigning values to tangible output like meals served or vaccinations administered. Then, the outcome is evaluated by identifying long-term changes due to these outputs and assigning that a value. For instance, healthier satiated people were 25% less of a burden on the healthcare system in five years resulting in a savings of \$50 million. Impact is the difference in that value and the one of the outcome that would have occurred had the

nonprofit not provided the good. The cost of providing the good, in this case healthy meals, is subtracted from the calculated value of the impact to find the SROI (Berg & Månsson, 2011; Cabinet Office of the Third Sector, 2012). The way values are generated and discovered, as explained in this essay, show the error in this logic. A value cannot be assigned to a single good in isolation; its value must be measured relative to all other goods and is constantly evolving to reflect changes in relative scarcity and individual preferences. A process is necessary to discover these changes and make adjustments (Hayek, 1984; Kirzner, 1963; Mises, 1949). Not surprisingly, much of the push towards developing standardized methods of evaluating nonprofits comes from the government, which has limited ability to access local knowledge and make timely adjustments.⁷

Nonprofits have the potential to organize individuals and combine their resources in ways that help them provide goods and services not supplied by market-oriented firms more effectively than they would be able to do on their own efforts. An examination of the process by which they do this illuminates the many other ways they benefit the economy and society. This process-oriented approach also emphasizes the importance of accessing the knowledge of private stakeholders and clarifies why attempts to define the value of nonprofit endeavors without incorporating that input are destined to fail. This analysis casts considerable doubt on the ability of the state to produce public goods in a

⁷ In response to state-sponsored methods of evaluating performance, private organizations are collecting, organizing, and publishing information about the activities of individual nonprofits in an effort to hold them accountable to the standards private donors and volunteers demand of them. One of the largest, Charity Navigator, allows people to search for organizations by whether or not they receive government funding (Charity Navigator, 2010).

manner that creates value in civil society and suggests that government participation in nonprofit activities is merely a means of redistributing wealth in line with its own values.

THE JASMINE REVOLUTION: SWEET FRAGRANCE FOR ALL TUNISIANS?

1. Introduction

During the 1950's, there had been growing unrest in Tunisia. Complaints of unfair employment practices by the government and worsening economic conditions resulting in growing unemployment and food shortages fueled the political agendas of labor unions and religious groups. Frustrated by a repressive regime that permitted no outlet to voice opposition to its policies, Tunisians participated in violent protests to demand change.

This description of the years leading up to Tunisia's independence from France is nearly identical to the one for the events before the coup d'état led by Zine al Abidine ben Ali in 1987. Likewise, it could describe the situation before the current Jasmine Revolution. The regime change in 1956 was the result of a lengthy and sometimes violent struggle for independence from a foreign power, a marked contrast to the swift and bloodless coup d'état that ushered in the new regime in 1987. Nevertheless, it can be argued that the circumstances leading to political unrest, the demands of those seeking change, and the eventual political and economic outcomes of both regimes were strikingly similar. Thus far, it appears there is little difference in the circumstances and demands of the current revolution compared with those of previous political uprisings. It remains to be seen whether the political and economic situations will improve over the

long term, but there is little to indicate that the revolution will bring about substantial positive change in either of these areas.

Acemoglu and Robinson (2006) describe the interdependence of political and economic institutions in a way that may shed light on their persistence. In their model, political institutions determine *de jure* political power, which is used to support economic institutions that determine economic performance and the distribution of resources. *De facto* political power comes from the distribution of resources and ability to solve the collective action problem of removing those with *de jure* power and determine the political institutions in the next period. It is clear that those with *de jure* power would seek to put in place those institutions that would distribute resources in a manner that would bolster their *de facto* power as well, but what happens if *de facto* power is gained via the ability to solve the collective action problem? Three times, Tunisians have witnessed this occurrence. The results have been regime change but not change in the political institutions.

Acemoglu (2011) acknowledges that authoritarianism persists in some countries despite substantial changes in who holds political power. He points to social beliefs as a key factor contributing to the persistence of institutions and an important avenue for future research. This recognition of the role social beliefs play in shaping the economy is not new. Individuals make decisions under conditions of uncertainty, and therefore, must estimate the data they require for those decisions. The information they need is generated through a process of detecting and correcting errors in their estimates (Kirzner, 1978; Mises, 1949). This learning process takes place within a social environment whose

customs and beliefs shape the experience and knowledge of the individuals who comprise the society and provide a set of collectively held assumptions that define rational behavior and reduce uncertainty (Arena & Festré, 2006). Boettke, Coyne, and Leeson (2008) attest to the significant influence social beliefs have on individual behavior and the institutions that emerge from their interactions. The most enduring institutions are those founded on indigenous social beliefs. The changes Tunisians have proposed to their political institutions suggest a new set of procedures (free elections, pluralism in the legislature, redrafting the constitution), but do not address the underlying source of their inability to adopt robust political institutions, which rests in their beliefs of the authority and responsibility that should be given to their leaders.

The literature surrounding the political and economic failures of Tunisia's different regimes falls into the same trap as Tunisian revolutionaries and reformers in that it generally misses the importance of ensuring that the new political institutions they endorse actually constrain the power of the ruling elite. Each new head of state has come to power following a period of economic decline. In an effort to rally support for his new regime, he enacts political and economic reforms. Some of the literature has praised these efforts as steps toward fostering democracy and encouraging economic growth (e.g. Borowiec, 1998; Geyer, 1998; Tessler, 1990; Vandewalle, 1988) but the tone quickly turns critical when it becomes apparent that the new regime is not going to honor its commitments (e.g. Gasiorowski, 1992; Hibou, 2011; Schraeder & Redissi, 2011). What is absent in this literature is an understanding of how the elements of a robust political economy, or lack thereof, affect the distribution of political power and, subsequently,

resources. Adopting seemingly democratic institutions is not sufficient to ensure lasting political and economic change. Constitutional constraints must limit the power of the ruling elite and their ability to channel resources towards their own ends.⁸ However, the problem extends beyond the recognition of the need to limit state power. One must also ask why Tunisians, who have successfully removed oppressive regimes three times in the course of sixty years, have so unsuccessfully restrained the power of the new regime.

In this paper, I argue that Tunisian beliefs regarding the role of the head of state focus attention away from the reforms that could lead to significant change in political institutions and subsequent economic institutions and performance. The problem is not who leads the government. The real issue is restraining the power of those who lead. Tunisians' demand for the replacement of the cabinet members and regional governors soon after the start of the Jasmine Revolution and their ban on Ben Ali's political party (BBC 2011b; Reuters 2011) shows their lack of understanding of the true causes of their undesirable political and economic situation. They do not recognize the limitations a central government faces in providing for the welfare of its people, nor do they acknowledge how vulnerable it is to exploitation. A continued reliance on a powerful state to provide the answers to their problems will set the stage for history to repeat itself once more, regardless of who is in power.

Habib Bourguiba and Ben Ali's governments were established in a manner that was consistent with social beliefs, yet these beliefs did not support robust institutions -

⁸ Many authors address the questions of how to constrain those motivated by selfish interests in government and the problem they face in determining and providing for the welfare of their citizens (e.g. Boettke, 2001; Buchanan, 1975, 1999; Cropsey, 1955; Hayek, 1945, 1960; Mises, 1998; Pennington, 2011; Wagner, 2007).

those that will endure when information is limited and people act opportunistically (Leeson & Subrick, 2006; Pennington, 2011). Bourguiba and Ben Ali's governments failed in both these respects. They were established in a manner that allowed them to unabatedly pursue their own interests, and both men enacted ambitious economic policies that required knowledge beyond the reach of a centralized government in order to succeed.

The contributions of a nineteenth-century, Tunisian political philosopher, Ahmad ibn Abi Diyaf (Bin Diyaf), help in understanding the origins of some of the social beliefs leading to the persistence of the political system in Tunisia. Bin Diyaf acknowledges both the problem of imperfect information and self-interested behavior. He refuses to reject the single-ruler form of government represented in the religious texts but acknowledges that the ruler may be tempted to serve his own interests. He insists that a constitution is necessary to prevent this. Additionally, he outlines the role of a consultative council that serves as a further check on the ruler's power while providing him with the wisdom of many different opinions to guide his decisions (Bin Diyaf, 1872/2005). Bin Diyaf's conception of the model government is key to understanding the problems inherent in the Tunisian form of government. I shall use his ideas to help the reader understand the social beliefs that underlie the history of Tunisian political economy since its independence, the persistence of Tunisia's political institutions, and the prospect of future change.

This paper is organized into five sections. The one that follows presents Bin Diyaf's analysis of an ideal government and sheds light on some of the political beliefs

that persist in present day Tunisia. The next section presents a brief overview of the events leading to each of the three most recent attempts to establish the ideal government in Tunisia and how social beliefs hindered changes to political institutions. The ideas behind Bin Diyaf's mechanisms of constitution and council are expanded in the fourth section to build a framework for classifying various regimes and assessing their ability to meet the demands of Tunisian protestors. The final section concludes.

2. Consultation and Constitutions

Social beliefs regarding the head of state are key to understanding the persistence of authoritarian government in Tunisia. Tunisians were introduced to the concept of a single ruler over the entire region after the Arabs conquered the Berber tribes of North Africa in the seventh century and converted them to Islam. Beginning in 800, Tunisia was ruled by a succession of six dynasties until 1881 when it became a French protectorate (Harris & Koser, 2004, p. 28). Islam's religious texts instruct that the people should be led by a single ruler and should submit to him even under oppressive circumstances. "A just ruler is better than a downpour of rain. A destructive lion is better than an oppressive ruler. But an oppressive ruler is better than continuing civil strife." (ibn Abi Talib quoted in Bin Diyaf, 1872/2005, p. 47)

In the nineteenth century, Ahmad ibn Abi Diyaf⁹ (Bin Diyaf) wrestled with the problems of how a ruler would know what was in the public interest and how to restrain him from following his "own passions, whether they accord with the public interest or

⁹ Bin Diyaf was a high-ranking governmental scribe during the latter years of the Husaynid dynasty, and his rank afforded him a privileged position in the inner circles of government. He was highly educated and extremely well versed in the religious texts. This combination of political experience and educational background contribute to his unique insights into Tunisian society and politics. (Brown, 2005, p. 1-2)

not” (Bin Diyaf, 1872/2005, p. 45). He suggested two mechanisms that would be compatible with Islam and could be used to inform the ruler how to best care for his people as well as limit his selfish tendencies. One, given by revelation, is the principle of consultation, and the other, derived by reason, is a written constitution.

Consultation is fundamental to the Islamic conception of governance, modeled even by the prophet Muhammad who “did not need to consult them [the council], but he wanted it to become the accepted tradition for rulers” (Hasan al-Basri quoted in Bin Diyaf, p. 99). Bin Diyaf warned, “without consultation, the public interest is not realized and accepted by all the people,” (p. 99). In Bin Diyaf’s interpretation, consultation is the responsibility of the *ulama* (council of religious clerics). It is their duty to watch over the actions of the ruler, advise his decisions, and consult with him when they believe he is straying from his responsibilities as laid out in the Qur’an (pp. 80-83).

“Bin Diyaf’s more modern recommendation was that of a constitution. He describes the law that limits the government as

...the rule that shields the entire community and by which corruption is removed and on which the achievement of goals depends. The possessor of this type of rule is the shadow of God on earth, to whom the oppressed appeal and who heals wounds with his justice. This is because his rule is encircled by both reason and the Religious Law. The possessor of such authority conducts himself in all his acts according to a well-known and reasonable rule that he never oversteps.”

(p.75)

It is clear that Bin Diyaf envisions the ruler as one who is exceedingly virtuous and provides for the welfare of his people, yet the fundamental concept of limiting his power is still present.

Bin Diyaf goes on to describe the areas of governance the constitution should address. These include “security of the person, wealth, and honor ...which includes the right to equity in judgments” (p. 97), “taking revenue from the subjects” (p.99), defense (p. 100), debt and public expenditures (pp. 100-104), religious freedom (p. 134), and free trade (p. 135). Despite the liberal tone of his arguments, the first article of The Fundamental Pact, the constitution proposed by Bin Diyaf, reflects a fatal flaw in his reasoning.

1. The assurance of protection to all of our subjects and the inhabitants of our country without regard to their religion, language, or color. Their honored bodies are to be respected, their wealth inviolate, and their honor esteemed, *the only exception being cases duly brought to court and reviewed by us. We will reserve the right to sign the sentence, or reduce it or return it for review.* (p. 133, emphasis added)

Ultimately, Bin Diyaf leaves the interpretation and execution of the constitution in the hands of the ruler and his council and trusts in their ability to maintain integrity in their decisions.

Bin Diyaf realized that rulers are susceptible to the same limitations and temptations as any other man, which could lead to dire consequences for a nation. “A ruler may prefer to rely on compelling royal force, seeing that as an instrument for

subduing and carrying out his whims...With heavy state expenditures, the sail becomes larger than the ship,” (p. 100). Unfortunately, Bin Diyaf’s proposed solutions do not meet the standards of a robust political economy. His idea of wisdom being found in the council of many is a good start, but he does not carry it nearly far enough. A consultative council consisting of the religious elite does not have the “creative powers” of society as a whole to discover new and better ways of promoting the public interest (Hayek, 1960, pp. 22-38). Furthermore, the council members are not held accountable to anyone nor held back from pursuing their own interests. Their virtue is left unquestioned. As for the constitution, Bin Diyaf’s refusal to deny the ruler and his council the ultimate decision making authority effectively nullifies its constraining power. The power to amend law coupled with the opportunity to benefit from those amendments creates a strong incentive to pursue personal over public interests.

Following its independence from France, the Tunisian government took a form remarkably similar to what Bin Diyaf had envisioned. Unfortunately, this included a single party assembly (Azarva, 2007; Vandewalle, 1988) and a constitution with provisions that allowed for the final authority on all matters to lie with the president (Sfeir, 1959). Even amidst current calls for democratic representation and political competition, the head of state is seen as occupying a dominant place in the government and bearing the responsibility for economic reforms. The power granted to him is a substantial obstacle to establishing a government that will credibly commit to lasting democratic reforms. Furthermore, the constitution is believed to stand on its own as a means of preventing the abuse of power. Equal consideration is not given to the reliable

enforcement of its provisions. Together, these beliefs create an environment in which the head of state may easily manipulate political and economic institutions. It should not be surprising then that authoritarian institutions persist.

3. Historical Narrative

According to Acemoglu and Robinson (2006, pp. 674-679), those with *de facto* political power should determine the political institutions in the next period which in turn determine who has the *de jure* political power. It makes sense that those with *de jure* power would support political institutions and distribution of resources that would strengthen their *de facto* power and give them continuing *de jure* power. However, significant changes in *de facto* power, such as those witnessed in a revolution, provide a greater opportunity for changes to political institutions. When the newly empowered portion of the population is concerned with enforcing the commitments of those to whom they would grant *de jure* power, they will devise new political institutions that restrain that power. Tunisian history shows that exercise of *de facto* power has indeed led to a change in *de jure* power but without substantially changing the political institutions that allow those with *de jure* power to rewrite law and propose policy in ways that increase their own resources and power. Beliefs in the preeminence of who has the *de jure* power instead of the importance of robust political institutions that define the rules for the use of that power has led to bypassing that essential step in the process of political change. Subsequently, as the model predicts, economic institutions are established that support a distribution of resources that strengthens the *de facto* power of the ruling elite. This leads to the maintenance of political institutions that increase *de jure* power, and the cycle of

political repression and economic favoritism repeats. This cycle is revealed by examining the events that preceded and followed the last three changes in *de jure* political power in Tunisia, starting with its independence from France.

From 1881 until 1956, Tunisia was a French protectorate. France actively encouraged colonization of Tunisia during this time by appropriating prime land for the colonists' use, lightening their tax burden, and paying a bonus to colonists who were also government employees (Perkins, 2004, pp. 40-42 & 75-76). These activities gave French enterprises an advantage over their Tunisian counterparts, reduced the number of jobs available for Tunisians in the government sector, and served to engender resentment among Tunisians, creating an environment ripe for political activists to mobilize.

The world wars also contributed to the volatile political situation. Like many other countries, Tunisia and France suffered severe economic depression after the war. To alleviate its own financial hardships, France increased taxes for Tunisians and encouraged French colonists to return to Tunisia, thereby exacerbating the tensions between the two groups (p. 75). Following World War II, postwar inflation and drought contributed to extensive food shortages in Tunisia. The post war period also left France in a weakened position as it was forced to focus many resources within its own borders rather than abroad.

Political activists took advantage of worsening economic conditions and growing public sentiment against the French colonists to organize opposition groups. The *Dustur*¹⁰ Party was formed in 1920 and tried to cultivate the Tunisian Arab-Islamic

¹⁰ *Dustur* is the Arabic word for constitution.

identity in order to focus attention on their differences with the French. France's discriminatory policies had negatively affected the vast majority of Tunisians; thus, it was relatively easy to further the party's political agenda by building on existing resentment toward the French and uniting Tunisians against them. The party offered the solution to this problem. It championed a constitution that would give the power to them and not the French to oversee the affairs of Tunisians (Perkins, 2004, pp.). They would ensure that their fellow Tunisians were treated fairly.

Conflicts within the Dustur Party compelled a number of their members, including Habib Bourguiba, to form the Neo-Dustur Party in 1934. The Union Générale des Travailleurs Tunisiens (UGTT) organized in 1946 to protest the disparity in wages between Tunisian and French workers and lend its support to the Neo-Dustur Party. The leadership of these groups also worked to foster a strong sense of nationalism. Tunisian Muslims who became French citizens were ostracized and denied many religious privileges. They encouraged Tunisians to reject French fashion and wear conventional Tunisian attire. Theatre groups produced plays, a common form of entertainment at that time, which glorified historical Tunisian figures and traditional culture. They upheld that replacing French authorities with Tunisians (either through total independence from France or a constitution that granted Tunisians political power in the protectorate) would put an end to unequal employment practices, legal treatment, and political status (Harris & Kossier, 2004, pp. 31-33; Moore, 1962; Perkins, 2004, pp. 79-129).

Escalating violence and declining economic conditions raised the cost of maintaining their rule over Tunisia beyond what France was willing to pay. They granted

Tunisia independence in March of 1956. One week later, the Neo-Dustur party won all ninety-eight seats in The National Assembly. The Assembly elected Bourguiba to be Tunisia's first president the following year. Bourguiba was a hero of Tunisian independence (a role that he enthusiastically embraced) and enjoyed widespread popular support. Yet he still faced opposition from other political groups that had hoped to play a leading role in the new government. Bourguiba resorted to suppression of all opposition to maintain his regime's political stability. Importantly, this included bringing the practice of Islam under state control (Alexander 1997; Moore 1962; Perkins 2004, pp. 135-141). He put government officials in charge of administering the use of religious land and resources. The judges in the sharia courts had authority to interpret and enforce Islamic law, which was separate from secular law, and therefore held a great deal of power. Bourguiba dealt with this competition by dissolving the courts. He subsequently formed the High Court and promptly brought to trial a number of individuals that posed a particularly strong threat to his position (Perkins, 2004, p. 131). This, coupled with special privileges bestowed only on members of the Neo-Dustur Party such as eligibility for government employment, ensured at least outward support for his single-party/single-leader approach to politics. In 1974, The National Assembly, still controlled by the Neo-Dustur party, declared Bourguiba "President for Life." Bourguiba had successfully established a government that would give him continued *de jure* power and not hinder his pursuit of his own plans.

With *de jure* power secure, Bourguiba sought to expand his *de facto* power by controlling the economy. One of his first actions was to institute a central ministry of

planning for economic growth. The ministry's first 10-year economic plan called for a number of interventions including state control of foreign-owned enterprises, construction of state-run factories, and state sponsored agricultural cooperatives.¹¹ These interventions fell far short of their goals, and the first plan was eventually abandoned. Nevertheless, the economy actually fared much better than it would have due to two unexpected sources of income - the discovery of oil in Tunisia and an increase in remittance inflows (Boulby 1988; Perkins 2004, pp. 146-155; Vandewalle 1988). Subsequent economic plans (now shortened to five years) initiated liberal reforms, but government policies still favored development in certain industries (export-oriented manufacturing, tourism) and others (agriculture, utilities, housing) continued to be heavily subsidized. Partial liberalization mainly favored business owners who, not surprisingly, were members of the PSD, and government interventions continued to erode the Tunisian economy (Perkins, 2004, pp. 160-164). In the mid-1980's, a dramatic fall in crude oil prices and increasing security threats severely affected Tunisia's two most successful industries, oil and tourism, and accelerated the economic decline. Once again, Tunisians found themselves in a deteriorating economy with a government that acted to protect the interests of a privileged few.

The opposition to the government that arose in the late 1970's and 1980's bore a striking resemblance to developments preceding independence. Labor unions and a group promoting a return to Tunisia's Islamic heritage, the Mouvement de la Tendance Islamique (MTI), competed with one another for popular support but jointly criticized

¹¹ Aptly, the Neo-Dustur Party was renamed Parti Socialiste Dusturien (PSD) during this time.

Bourguiba for failing to help the troubled economy. Bourguiba suppressed demonstrations against his regime such as the “bread riots” in 1984 protesting the government’s removal of bread subsidies and arrested their leaders. Calls for new leadership that would deliver more jobs, equality in government distributions, and political representation echoed those heard prior to 1956 (Alexander, 1997; Boulby, 1988; Harris & Kosser, 2004, pp. 37-38; Perkins, 2004, pp. 164-175).

In 1987, a particularly controversial move by Bourguiba to have a number of MTI leaders sentenced to death gave Zine al Abidine ben Ali an opportunity to take over Bourguiba’s position, citing a constitutional provision regarding the mental and physical capacity of the president. Bourguiba’s increasingly repressive tactics had served to erode his support, thus many Tunisians welcomed this bloodless coup d’état (Azarva, 2007; Perkins, 2004, p. 189; Vandewalle, 1988). Ben Ali immediately took measures to strengthen his power by securing support for his government and alleviating the political tension that had been mounting. He released political prisoners, invited political exiles to return home, and included members of opposing political groups to join discussions regarding constitutional reforms. Though no changes were made to the composition or operation of the PSD, he changed its name to Rassemblement Constitutionnel Démocratique (RCD – Democratic Constitutional Rally) to distance it from the negative associations tied to the PSD at the end of Bourguiba’s presidency. By the time elections were held in 1989, the political situation had stabilized, but Ben Ali’s promises of a multi-party state proved hollow. Election laws disqualified most opposition groups and

ensured that Tunisia would remain a single-party state; the RCD won all parliamentary seats in the election (Azarva, 2007; Perkins, 2004, pp. 185-190; Vandewalle, 1988).

During his presidency, Ben Ali implemented a number of economic reforms recommended by the World Bank, the International Monetary Fund, and other aid agencies - a strategy that earned him their favor and continued support, increased his resources, and strengthened his *de facto* political power. However, many of these reforms appeared to be more liberal than they actually were and favored prominent members of the RCD. Key industries remained under state control (Azarva, 2007). Growing resentment of blatant cronyism, worsening economic conditions, and discontent with the state's failure to provide an adequate supply of jobs, health care, and affordable food again set the stage for the UGTT, al-Nahda (The Renaissance Party, formerly MTI), and other opposition groups to take action. Their complaints had not changed – unequal and unsatisfactory provision for the welfare of the people, rising unemployment, and unequal political representation. The response was also the same - swift and violent repression by the government in order to protect its interests (Arzava 2007; Perkins 2004, pp.193-198).

The cultural relevance of the self-immolation of Mohamed Bouazizi on December 17, 2010, was an ideal trigger for revolutionary action.¹² The UGTT recognized the potential in the outrage Bouazizi's action had sparked among the citizens of his hometown. The organization quickly organized several demonstrations across Tunisia

¹² A martyr of an oppressive regime, as Mohamed Bouazizi came to be regarded, is highly esteemed in Islamic societies. "The best martyr of my community is the man who stood before the tyrannical imam and commanded him to do the good and enjoin the evil..." (Bin Diyaf, 1872/2005, p. 50)

that led to the collapse of Ben Ali's regime. Other opposition groups, including al-Nahda, have since joined the protests (Basly, 2011). Despite their frustration with previous regimes, Tunisians continue to look to their government, and in particular, the head of the government, to be their savior.¹³ When they find economic, political, and social conditions unsatisfactory, they fault the people within the current regime. The focus remains on changes to *de jure* power instead of substantial changes to political institutions that could constrain that power and lead to more competition and less favoritism for future economic and political institutions

4. Reason and Revelation

Bin Diyaf proposed to incorporate a combination of reason (constitutionally limited power) and revelation (consultation with the religious elite) to limit the tendencies of the ruler to use his power to manipulate the economy in his favor. The diagram in figure 1 presents a modern interpretation of these ideas along two intersecting scales. The vertical axis depicts a spectrum of consultative arrangements. At one extreme, a single interest, religious or secular, dominates policy and sets the course for society. As a government moves towards the other end, a growing number of sources will be consulted. This may take the form of a representative type government or, at the furthest extreme, one in which all citizens participate directly in policy decisions. The horizontal axis contrasts limited and unlimited governmental power. A government of limited power is constrained in the ways it may intervene in society by a constitution or some other means. With unlimited power, a government may intervene in any way it chooses

¹³ The UGTT has called for a "national salvation" cabinet to replace the existing one (BBC, 2011).

including political, social, and economic manipulation. Figure 1 gives examples of forms of government that may fall into each quadrant including examples of Tunisian governments both real and proposed.

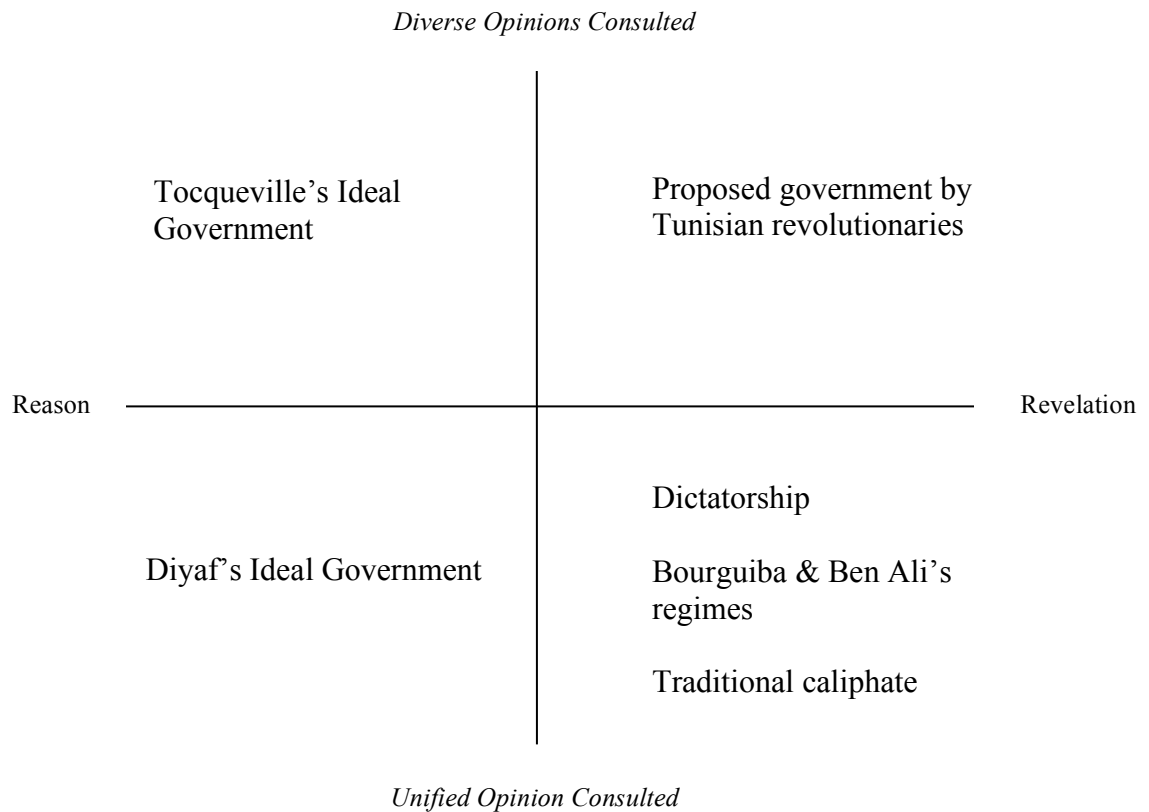


Figure 1: Regimes of Reason and Revelation

Before the Jasmine Revolution, Tunisia was located in the bottom, right region of the diagram. Some measures, such as a written constitution and free elections, were taken to make it appear that the government was actually nearer the upper, left quadrant.

However, stringent rules on who was eligible to run for election in the General Assembly ensured this consultative body would represent only Bourguiba's, and later Ben Ali's, agenda (Azarva, 2007; Boulby 1988). The General Assembly also had the responsibility of amending Tunisia's constitution, thus rendering this potential check on state power ineffective (Sfeir, 1959).

One opposition group, the Hizb ut-Tahrir (the Liberation Party) advocates a return to a traditional Islamic caliphate. They claim that the only way to prosperity is found by returning to the fundamentals of Islam (Rishq, 2008). In a recent article, they contend:

It is only the great Islamic deen [religion], with its just divine rulings that emanate from its pure and clear doctrine that guarantees the basic needs of individuals and the community. It is it alone that guarantees the eradication of poverty, unemployment and corruption by a state that applies it; where its ruler is the real caretaker of the affairs of the people, without being distracted from this caring by anything. (Hizb ut-Tahrir, 2011)

In reality, the form of government they propose with a caliph and his council is exactly the same one that Tunisia has been under since independence! A single group's interests, though different than their predecessor's, will continue to mold Tunisia's future.

Ironically, one of the potential flaws of such a government is referred to in the Qur'an. "O David! We have made you a vice-regent (caliph) on the earth. Therefore judge aright between men. And do not follow desire, lest it beguile you from the way of God," (Qur'an 38:26 as quoted in Bin Diyaf 1872/2005, p. 53). The caliph can be tempted to stray from "the way of God" and follow desire in the same way as any other absolute ruler. With no incentives to restrain action except those that are self-imposed,

the problem of opportunism plagues all forms of government in the lower, right quadrant. Referring again to Acemoglu and Robinson's model, those with *de jure* power determine economic institutions. If that power is concentrated in the hands of a few, the resulting economic institutions will lead to a distribution of resources in their favor.

Al-Nahda and the UGTT have demanded Tunisia's government move into the upper, right quadrant by embracing a multi-party system (Chrisafis, 2011). Their demands echo those made during the two previous regime changes, but will the results be the same – leadership that promises increased representation yet migrates quickly towards a single-party state? Under the current system, this scenario seems likely for two reasons. First, the head of state is still granted extensive *de jure* powers. Second, it is believed to be the state's responsibility to continue its large-scale economic interventions, only with more equitable redistribution (Sadiki 2010). The greater the degree of state activity in the economy, the better those with *de jure* political power will be able to influence the distribution of resources and *de facto* political power. This provides a great incentive for Al-Nahda, the UGTT, or any other political party to capture this power.

Thus far, Tunisians seem to be ignoring the area on the left of the reason spectrum. In the lower quadrant, Bin Diyaf's ideal government is vulnerable to the same criticisms of opportunism as those governments on the right of the spectrum. Since there is nothing to constrain the *ulama* but their own virtue, the temptation to revise the limits of the government in a manner that will be to their benefit seems inevitable. But what of the upper quadrant? A government of limited size and scope whose policies are a product of competition and debate of multiple, diverse ideas provides a means of

achieving economic security and political equality superior to the forms of government discussed above (Aligica & Boettke 2009; Hayek 1960; Ostrom 1997; Pennington 2011). The smaller the size of government, the less its agents are able to influence economic and political outcomes for their benefit. However, Tunisians believe that it is their leaders' responsibility to maintain a healthy economy and create equality among its citizens does not support reducing the economic reach of the government and consequently, its hold on political power.

5. Conclusion

Is the world witnessing an “Arab Awakening?” Will elections bring fundamental change? Tunisians are calling for a change in leadership but not a change in the form of government. The offices and duties of cabinet members, governors, and legislators remain as before. The political and economic incentives faced by those who hold those positions have not changed. Without credible restraints on their power, the cycle of manipulating economic institutions in a way that promotes the centralized political power is poised to be repeated.

Vincent Ostrom contends that successful governance is maintained when the citizens participate in the “democratic way of life.” This way of life requires personal responsibility from the individuals that make up society; therefore, is in danger of breaking down when people begin to look to government to solve their problems. They develop the habit of relying on the state to take care of them instead of discovering for themselves the best ways to live together (Ostrom, 1997, pp. 33-116).

The first steps towards effective reforms require individual members of a society to amend their beliefs that their leader is the one responsible for their welfare and acknowledge the responsibility they have for their own governance. Then, in Ostrom's words, "The problem remains whether human beings can develop a culture of inquiry compatible with methods of thought and habits of mind characteristic of science as a general mode of inquiry that might apply alike to affairs of everyday life and to rule-ordered relationships," (Ostrom, 1997, p. 219).

CONCLUSION

The essays in this dissertation have combined public choice and market process theories to understand resource allocation in non-priced environments. Insights from both theories expose the difficulties of allocating goods to their most valued uses in the absence of prices. However, they also show that there are consistencies in the manner in which individuals determine the value and allocation of their resources in both priced and non-priced environments.

Market process scholars explain that prices, which allow for economic calculation, are generated when buyers and sellers engage in a continual process to discover and adjust to new information. This dissertation shows that the concept of detecting and adjusting to errors can be applied in non-priced situations as well and guides allocation decisions even when economic calculation is impossible. This application highlights the indispensable role of the “knowledge of time and place” (Hayek, 1945) in the process. For instance, the effectiveness of the alternative information mechanisms employed by dictators depends on their ability to quickly convey knowledge of changes in circumstances and the preferences of citizens that could lead to political unrest.

Individuals in non-priced environments may choose to ignore or be unaware of the value of information generated in the discovery process. They may disregard these

guides and choose an allocation based on their own plans and the value they assign to their resources. This often occurs when individuals have access to large quantities of resources and sufficient political power to impose their plans on others. Public choice theory describes how those with political power allocate resources according to their own self-interests. Tunisia's history shows the economic failure that results when those with political power determine the allocation of resources in the economy. Tunisia's economic troubles have led to three regime changes, yet little has changed in the way resource allocation is determined. This dissertation explains how that oversight results in a cycle of changes to *de jure* political power without economic change.

The coercive power of government and the self interested behavior of its agents create an environment where the preferences of others are likely to be ignored unless they are a factor in the ability of the agent to maintain his privileged position. The implications of this on the agent's ability to allocate resources according to their most valued uses are clearly seen when one understands that the information he needs for this task is generated through an interactive discovery process that he has bypassed.

This quandary is illustrated well in the context of dictatorship. The dictator has the power to appropriate and use various resources as he pleases; yet maintaining his position of power requires knowledge of his citizens' preferences in regard to his regime. Thus, he is incentivized to participate in a process that informs him of their preferences and alerts him to changes. This theoretical framework can be applied to different dictatorial regimes to provide insight into their resiliency and use of various information mechanisms. A study comparing the usefulness of different institutions as information

mechanisms can aid in understanding why certain institutions may be adopted over others. Another interesting avenue of research is examining the role social media may play in information discovery for the dictator (as opposed to the current trend of examining the effects of this phenomenon on information sharing among citizens).

The implications of political interference in the discovery processes of nonprofits also bring up a number of interesting questions. If private funding is an indication of the value society places on a nonprofit's work and government funds are more likely to be solicited by organizations that lack sufficient private support for their work, are enterprises that are valued less than their privately funded counterparts given a government-provided advantage? Also, is the way a nonprofit engages in (or disengages from) the discovery process a factor in its decision to adopt and emphasize a standardized method of assessing performance such as SROI or EVA? Is the increasing popularity of these types of measurements related to the level of government participation in the nonprofit sector?

Tunisia's case brings to light an interesting point. In the context of democratic societies, many researchers accept that both the government and nonprofit sectors are providers of public goods and debate how a partnership between them might improve (or harm) the provision of those goods. However, under authoritarian regimes, nonprofits, whose operations are often severely restricted by the state, are frequently seen as a forum for citizens to self-organize and find solutions to collective action problems (thus the reason their activities are carefully monitored by the state). In Tunisia, nonprofits are often an offshoot of Islamic religious institutions. Do these types of organizations with

their reliance on religious authority provide the same opportunities for self-governance as their more independently formed counterparts? In other words, are they the key to building a society less dependent on the state?

When one views the problem of allocating goods in non-priced environments through the lens of market process theory, the effects of political intervention in the discovery process become evident. Allocation decisions are based on the knowledge of a small group of political power holders and the experts they employ. Circumventing the discovery process hinders their access to the knowledge disbursed among society's members – knowledge that serves to guide resources towards their most valued uses.

REFERENCES

REFERENCES

- Abdukadirov, S. (2010). The problem of political calculation in autocracies. *Constitutional Political Economy*, 21, 360-373.
- Abramson, A.J., Salamon, L.M., & Steurle, C.E. (2006). Federal spending and tax policies: Their implications for the nonprofit sector. In E.T. Boris & C.E. Steuerle (Eds.), *Nonprofits and government* (pp. 219-256). Washington, DC: Urban Institute Press.
- Acemoglu, D. (2011). Challenges for social sciences: Institutions and economic development. In C.L. Schultze & D.H. Newton (eds.) *Ten years and beyond: Economists answer NSF's call for long-term research agendas*
- Acemoglu, D. & Robinson, J.A. (2006). *Paths of economic and political development*. In B. R. Weingast & D. A. Wittman (eds.), *The Oxford handbook of political economy*. New York: Oxford University Press
- Acemoglu, D., & Robinson, J. A. (2009). *Economic origins of dictatorship and democracy*. New York, NY: Cambridge University Press.
- Aksoy, D., Carter, D. B. & Wright, J. (2012). Terrorism in dictatorships. *The Journal of Politics*, 74(3), 810-826.
- Alaimo, S. (2010). Contracting out. In B. Seaman & D.R. Young (Eds.) *Handbook of research on nonprofit economics and management* (pp. 18-41). Massachusetts: Edward Elgar Publishing, Inc.
- Alexander, C. (1997). Back from the democratic brink: Authoritarianism and civil society in Tunisia. *Middle East Report*. 205. pp. 34-38
- Aligica P. D. & Boettke, P. J. (2009). *Challenging institutional analysis and development: The Bloomington School*. New York, NY: Routledge
- Anderson, L. (1986). *The state and social transformation in Tunisia and Libya, 1830-1980*. Princeton, NJ: Princeton University Press.

- Andreoni, J. & Payne, A.A. (2010). Is crowding out due entirely to fundraising? Evidence from a panel of charities," NBER Working Papers 16372, National Bureau of Economic Research, Inc.
- Azarva, J (2007). Reneging on reform: Egypt and Tunisia. *Middle Eastern Outlook*. 2
- Basly, R. (2011, Apr 20). The future of al-Nahda in Tunisia. *Arab Reform Bulletin*. Retrieved from <http://www.carnegieendowment.org/arb/?fa=show&article=43675>
- Baumol, W. (1990). Entrepreneurship: Productive, unproductive and destructive. *Journal of Political Economy*, 98(5), 893-921.
- BBC (2011a, Jan 21). Tunisia's UGTT trade union urges 'salvation cabinet'. Retrieved from <http://www.bbc.co.uk/news/world-africa-12256458>
- BBC (2011b, Jan 27). Tunisia announces major cabinet reshuffle after protest. Retrieved from <http://www.bbc.co.uk/news/world-africa-12302232>
- Berg, L. O. & Månsson, C. (2011). A white paper on charity impact measurement. Retrieved from: http://www.charitystar.org/Return_on_donations_a_white_paper_on_charity_impact_measurement.pdf
- Bin Diyaf, A. (2005). *Consult them in the matter: A nineteenth-century Islamic argument for constitutional government*. (L.C. Brown, Trans.). Fayetteville, AR: The University of Arkansas Press. (Original manuscript written 1872).
- Blueline Power (2007). Blueline solar for Chartwell. Retrieved from: http://www.bluelinepower.com/news/pdf/Blueline_Solar_for_Chartwell_11-07.pdf
- Boettke, P. J. (2001). *Calculation and coordination: Essays on socialism and transitional political economy*. New York, NY: Routledge.
- Boettke, P.J. & Coyne, C.J. (2008). The political economy of the philanthropic enterprise. In G.E. Shockely, P.M. Frank & R. Stough (Eds.), *Non-market entrepreneurship: Interdisciplinary approaches* (pp.71-88). Cheltenham: Edward Elgar Publishing.
- Boettke, P.J., Coyne, C.J., & Leeson, P.T. (2008). Institutional stickiness and the new development economics. *American Journal of Economics and Sociology*. 67(2), pp. 331-358.

- Boettke, P. J. & Prychitko, D. (2003). Is an independent nonprofit sector prone to failure?. (Global Prosperity Initiative Working Paper 15). Arlington, VA: The Mercatus Center. Retrieved from <http://mercatus.org/publication/independent-nonprofit-sector-prone-failure>
- Boix, C. & Svobik, M. (2011). Foundations of limited authoritarian government: Institutions and power-sharing in dictatorships. Unpublished paper.
- Boulby, M. (1988). The Islamic challenge: Tunisia since independence. *Third World Quarterly*. 10(2), pp. 590-614.
- Brinkerhoff, J.M. (2002). Government –nonprofit partnership: a defining framework. *Public Administration and Development*. 22(1), 19-30.
- Brody, E. & Cordes, J.J. (2010). Tax treatment of nonprofit organizations: A two-edged sword. In E.T. Boris & C.E. Steuerle (Eds.), *Nonprofits and government* (pp. 141-180). Washington, DC: Urban Institute Press.
- Brownfield, M. (2006, September 22). Council waives fees for foundation’s senior housing project. *The Carmel Pine Cone*, pp. 9A, 15A.
- Brownfield, M. (2008, August 15). Council asked to ease rules for affordable housing downtown. *The Carmel Pine Cone*, p. 15A.
- Brownfield, M. (2009, January 9). Council seeks new way to ok Trevvett Court senior housing. *The Carmel Pine Cone*, p. 2A.
- Brownlee, J. (2002). ...And yet they persist: Explaining survival and transition in neopatrimonial regimes. *Studies in Comparative International Development*, 37(3), 35–63.
- Brownlee, J. (2007). *Authoritarianism in an age of democratization*. New York, NY: Cambridge University Press.
- Buchanan, J. M. (2000). *The limits of liberty: Between anarchy and leviathan*. Indianapolis, IN: Liberty Fund, Inc.
- Buchanan, J. M. (1999). *The logical foundations of constitutional liberty*. Indianapolis, IN: Liberty Fund, Inc.
- Bueno de Mesquita, B., Smith, A., Siverson, R. M., & Morrow, J. D. (2003). *The logic of political survival*. Cambridge, MA: MIT Press.

- Cabinet Office of the Third Sector. (2012). Social return on investment – an introduction 2009. Retrieved from:
http://www.thesroinetwork.org/publications/doc_details/75-social-return-on-investment-an-introduction
- Carmel Foundation (2010). The Carmel Foundation history. Retrieved from
<http://www.carmelfoundation.org/pages/about/history.html>
- Carothers, T. (2002). The end of the transition paradigm. *Journal of Democracy*, 13(1), 5–22.
- Center on Philanthropy (2010a). The roadmap to fundraising success. Retrieved from
http://www.philanthropy.iupui.edu/TheFundRaisingSchool/PrecourseReadings/roadmap_to_fundraising_success.aspx
- Center on Philanthropy (2010b). The annual fund: A building block for fund raising. Retrieved from:
http://www.philanthropy.iupui.edu/TheFundRaisingSchool/PrecourseReadings/precourse_annualfundbuildingblock.aspx
- Chamlee-Wright, E. & Myers, J.A. (2008). Discovery and social learning in non-priced environments: An Austrian view of social network theory. *Review of Austrian Economics*, 21, 151–166.
- Charity Navigator (2010). Advanced search. Retrieved from:
<http://www.charitynavigator.org/index.cfm?bay=search.advanced>
- Chartwell School (2010a). New campus. Retrieved from
<http://www.chartwell.org/index.cfm?Page=75>
- Chartwell School (2010b). About us. Retrieved from
<http://www.chartwell.org/index.cfm?Page=1>
- Chartwell School (2010c). Outreach and resources. Retrieved from
<http://www.chartwell.org/index.cfm?Page=5>
- Cheibub, J. A., Gandhi, J. & Vreeland, J. R. (2010). Democracy and dictatorship Revisited. *Public Choice*, 143, 67-101.
- Chrisafis, A. (2011, Jan 18). Tunisia's caretaker government in peril as four ministers quit. Retrieved from <http://www.guardian.co.uk/world/2011/jan/18/tunisia-caretaker-government-ministers-quit>

- Congleton, R. D. (2001). On the durability of king and council: The continuum between dictatorship and democracy. *Constitutional Political Economy*, 12(3), 193–215.
- Congleton, R. D. (2011). *Perfecting parliament*. New York, NY: Cambridge University Press.
- Corporation for National and Community Service (2010). Edward M. Kennedy Serve America Act of 2009. Retrieved from <http://www.nationalservice.gov/about/serveamerica/index.asp>
- Coyne, C. & Boettke, P. (2006). The role of the economist in economic development. *Quarterly Journal of Austrian Economics*. 9(2), 47-68.
- Cropsey, J. (1955). What is welfare economics? *Ethics*. 65(2), pp 116-125
- Diamond, L. (2002). Thinking about hybrid regimes. *Journal of Democracy*, 13(2), 21–35.
- Escribà-Folch, A. (2009). Do authoritarian institutions mobilize economic cooperation? *Constitutional Political Economy*, 20, 71–93
- Foster, K. W. (2002). Embedded within state agencies: business associations in Yantai. *The China Journal*, 47, 41-65.
- Friedgut, T. H. (1979). *Political participation in the USSR*. Princeton, NJ: Princeton University Press.
- Gandhi, J. (2008). *Political institutions under dictatorship*. New York, NY: Cambridge University Press.
- Gandhi, J., & Lust-Okar, E. (2009). Elections under authoritarianism. *Annual Review of Political Science*, 12, 403–422.
- Gandhi, J., & Przeworski, A. (2006). Cooperation, cooptation, and rebellion under Dictatorships. *Economics and Politics*, 18(1), 1–26.
- Gandhi, J., & Przeworski, A. (2007). Authoritarian institutions and the survival of autocrats. *Comparative Political Studies*, 40(11), 1279-1301.
- Garon, L. (2003). *Dangerous alliances: Civil society, the media, & democratic transition in North Africa*. New York, NY: Zed Books Ltd

- Geddes, B. (1999). What do we know about democratization after twenty years? *Annual Review of Political Science*, 2, 115–144.
- Ghandi, J. & Kim, W. (2010). Cooptation and coercion of workers under dictatorship. *Journal of Politics*, 72(3), 646-658.
- Ghandi, J., Gochal, J., & Saiegh, S.M. (2003, April). Governments' legislative defeats under dictatorship. Paper presented at the Midwest Political Science Association National Conference, Chicago, IL.
- Gleaser, E.L. & Shleifer, A. (2001). Not-for-profit entrepreneurs. *Journal of Public Economics*. 81 91-115.
- Gobi, E. (2010). The Gafsa mining basin between riots and a social movement: meaning and significance of a protest movement in Ben Ali's Tunisia. Retrieved from <http://halshs.archives-ouvertes.fr/halshs-00557826/fr/>
- Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *The American Journal of Sociology*. 91(3), 481-510.
- Gripp, R. C. (1973). *The political system of communism*. New York: Dodd, Mead & Company, Inc.
- Haber, S. (2006). Authoritarian government. In B. R. Weingast & D. A. Wittman (Eds.), *The Oxford handbook of political economy* (pp. 693–707). New York, NY: Oxford University Press.
- Harris, H. & Koser, K. (2004), *Continuity and change in the Tunisian Sahel*. Hampshire, UK: Ashgate Publishing Limited.
- Hayek, F. (1945). The use of knowledge in society. *American Economic Review*, 35(4), 519–530.
- Hayek, F.A. (1978). *The constitution of liberty*. Chicago, IL: The University of Chicago Press.
- Hizb ut-Tahrir Britian (2011, Jan 16). Hizb ut-Tahrir: Tunisia needs the Khilafah system, not just a change of ruler. *Current Affairs*. Retrieved from <http://www.hizb.org.uk/current-affairs/hizb-ut-tahrir-tunisia-tunisia-needs-change-to-khilafah-not-just-a-change-of-ruler>
- Huntington, S. P. (1991). *The third wave: Democratization in the late twentieth century*. Norman, OK: University of Oklahoma Press.

- Husock, H. (2010). Government and "scaling" nonprofits: The implications of an expanded federal role. (1st ed.). Washington, DC: Philanthropy Roundtable
- Ikeda, S. (1990). Market-process theory and "dynamic" theories of the market. *Southern Economic Journal*, 57(1), 75-92.
- Kirzner, I. M. (1963). *Market theory and the price system*. Indianapolis, IN: Liberty Fund, Inc.
- Kirzner, I. M. (1978). *Competition and entrepreneurship*. Chicago, IL: The University of Chicago Press.
- Knack, S. & Keefer, P. (1997). Does social capital have an economic payoff? A cross country investigation. *Quarterly Journal of Economics*. 112(4), 1251-1288.
- Kuran, T. (1989). Sparks and prairie fires: A theory of unanticipated political revolution. *Public Choice*, 61(1), 41-74.
- Kuran, T. (1995). The inevitability of future revolutionary surprises. *The American Journal of Sociology*. 100(6). pp. 1528-1551
- Lee, E. & Weinthal, B. (2011, Feb 10). Trade unions: The revolutionary social network at play in Egypt and Tunisia. Retrieved from <http://www.guardian.co.uk/commentisfree/2011/feb/10/trade-unions-egypt-tunisia>
- Leeson, P. (2005). Endogenizing fractionalization. *Journal of Institutional Economics*. 1(1), 75-98.
- Levitsky, S., & Way, L. A. (2002). The rise of competitive authoritarianism. *Journal of Democracy*, 13(2), 51-66.
- Lohmann, R. A. (1992). *The commons: New perspectives on nonprofit organizations and voluntary action*. San Francisco: Jossey-Bass.
- Lust-Okar, E. (2009). Reinforcing informal institutions through authoritarian elections: Insights from Jordan. *Middle East Law and Governance*, 1, 3-37.
- Magaloni, B. (2008). Credible power-sharing and the longevity of authoritarian rule. *Comparative Political Studies*, 41(4/5), 715-741.
- McGuire, M. C., & Olson, M. (1996). The economics of autocracy and majority rule: The invisible hand and the use of force. *Journal of Economic Literature*, 34(1), 72-96.

- Mises, L. (1949). *Human Action: A treatise on economics*. Auburn, AL: Ludwig von Mises Institute.
- Moore, C.H. (1962). The Neo-Destour Party of Tunisia: A structure for democracy? *World Politics*. 14 (3).
- Moore, P.W. & Salloukh, B.F. (2007). Struggles under authoritarianism: Regimes, states, and professional associations in the Arab world. *International Journal of Middle East Studies*, 39, 53–76.
- Neem, J. N. (2003). Politics and the origins of the nonprofit corporation in Massachusetts and New Hampshire, 1780-1820. *Nonprofit and Volunteer Sector Quarterly*. 32(3), 344-365.
- Nonprofit Overhead Cost Project (2013). Facts and perspectives. Brief No. 3. Center on Nonprofits and Philanthropy, Urban Institute & Center on Philanthropy, Indiana University.
- North, D., Wallis, J.J., & Weingast, B.R. (2009). *Violence and social orders: A conceptual framework for interpreting recorded human history*. New York, NY: Cambridge University Press.
- O'Brien, K. J. (1996). Rightful Resistance. *World Politics*. 49(1), 31-55.
- Olson, D. M. & Simon, M. D. (1982). The institutional development of a minimal parliament: the case of the Polish Sejm. In Nelson, D. & White, S. (eds.) *Communist legislatures in comparative perspective* (pp. 47-84). Albany, NY: State University of New York Press
- Olson, M. (1982). *The rise and decline of nations: Economic growth, stagflation, and social rigidities*. New Haven and London: Yale University Press.
- Olson, M. (1993). Dictatorship, democracy, and development. *American Political Science Review*, 87(3), 567–576.
- Olson, M. (2000). *Power and prosperity*. New York, NY: Basic Books.
- Ostrom, V. (1997). *The meaning of democracy and the vulnerabilities of democracy*. Ann Arbor, MI: University of Michigan Press
- Ottaway, M. (2003). *Democracy challenged: The rise of semi-authoritarianism*. Washington, DC: Carnegie Endowment for International Peace.

- Oxfam (2012). Oxfam America Unwrapped. Retrieved from <http://www.oxfamamericaunwrapped.com/donate-a-farmers-flock>
- Pearson, M. M. (1997). *China's new business elite: The political consequences of economic reform*. Berkeley, CA: University of California Press.
- Pennington, M. (2011). *Robust political economy: Classical liberalism and the future of public policy*. Northampton, MA: Edward Elgar Publishing.
- Perkins, K. J. (2004). *A history of modern Tunisia*. Cambridge, UK: Cambridge University Press.
- Phillips, S. (2008). *Yemen's democracy experiment in regional perspective: Patronage and pluralized authoritarianism*. New York, NY: Palgrave MacMillan.
- Preston, A.E. & Sacks, D.W. (2010). Nonprofit wages: Theory and evidence. In B. Seaman & D.R. Young (Eds.) *Handbook of research on nonprofit economics and management* (pp. 106-119). Massachusetts: Edward Elgar Publishing, Inc.
- Prison Entrepreneurship Program (2013). Who we are. Retrieved from <http://www.pep.org/who/faq.htm>
- Reid, E.J. (2006). Advocacy and the challenges it presents for nonprofits. In E.T. Boris & C.E. Steuerle (Eds.), *Nonprofits and government* (pp. 37-80). Washington, DC: Urban Institute Press.
- Reid, E.J. (2010). Moving beyond mission: Effectively funding the nonprofit organization. *Community Investments*. 21(3), 14-39.
- Reuters (2011, Feb 3). Tunisia replaces regional governors. Retrieved from <http://www.reuters.com/article/2011/02/03/us-tunisia-protests-governors-idUSTRE7127X520110203>
- Rishq, O. (2008, Jul 8). Palestinian Hizb al-Tahrir flourishes where hope withers. *Arab Reform Bulletin*. Retrieved from <http://www.carnegieendowment.org/arb/?fa=show&article=20462>
- Rose-Ackerman, S. (1996). Altruism, nonprofits, and economic theory. *Journal of Economic Literature*. 34(2), 701-728.
- Sadiki, L. (2010, Dec 27). Tunisia: The battle of Sidi Bouzid. AlJazeera. Retrieved from <http://english.aljazeera.net/indepth/opinion/2010/12/20101227142811755739.htm>

- Saich, T. (2000). Negotiating the state: The development of social organizations in China. *The China Quarterly*, 161, 124-141.
- Salamon, L. M. (1987). Of market failure, voluntary failure, and third-party government: Toward a theory of government-nonprofit relations in the modern welfare state. *Journal of Voluntary Action Research*, 16(1-2), 29-49.
- Schwedler, J. (2006). *Faith in Moderation: Islamist parties in Jordan and Yemen*. New York, NY: Cambridge University Press.
- Sfeir, G. H. (1959). The Tunisian constitution. *Middle East Journal*, 13(4), pp. 443-448
- Shirk, S. (2007). *China: fragile superpower*. Oxford: Oxford University Press.
- Smith, A., Wagner, R.E., & Yandle, B. (2010). A theory of entangled political economy, with application to TARP and NRA. *Working paper*
- Smith, B. (2005). Life of the party: The origins of regime breakdown and persistence under single-party rule. *World Politics*, 57, 421–51.
- Smith, S. R. (2006). Government financing of nonprofit activity. In E.T. Boris & C.E. Steuerle (Eds.), *Nonprofits and government* (pp. 219-256). Washington, DC: Urban Institute Press.
- Steuerle, C.E. & Hodgkinson, V.A. (2006). Meeting social needs: Comparing independent sector and government resources. In E.T. Boris & C.E. Steuerle (Eds.), *Nonprofits and government* (pp. 81-106). Washington, DC: Urban Institute Press.
- Subsidyscope (2012). Direct expenditures delivered to nonprofits through grants and contracts. Retrieved from <http://www.subsidyscope.com/nonprofits/direct-expenditures>.
- Tabellini, G. (2010). Culture and institutions: Economic development in the regions of Europe. *Journal of the European Economic Association*. 8(4), 677-716.
- Tanner, M. S. (2004). China rethinks unrest. *The Washington Quarterly*, 27(3), 137-156.
- Tawfik, R.M. (2010). North African studies in South Africa: A research and policy agenda. Presented at “Regional Integration in Africa: Bridging the North- Sub-Saharan Divide”. Cairo, Egypt.

- Tinkelman, D. (2010). Revenue interactions: Crowding out, crowding in, or neither? In B. Seaman & D.R. Young (Eds.) *Handbook of research on nonprofit economics and management* (pp. 18-41). Massachusetts: Edward Elgar Publishing, Inc.
- Toepler, S. (2010). Government funding policies. In B. Seaman & D.R. Young (Eds.) *Handbook of research on nonprofit economics and management* (pp. 320-334). Massachusetts: Edward Elgar Publishing, Inc.
- Towster, J. (1948). *Political power in the U.S.S.R.* New York: Oxford University Press.
- Tullock, G. (1987). *Autocracy*. Boston, MA: Kluwer Academic Publishers.
- Tullock, G. (2005). *The social dilemma of autocracy, revolution, coup d'état, and war*. Indianapolis, IN: Liberty Fund, Inc.
- Unger, J. (1996). "Bridges": Private business, the Chinese government, and the rise of new associations. *The China Quarterly*, 147, 795-819.
- Vandewalle, D. (1988). From the new state to the new era: Toward a second republic in Tunisia. *Middle East Journal*. 42(4), pp. 602-620
- Wagner, R. E. (2007). *Fiscal sociology and the theory of public finance*. Northampton, MA: Edward Elgar Publishing, Inc.
- Wagner, R. E. (2010). Raising vs. leveling in the social organization of welfare. *Review of Law and Economics*. 6(3)
- Williamson, C. R. (2010). Civilizing society: Virtues, freedom, and development. mimeo.
- Wintrobe, R. (1990). The tinpot and the totalitarian: an economic theory of dictatorship. *American Political Science Review*, 84, 849-872.
- Wintrobe, R. (1998). *The political economy of dictatorship*. New York, NY: Cambridge University Press.
- Wintrobe, R. (2012). Autocracy and coups d'état. *Public Choice*, 152, 115-130.
- Abramson, A.J., Salamon, L. M., & Steuerle, C.E. (2006). Federal spending and tax Policies: Their implication for the nonprofit sector. In E.T. Boris & C.E. Steuerle (Eds.), *Nonprofits and government* (pp. 107-140). Washington, DC: Urban Institute Press.

- Wuthnow, R. (2006). Clash of values: Government funding for the arts and religion. In E.T. Boris & C.E. Steuerle (Eds.), *Nonprofits and government* (pp. 311-342). Washington, DC: Urban Institute Press.
- Young, R. (2006). Complementary, supplementary, or adversarial? Nonprofit-government relationships. In E.T. Boris & C.E. Steuerle (Eds.), *Nonprofits and government* (pp. 37-80). Washington, DC: Urban Institute Press.

CURRICULUM VITAE

Charity-Joy Acchiardo served in the US Army from 1998-2002 as an Arabic linguist and intelligence analyst. She graduated from the Defense Language Institute at the Presidio of Monterey in 1999 and received her Bachelor of Science from Excelsior College in 2002. She also holds a Master of Business Administration in International Management from the Monterey Institute of International Studies, a graduate school of Middlebury College. Her lectures are infused with stories from her adventures as an Arabic linguist in the U.S. Army, teaching and traveling in Europe and Asia, and cultivating nonprofit development.