

1998

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## Citation of this paper:

Ferrero, Mario. "The Political Enterprise and the Choice of Extremist Policies." Political Economy Research Group. Papers in Political Economy, 89. London, ON: Department of Economics, University of Western Ontario (1998).

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89 89

**Paper No. 89**

**“The Political Enterprise and the  
Choice of Extremist Policies”**

**Mario Ferrero**

ECONOMICS REFERENCE CENTRE

OCT 14 2000

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**THE POLITICAL ENTERPRISE AND THE CHOICE  
OF EXTREMIST POLICIES**

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Revised version. November 1998

**ABSTRACT.** This paper tries to explain three kinds of extremist political behavior: extremism displayed by young political organizations as they grow up (infantile extremism), by mature organizations as a reaction to success, such as the conquest of power (mature extremism), and by declining organizations as a reaction to failure (senile extremism). We focus on organizations' policy choices and define extremism at the margin as the choice of a more difficult or distant goal or platform. This may be productive up to a point as it enhances support or resources, while it necessarily implies a harder work task which reduces the supply of labor to the organization. By balancing out these two effects the young organization finds its equilibrium degree of extremism given market parameters. The organization is viewed as a volunteer enterprise whose members engage in unpaid work in the expectation of future returns from political action, and for reasons of incentives and asymmetric information it typically takes the form of a producer cooperative. As the LMF model predicts, an increase in expected revenues decreases the optimal membership of the cooperative, while it increases actual employment because the inefficiency of a LMF industry makes merger superior to competition and therefore enforces a kind of free-access constraint on the organization. This conflict is solved by turning to more extreme policies and thereby driving members to exit "voluntarily", leaving the remaining members with a higher expected income, which explains the radicalization of successful revolutions. The model is then tested on a broad sample of cases of revolutionary regimes and found to fit reasonably well with the evidence.

## 1. Introduction.

Political extremism is a multi-faceted, perplexing phenomenon. To gain some understanding, a useful first approach is for a social scientist to look at it dispassionately from a positive, not a normative, standpoint: prior to asking whether extremism is good or bad for society, a preliminary question is whether and why it is good or bad for the extremists themselves. In this vein, this paper views political extremism as a policy choice that a political organization, given appropriate circumstances, may find rational to make in the pursuit of its self-interested aims. This working definition carries a number of implications that are worth stressing. First, the focus of analysis is not on individuals but on a particular kind of organization which, within the existing institutional framework, pursues political goals, and which will be called a political enterprise. Secondly, extremism is viewed as an observable form of behavior that is instrumental to some ends, not as a personality trait or a description of individual (or group) preferences: any ordinary individual engaged in political action may take an extreme stand when expedient. Thirdly, and relatedly, no attempt is made at identifying a substantive content of extremism, or classifying policies (or platforms, or goals) into extreme and moderate categories. Rather, a turn to extremism may be thought of as redefining the (vector of) characteristic(s) of political activity in the direction of increasing its disutility to those engaged in it -- by making its ends more difficult to achieve, or more distant in time, or by making the effort required more risky or more disagreeable. To put it differently, there is no such thing as absolute extremism, only degrees of it that can be arranged monotonically on a utility scale: a given policy can only be said to be more, or less, extreme relative to the one the organization endorsed before, not relative to the policy endorsed by some other organization in some other time or place. Thus extremism in this paper is basically synonymous with radicalization. An important advantage of this "marginalist" approach (which is perhaps the appropriate one for an economist) is that the student of extremism does not have to become entangled in the participants' self-serving definitions and evaluations. Taken together, it is hoped, these three features of my approach make it meaningful to speak of political extremism as a rational choice and thus make it possible to bring it fully into the domain of economic analysis.

The received history of political thought has a canonical place for extremism in the childhood of working-class, socialist movements. In the words of Lenin's (1920) once-famous essay, extremism or, as he called it, "left-wing communism" is an infantile disorder of communism. When revolutionaries are a tiny, lonely group lost in a sea of indifference or collaboration between working-class leadership and the bourgeoisie, they cry out in the wilderness as it were, and can indulge in extreme, provocative, counter-productive behavior aimed at waking up the sleeping consciousness of the working class. This is only an understandable and, up to a point, healthy reaction: extremism, and more specifically anarchism, "was not infrequently a kind of penalty for the opportunist sins of the working-class movement" (Lenin 1920, p. 560). But as the movement grows to maturity and the prospect of conquering and retaining state power grows nearer, then communism has to become responsible and well-behaved and, under a correct (read, Leninist) leadership, will in its own best interest steer clear of the symmetric mistakes of opportunism (right-wing deviation) and extremism (left-wing deviation). Infantile behavior no longer serves any useful purpose and naturally dies out. Thus extremism in this view is a child of failure and isolation.

There is no denying that Lenin's view of extremism – however self-serving – captures an important phenomenon that calls for explanation. Had Lenin lived longer, however, he would have had problems in reconciling his theory with observation. To him, as to Marx and Engels before him, the prototype of political extremism was anarchism and anarcho-syndicalism. While anarchism was indeed displaced by mainstream socialism and communism in most countries, this did not happen everywhere. Spain was one country where anarchism remained strong and influential, overshadowing well-behaved socialism, and finally had its day during the civil war. But when the anarchists seized their unique opportunity and conquered power in Catalonia in 1936, they turned out to be not all that extreme in their behavior and policies. Sympathetic but dispassionate first-hand observers such as Orwell (1952) and Hobsbawm (1973) report that due to their uncompromising rejection of all authority, coercion, and political centralization and direction, the anarchists found it difficult to get anything done in Barcelona, but for precisely the same reason, they did not force any decisions on anybody who would not voluntarily cooperate. Their policies were so ineffective as to become self-defeating, and in this sense they contributed to the military defeat of the

republic at the hands of the fascists; still, extreme ineffectiveness is not the same as extreme policies.

Even more important, however, is the observation that well-behaved, mainstream communism turned to unprecedented extremes once it got firmly hold of power. The pattern was set in Russia by Lenin himself immediately following the 1917 revolution and then repeated, and greatly magnified, by Stalin since the end of the 1920s, and it was re-enacted time and again, with variations, in China, Cambodia, Cuba, and elsewhere in the communist world (though not in Nicaragua); and, in the opposing camp, it had a counterpart in Nazi Germany (though not in fascist Italy). Well before communism, however, the modern prototype of a victorious revolution that turns against its own men and women in increasingly radical steps was established by the French revolution under Robespierre – the Terror regime. A yet different, dramatic example of a successful revolution turning radical is provided more recently by Iran's islamic republic. Here extremism is a disorder of adult age: the radicalization of revolutionary regimes shows that extremism may well be a child of success, not of failure – something that Lenin's theory clearly cannot account for. The radicalization of successful revolutions is then another major phenomenon that calls for explanation.

How are we to explain the puzzle of a successful political organization that alienates itself from an increasingly large fraction of its allies, its constituents, and even its own senior membership? The suggestion one can gather from conventional wisdom in the West during the Cold War era is that you can never gauge how bad communists (or totalitarians in general) are until and unless they are in full control of things: however reasonable, cooperative, and moderate they may pretend to be all along the road to state power, once power is firmly in their hands they can finally throw the mask and show what they had always been up to, *i.e.* enforcing utopian policies through continuing revolution from above at appalling human costs<sup>1</sup>– the "hidden face" of communism. I find this line of argument unpromising. How can rational people such as moderate allies, "fellow travellers", veteran revolutionaries, and the supportive intelligentsia be fooled over and over again into believing that they will finally be rewarded for their labors when they end up being

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<sup>1</sup> A sophisticated, influential version of this view is Lowenthal's (1970) contrast between a utopian urge that shapes communist policies and a development imperative that alone can make them bow to reason. See Ferrero (1994) for an alternative interpretation of revolutionary communist regimes, broadly in line with the approach taken here.

suppressed, expropriated, and as often as not exterminated each time? It appears that the "hidden face" theory of totalitarian regimes implicitly assumes a kind of political illusion on the part of prospective victims and therefore implies that participants are not fully rational, at least in a rational expectation sense. If political actors, like economic actors, do form rational expectations, then it must be that the extreme, terrorist outcome of revolutionary regimes is a possibility to be discounted, not a certainty, so that it may be worthwhile for actors to run the risk and participate in the revolution. Therefore a basic requirement of a rational theory of extremism is that it should make room for its failure to occur. Besides, the hidden-face theory is clearly inconsistent with the infantile brand of extremism discussed above, so that one would need two separate, unrelated theories to explain both brands – hardly an appealing perspective.

To complicate matters further, sometimes a resurgence of extremism is observed as a reaction to decay and failure, not, however, by young organizations in an infant stage but by aged organizations outpaced by events: for example, some embattled, dying totalitarian regimes or some long-established political organizations that are losing members to more promising ventures. Here extremism is a disorder of old age, a counterintuitive reaction to terminal failure when circumstances would seem to dictate moderation: we shall call it senile extremism. This brand of extremism is clearly inconsistent with either the Leninist or the hidden-face theories of extremism.

I will try to bring all three brands of extremism under a unified theory that revolves around a political organization faced with the choice of a platform or program in a policy options space. To make this choice the organization considers that a more extreme option has two effects. The first is a productivity effect: it may broaden or narrow the support it commands among the population at large, or it may increase or decrease the resources at its disposal. The second is a utility effect: a more extreme option invariably makes the task, or effort, harder for its members. By balancing out the two effects the organization finds its optimal policy mix, and reacts to exogenous environmental changes by optimally adjusting it – where "optimally" is with respect to the organization's objective as clarified below. It will be shown that infantile extremism is to be expected as we observe an organization groping towards its equilibrium policy mix – *i.e.* it is a growth phenomenon. Mature extremism, on the other hand, turns out to be a rational response to favorable



environmental changes, *i.e.* it is a comparative statics response when the organization finds it difficult otherwise to adjust optimally to success. Finally, senile extremism may likewise be a rational response to unfavorable changes when circumstances permit.

Having cast the issue in terms of organizational choices and reactions, my starting point has to be a theory of the behavior of a political organization. Amazingly, the existing literature on the economic approach to political behavior has apparently studied everything except the basic unit of policy supply: the political organization understood as a firm. Since there exists no model that I can use, I begin from scratch and build a model of a political firm or enterprise in the next section. There I show that under some fairly general assumptions, no departure from textbook economics is really needed: the political enterprise may meaningfully be viewed as an instance of a producer cooperative, so the standard model of the labor-managed firm can be fully exploited, with minor adaptations, to study its behavior. Building on this model, the following two sections show that extremism may be derived as a rational policy choice made by such enterprise under appropriate circumstances. Throughout, as in Becker's (1983) model of interest group competition, the political institutions which constrain the firm's behavior and preside over political exchange are left unspecified: the approach is thus very general in nature, while a specialization of the model to fit specific institutional settings is left for further study. The concluding section will try to bridge some of the gap between a model at this level of abstraction and the real world of extremist movements and regimes. As the introductory discussion above suggests, a privileged testing ground for the model will be the world of totalitarian politics and revolutions, but the potential for application is very broad, notably including nationalist and ethnic movements, religious fundamentalism, environmental groups, and perhaps vegetarianism.

## **2. The political enterprise as a producer cooperative.**

Consider an organization which specializes in the business of selling promises, and restrict attention to promises of a better life on earth (leaving aside promises for the afterlife). Such promises involve a more or less extensive

reorganization of society and are therefore political in nature: they may be a far-reaching social change, a redistribution of wealth, income or job security, better employment contracts for workers, national independence, ethnic or racial revival, world domination, a cleaner environment, protection of endangered species, minorities' rights, clearing impure strangers away, cleansing the body and mind of corrupting foods and habits, or whatever. "Selling" such promises involves exchanging current support from the target population for future, expected benefits, and the time horizon over which the promises will be delivered on is typically a very long one. If and when the goal is achieved, perhaps in a piecemeal fashion, then its benefits accrue to the organization's followers and perhaps to everybody (a public good from the organization's viewpoint), and the organization's members or workers get the reward for their effort in terms of power and the rents and privileges associated with it (a private good). Before that day comes, however, there is no monetary revenue from sales that the organization can use to pay its workers. Selling promises to customers thus entails selling promises to workers as well<sup>2</sup>. Therefore, a first basic feature of a political enterprise is that it is a volunteer enterprise. Its members are "volunteers" not because they are unselfish or altruistic, on the contrary they are ordinary, self-interested people who make an investment in labor time, *i.e.* who engage in unpaid effort today in exchange for probabilistic reward tomorrow (Menchik and Weisbrod, 1987): their compensation is the present value of the reward the firm promises to pay them in the event of success weighted by the probability of success.

Given the firm's platform or program, increased effort by workers increases popular support and/or command on resources and thereby the expected payoff, *i.e.* the value of the rent from power and/or the probability of success, though presumably at a diminishing rate. There are thus decreasing returns to labor in political production. Also, there is a fixed factor that sets a limit to economies of scale, and this is the unique capabilities of management, or political leadership; thus the size of the firm is in principle well defined. On the other hand, the firm's "product" – its platform, goal, or program – is defined within an ideology or worldview, broadly understood, which structures political discourse and makes this firm's activities intelligible to both

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<sup>2</sup> To the extent that the workers are employed full-time, there is a problem of material support for them, which the organization can solve by asking donations or contributions from its followers and/or by cross-subsidizing political workers out of the revenue from commercial activities on the side, but we leave that aside in this paper.

customers and fellow producers. Ideology here serves the role of a paradigm that makes competition feasible in the market for ideas (Breton and Wintrobe, 1992). But, much as with religions founded on a Book, the "true" interpretation of a given ideology is always debatable: since the ideology is there for everybody to use, *i.e.* it is a common-property asset for political production, someone can always come up and challenge an established firm's interpretation of ideological tenets, *i.e.* set up a competing firm. Since doing this requires only generic, unskilled labor and managerial talent (leadership), and since an unreliable leader's inability to deliver on his promises will show up only *ex post*, it follows that entry will be relatively easy, that is, the market for political promises will be very competitive, even if as often as not it will be a competition from quacks.

In order to survive in the harsh environment of the market for promises, our political enterprise must solve three problems. These all stem from the basic fact that promises are the ideal ground for reciprocal cheating, and cheating threatens the very possibility of effecting exchange, so some effective mechanisms to ensure reciprocal trust must be devised if trade is to take place at all. First, the firm may cheat on its workers, *i.e.* renege on its contractual obligations and pay them nothing, or less than promised, when the goal is achieved and the payoff materializes. Reputation cannot generally be counted upon to ensure firm credibility because its transactions need not be repeated in an even more distant future. A typical solution here involves structuring rewards as unequal prizes auctioned off in tournaments or contests, as is so often observed in real-world political organizations. Tournaments solve the firm's credibility problem in the absence of reputations because they completely and explicitly predetermine total costs beforehand, so the firm has nothing to gain from cheating on contest outcomes (Carmichael, 1989)<sup>3</sup>. While this important subject deserves further analysis, however, we will not pursue it any further in this paper and simply assume that the firm's credibility problem *vis-à-vis* its workers is somehow solved.

Second, workers may cheat on the firm, *i.e.* shirk either on the quantity or, even more critically, the quality of effort put forward. Here I take it as self-evident that in political production both the potential for shirking and the

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<sup>3</sup> This goes some way toward explaining the firm's side of why revolutionary regimes, for example, reward their veteran or deserving members by allocating top-level jobs or political positions among them, not cash (Ferrero, 1996).

damage from shirking are enormous, which together imply that monitoring is prohibitively costly and incentives are crucially important. Incentive problems in situations of low monitoring intensity are typically dealt with in the employment contract literature through an efficiency wage mechanism, whereby low probabilities of detection combine with heavy utility losses from dismissal effectively to deter shirking (Shapiro and Stiglitz, 1984; Calvo, 1985). However, the threat of dismissal is no longer a penalty if there is full employment because workers can at once find another job at the same wage (unless they can be made to bear a stigma for misconduct). As argued above, because labor is essentially the only production factor, barriers to entry in the political product market are very low, hence the market for political labor always clears as workers dismissed from a given firm can at once set up a competing firm. This leaves us with only one, albeit imperfect, incentive mechanism: full revenue sharing, whereby the workers' pay is wholly in the form of a share in expected revenues, not a fixed expected wage, and therefore they acquire an interest in the performance and fortunes of the firm. It is an imperfect solution because there is free riding in team production and horizontal monitoring is also costly, but it seems to be the only one available in the circumstances. In a sense, it seems to be inherent in political work, which of necessity is paid for out of uncertain future earnings, that one runs a risk and expects to receive a predetermined share of whatever payoff will be forthcoming, not a predetermined fixed payment come what may.

In principle, and sometimes also in fact, even a 100 percent participatory or revenue-sharing firm can be a capitalist profit-maximizing firm whose ownership can be traded on the market. Political enterprises, however, are never bought and sold the way economic enterprises are -- in fact there is no equivalent to the stock exchange for them. The reason can be traced back to the third problem of mutual trust that a political firm must solve, this time *vis-à-vis* its customers: they must have some assurance that the quality of the political product is worth their support -- the "lemons" problem. Because it is a one-time transaction, firm reputation here cannot work. Because it is a restructuring of (part of) society, risk insurance or, equivalently, buy-back warranties are not feasible either. We are dealing here with a truly extreme case of the kind of informational asymmetry or contract failure that is advanced in the literature (Hansmann, 1980; Easley and O'Hara, 1983) to explain the emergence of the nonprofit form of enterprise: when product quality cannot be

ascertained even after purchase or, as in our case, the *ex-post* consumer loss from quality deterioration is truly enormous, a self-imposed constraint on the distribution of profits may to some extent protect the customer by reducing the firm's incentive to cheat on quality. But how can a nonprofit constraint credibly be enforced on a firm that sells future states of society? Or, conversely, how can such a firm credibly precommit not to take the customers' money and run? If it succeeds, it will by definition have the power to cash in its profits irrespective of its *ex-ante* commitments; if it fails, it will collapse and the followers' support will have been wasted away. The only device that appears to be available is to impose today a verifiable constraint on the owner/leader's future stream of consumption or utility. This means two related things: first, requiring that political leaders be ostensibly austere and frugal in their lifestyle and consumption habits -- from Robespierre's vaunted reputation as "the incorruptible" to Mao Zedong's and Fidel Castro's wearing shabby military uniforms all the time. Second, and more important for our purposes, requiring that the owner work in the firm, *i.e.* be its manager, as a condition for holding ownership and control rights in it -- much in the way that autocratic rulers and dictators have for centuries had their cook try their food first. If I do observe these two visible behavioral features -- so a rational customer of a political firm may be supposed to reason -- I have some reason to believe that the leader will at least think twice before embarking upon the wildest adventures or ill-conceived plans. Conspicuous frugality in consumption and direct exertion of effort by the leader are thus the two faces of a "nonprofit" constraint enforced by a rational consumer as a condition for trusting the political enterprise.

The second requirement, in particular, has far-reaching consequences. It immediately implies that ownership cannot be divorced from management: the head of the political enterprise is like the single owner-manager-entrepreneur of the classical firm. Ownership rights are thus restricted on one important dimension. But furthermore, coupled with the revenue-sharing feature derived above, the work requirement implies that the political firm in effect becomes a producer cooperative: a firm in which all workers, including the owner-manager, share among themselves the whole expected revenue is in fact, if not in name, a worker-owned, worker-managed firm, although shares may be very unequal (as suggested by the contest form of remuneration discussed above). "Ownership" of the firm is then further restricted: as a cooperative, the firm may not have owners that are not workers, so it cannot be

sold to outside investors; ownership or, better, control can change hands only through takeovers from within, *i.e.* political infighting, or through mergers and splits. Only a political worker can become boss -- which is the way real-world political organizations function. In this approach, it is the cooperative nature of political firms that accounts for the nonexistence of a market for control rights in such firms.

If the reasoning so far is accepted, then the standard model of the labor-managed firm (LMF) can be readily put to use<sup>4</sup>. As a cooperative, the objective of the political firm is to maximize expected net income per capita (a convenient, harmless simplification) under the usual technology and demand constraints. Unlike in a profit-maximizing firm, labor income here is not a market-parameter (a wage) but an endogenous variable that is determined in the firm simultaneously with the employment level. Per capita worker income is maximized at an employment (and therefore output) level at which this income equals the marginal revenue product of labor. This equilibrium condition has four well-known implications worth noting. First, given different levels of the fixed factor across firms (differences in leadership and organizational skill), worker income will be different across firms. Second, and consequently, marginal revenue product of labor (MRPL) will be different across firms, which implies that the overall allocation of labor among firms will be inefficient. These two features persist in equilibrium because there is no way that low-paid workers can bid entry into higher-paying coops and thereby equalize marginal products. Third, for the same reason, the level of employment in each firm and in all given firms together is independent of, and insensitive to, labor supply. In our case, however, the political labor market clears because the unemployed can easily employ themselves by setting up a new firm, that is, because of free entry. Fourth, the model's comparative statics shows that a parametric increase in marginal revenue product (such as an exogenous increase in output price) has the perverse effect of lowering labor demand and therefore output supply, which implies a backward-bending output supply curve. This poses a classic, intractable problem to the cooperative: when market conditions improve, it should optimally react by firing some of its members so that the remainder's income may further increase. Rigidities, variable work hours, variable inputs other than labor, and multiple

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<sup>4</sup> For a good introduction to the labor-management model see the textbook-style survey by Bonin and Putterman (1987) and the literature cited therein.

outputs can somewhat mitigate, but never eliminate, this perverse and inefficient result. It will be retained and exploited in the analysis that follows.

The next step is to characterize market equilibrium. The firm equilibrium described above implies that a competitive political market made up of cooperative firms will be very inefficient because in equilibrium marginal revenue products of labor are unequal across firms: aggregate output would increase if workers could move from low-MRPL to high-MRPL firms but this is precluded by internal income maximization in each firm. As the literature has made clear (Nutti, 1983, 1985a, 1985b; Cugno and Ferrero, 1984, 1985), the chief decentralized mechanism available to improve allocative efficiency in a system of LMFs is merger. If two coops merge at an unchanged level of total employment, their MRPL are equalized by relocating workers from one firm to the other and total output, and therefore per capita income, increases (though this will normally imply side payments, or inegalitarian income shares, to make the merger profitable to all concerned). Moreover, under normal conditions (*i.e.* if there are nondecreasing returns to scale once management/leadership becomes a variable factor) total employment will also not decrease. Since this source of efficiency gains from merger is not exhausted as long as there remain productivity differences across firms, the merger process may be expected to go on until a single firm, or an all-embracing cartel, is reached. Because market entry is very easy, however, such a cooperative monopsony is not restrictive as it takes in all potential firms and therefore clears the labor market. This monopsony result corresponds closely to observation. Political markets specialized in a particular product of the long-term kind considered here usually exhibit very high concentration ratios and often a single dominant party or organization. This is not easily explained on the product market side if, as we have argued, there is no exclusive patent protecting the ownership of ideology and other nonlabor inputs are not important, that is, if the market is easily contestable. On our interpretation, monopoly supply is but the consequence of monopsony demand for political labor, which in turn is the final outcome of a merger drive that arises out of the specific kind of inefficiency in labor allocation that is unique to cooperative market equilibrium.

For the remainder of this paper, it will be assumed that the benefits from complete merger outweigh any transaction costs arising from committee decision making and conflicts within the cartelized leadership so that the

monopsony solution obtains. Once established, however, the single cooperative's membership need not be optimal from the point of view of per capita income maximization. Figure 1 depicts the three possibilities. In each case, the inverted U-shaped curve measures income per capita  $y$ , which reaches a maximum where it crosses the downward-sloping MRPL, while  $y(L)$  is the inverse labor supply curve (which we assume upward-sloping<sup>5</sup>), all three as functions of the amount of labor  $L$ . Optimal firm size, that is, the level of  $L$  at which income peaks, is dictated by the now-aggregated fixed factor, management or leadership. Case (a) shows a cooperative in perfect equilibrium: optimal employment exactly equals labor supply at  $F$ . In case (b), the coop would like to restrict its membership to  $F$ , but free entry forces it to expand to  $G$  because it is better to merge than to compete with potential entrants. In case (c), the cooperative's labor demand is rationed at  $G$  because income per worker peaks to the right of the labor supply curve, so it cannot find enough "volunteers" to reach  $F$ .

(Figure 1 about here)

### 3. The equilibrium policy mix and infantile extremism.

Can our political monopsony do better than just sitting back at  $E$  in cases (b) and (c) discussed above? And even if case (a) obtains, could expected per capita income be further increased? To answer such questions, we address the problem of the choice of the policy mix. As argued above, the empirical specification of the ideology, or of the ultimate goal it involves, is always subject to interpretation; that is, the firm can always redefine its product, or

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<sup>5</sup> A downward-sloping labor supply would mean that workers voluntarily quit the political enterprise when its market prospects improve and rush to its rescue when its prospects worsen, thereby making it less prone to mature extremism when it succeeds and less in need of a moderate shift when it fails (see section 4 below). Its programs and policies would thus tend to become fixed and insensitive to outcomes. By the same reasoning, the firm would never entirely run out of volunteers and collapse even under the most adverse circumstances. These predictions are at odds with the common observation that political organizations and regimes do change their degree of extremism, sometimes dramatically so, and do die out when especially hard hit. In any case, the assumption of downward-sloping labor supply would be difficult to justify in the first place, except perhaps by a kind of "old-boys effect" which triggers participation only when the organization is hard pressed; this does not seem typical of the kind of organizations considered in this paper.



change the package of promises it offers to members and customers alike. Let the range of possible policy mixes, or platforms, be ordered by a scalar index  $E$  (like "extremism") on the real line: a higher  $E$  means a turn to "more" extreme policies, which imply goals more difficult to achieve or further removed in time or involving more drastic departures from the status quo, and, for the workers, harder or riskier tasks and therefore more exertion. Changing  $E$  then implies at once changing the product's characteristics and the nature of work or effort. Therefore, changing  $E$  has both a utility effect and a productivity effect. The first effect is unambiguous in sign: increasing extremism invariably increases the disutility of effort and therefore reduces labor supply; the labor supply curve shifts upward and to the left. The productivity effect is more complex. If we start from a very moderate platform (a very low  $E$ ), we are in effect telling people that very little can be accomplished by way of political action and therefore we are getting scant support because our potential customers think the outlook is so bleak. Then some degree of radicalization (an increase in  $E$  over some range) may prove to people that political action pays, that the "enemy" is in fact not as strong and secure as it pretended to be, that something can indeed be achieved. It is like an infant industry, overwhelmed by cheap substitutes, which raises itself out of a low-level equilibrium trap in a "bootstrap" fashion by adopting a more aggressive marketing policy. If it is so, then over some range increasing extremism broadens the organization's popularity and increases the productivity of political action: the MRPL curve shifts outward and to the right. Then, beyond some point, further increases in  $E$  turn counter-productive and start alienating customers or depleting potential resources, shifting the MRPL curve inward and to the left. However, this does not imply that a resort to extremism beyond the point that maximizes productivity is never a sensible policy for a political enterprise, as will be seen below.

A key result of the standard LMF model, mentioned above, is that a parametric increase of the MRPL decreases the optimal membership of the cooperative, *i.e.* the point at which income per capita peaks in Figure 1 shifts to the left. Therefore, over the range in which more extremism increases productivity, it decreases both labor supply and labor demand. When extremism is increased beyond that point, it begins to decrease productivity and therefore labor demand begins to increase while labor supply keeps decreasing. This insures that, holding all other parameters constant, there will

be an interior optimum, *i.e.* an equilibrium degree of extremism that defines an optimal size of the political enterprise.

Formally, calling  $W_0$  the reservation wage, let us define the inverse labor supply function as

$$(1) \quad y = y(L, E, W_0) \quad \text{with} \quad \partial y / \partial L > 0 ; \partial y / \partial E > 0 ; \partial y / \partial W_0 > 0 .$$

The marginal revenue product function, calling  $S$  an exogenous "success" parameter, is

$$(2) \quad MRPL = f(L, E, S) \quad \text{with} \quad \partial f / \partial L < 0 ; \partial f / \partial S > 0 ; \partial f / \partial E \text{ first } > 0 \text{ then } < 0 .$$

Consider a new monopsonistic organization that enters a particular political market with a given platform and finds its expected income is low<sup>6</sup>. Suppose first its labor demand is exactly satisfied as in Figure 1(a). If it tries to increase its degree of extremism, it may discover that it pays to do so, and keeps doing it until it finds itself in a new equilibrium with a (probably) smaller membership and a (certainly) higher expected per capita income than it started with. On the other hand, if it tries to turn more moderate, it may find out to its cost that this further depresses support and lowers productivity until it may totally collapse. In other words, as long as there is a finite limit to the extremism customers are willing to take, there will be an upper bound to the policy choice before the organization's membership shrinks to zero, whereas there need be no bottom limit that keeps popularity and expected income from falling to zero as the wine is increasingly watered and increasing moderation washes away whatever use political action might have to customers. The situation is depicted in Figure 2.

(Figure 2 about here)

From now on, we will have several cases to consider because the shifts in  $y$  and  $MRPL$  triggered by changes in  $E$  are independent of each other and theoretically indeterminate in magnitude (though not in sign). In case (a) we start at  $A$  with policy mix  $E_0$ , labor supply curve  $y_0$ , and productivity  $MRPL_0$ .

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<sup>6</sup> For ease of exposition, the argument in the text is structured around a logical sequence by which market competition and collusion occur prior to the policy choice. However, a more realistic description that viewed different platforms (in terms of extremism) as a weapon in the competition and the struggle for cartel leadership would be unlikely materially to affect our results.

An increase in  $E$  to  $E_1$  shifts up both labor supply and productivity curves. Assume that the pair  $(y_1, MRPL_1)$  corresponds to the degree of extremism at which productivity is maximized: a further increase in  $E$  to  $E_2$  reduces both productivity and labor supply, say to  $(y_2, MRPL_2)$ . With  $E_1$ , notional per capita income would be at a maximum at  $B$ , but if as we postulated the cooperative cannot keep out volunteers, membership will be at  $D$ . With  $E_2$ , the curves as drawn ensure a market-clearing, full-maximization equilibrium at  $C$ . The cooperative therefore will pick policy mix  $E_2$  or  $E_1$ , according to whether worker income at  $C$  is higher (as shown in the figure) or lower than at  $D$ . Given the inverse relationship between optimal labor demand and the location of the MRPL curve,  $L_1 < L_2 < L_0$ ; on the other hand,  $L_3 > L_2$ , while  $L_3 \geq L_0$  according to the relevant elasticities. Starting from  $L_0$  at  $A$ , therefore, employment certainly decreases if the solution is  $C$ , whereas it may or may not decrease if it is  $D$ . Note that with  $E_0$  (initial solution at  $A$ ),  $\partial f / \partial E > 0$ ; with  $E_1$  (solution at  $D$ ),  $\partial f / \partial E = 0$ , *i.e.* productivity is maximized; with  $E_2$  (solution at  $C$ ),  $\partial f / \partial E < 0$ , that is, there is "too much" extremism. In any case, the fact that an income-maximizing level of  $E$  exists ensures a unique interior solution.

Case (b) of Figure 2 is analogous to (a) except that as extremism is increased, labor supply decreases more rapidly than labor demand, that is, outward shifts in MRPL are smaller than leftward shifts in  $y$ , so that before the productivity of extremism is exhausted the firm runs short of volunteers. Therefore point  $C$  is not a feasible solution and equilibrium will be either at  $B$ , with  $L_1 < L_0$ , or at  $D$ , with  $L_3 < L_2 < L_1$ , whichever yields the highest income. In this equilibrium,  $\partial f / \partial E > 0$ , that is, there is "too little" extremism: there would be room for more extremism were it not for the labor supply constraint. The reader can work out for himself the case of a firm starting from a position of excess membership (case (b) of Figure 1): unless  $E$  is already at the productivity-maximizing level (like point  $D$  in Figure 2(a)), an appropriate extremist shift can always attain a superior, income-maximizing equilibrium.

On the other hand, a move away from extremism in these conditions is self-defeating: given a range over which extremism and labor productivity are positively related, a turn to moderatism will at best end up with a larger membership and a lower per capita income than the coop started with; at worst, if MRPL shifts downward more rapidly than  $y$ , and if (as seems likely) the positive correlation between extremism and productivity is not bounded from below, the enterprise will engage in a race to the bottom that leads to its

extinction. This is illustrated in Figure 2(c) for the case of a firm starting from a rationed membership at A (like in Figure 1(c)). In such a case it is particularly tempting to try and entice new recruits to join in by making the job easier, but unless the coop happens to start at a point like D in Figure 2(b), in which case it will soon settle at B, it runs the risk of sliding downward and running completely out of volunteers. Counterintuitively, then, a firm that cannot fill its vacancies will often be wise to make the job harder and shift to extremism, thereby increasing its productivity and reducing its labor requirements until it reaches an equilibrium as in Figure 2(a) or (b). Consequently, we are not likely to observe the whole theoretical range of policy options in the real world: the more moderate variants may simply not exist because they are either less profitable or less stable than the more radical ones.

This, then, is Lenin's infantile extremism: it is not really a pathology but a physiological phase in the development of a "young" political enterprise which is groping toward an equilibrium policy mix. Within limits, political radicalization does pay: it scares volunteers away and makes the job harder for those who remain, but their expected reward will be higher because it draws more followers to support the organization's actions. The performance of anarchism in the early stages of European and American working-class movements (Joll, 1979) has already been cited as a case in point. Among the many other historical instances, the European student movements of 1968 provide spectacular evidence in support of this view. Militant groups in the forefront of the demonstrations in Germany, France, and Italy managed to draw huge crowds to the streets and the clashes with the police showed that keeping aside or outside was no longer a viable option for the people concerned. This was made into a theory, among others, by the German student leader Rudi Dutschke (Bergmann et al., 1968): challenging the status quo elicits the state's repression which hits also those who would otherwise be apathetic and draws them into action, which in turn elicits more repression and thereby a broader mobilization, and so on in a spiralling cycle which builds up a political capital for the vanguard to exploit for its own ends. Related examples are the idea (popularized by the French writer Régis Debray, 1967) of starting guerrilla warfare in Latin American countries from a small "fire" that propagates to an ever-broader "prairie" of peasantry hitherto acquiescent to the status quo, and the idea (forcefully argued out by Frantz Fanon, 1963) that acts of violent revolt instill self-confidence and self-esteem in humiliated colonized people and so

broaden popular participation in the struggle against an hitherto unchallenged colonial power. More generally, nearly a century's history of nation-building and national-liberation struggles throughout the colonial and dependent world can be interpreted as a case of dramatically successful radicalization of the nationalist struggle, or the takeover of the national cause from the weak, unreliable hands of the national bourgeoisie by a revolutionary, socialist-nationalist leadership, as I have examined in depth elsewhere (Ferrero 1995). At the time of this writing, with socialism no longer a viable proposition, news headlines around the world are witness to the success so rapidly achieved by the Kosovo Liberation Army in wresting the leadership of the ethnic Albanians' resistance to Serbian domination from the hands of traditional moderate politicians and thrusting the problem sharply into the focus of international attention.

#### 4. Changes in market conditions: mature and senile extremisms.

From now on, we consider an established enterprise that has already gone through the pains of growth and found its optimal degree of extremism as described in the preceding section. To simplify the analysis, we focus on full-maximization equilibria like point C in Figure 2(a) and point B in Figure 2(b): to repeat, the relevant difference here is that in the former equilibrium there is "too much" extremism ( $\partial f/\partial E < 0$ ), whereas in the latter "too little" of it ( $\partial f/\partial E > 0$ ), as compared to the productivity-maximizing level ( $\partial f/\partial E = 0$ ).

How will our political enterprise react to changes in market parameters? In general it will not only adjust its level of employment in the pursuit of maximum expected income but also reconsider its policy package and adjust its degree of extremism. An improvement in market prospects may be captured in our model by an exogenous productivity increase, that is, an outward shift of the MRPL curve. Consider first a starting point like C in Figure 2(a), where  $\partial f/\partial E < 0$ . There are two cases depicted in Figure 3. In both cases, as success parameter  $S$  in function (2) above increases, the marginal product curve shifts up from  $MRPL_0$  to  $MRPL_0'$ , optimal membership shrinks from point A to B, but the prospect of increased reward to effort swells labor supply along curve  $y_0$  to point D; since volunteers cannot be locked out, the latter will be the equilibrium point. Thus whereas income maximization calls

for membership reduction, free entry forces increased employment upon the successful enterprise, thereby diluting away the old boys' dividend from success. This is the classic, paradoxical problem that any producer cooperative faces, and that the political coop is no more likely to be able to solve by the luck of the draw than its economic counterpart. However, given the unique nature of political production, the political enterprise can do the trick by changing at once the characteristics of the promises it sells and the effort it asks for, *i.e.* by turning more radical. Increasing the degree of extremism turns volunteers away from political activity and so labor supply "voluntarily" shrinks: the supply curve shifts from  $y_0$  to  $y_1$ . At the same time, since we started with a negative productivity of extremism, marginal product shifts down from  $MRPL_0'$  to  $MRPL_1'$ , optimal labor demand increases and income decreases from point B to C; here the level of E underlying the figure is fine-tuned so as to yield full income maximization with market clearing. The enterprise may or may not choose to do so depending on whether expected income at C is higher (as in case (a)) or lower (as in case (b)) than at D. If the extremist shift is made, employment shrinks from A to C (case (a)); if not, it expands from A to D (case (b)). Note that if the shift is indeed made, not only are no new members taken in, but existing membership is curtailed by "voluntary" exit from  $L_0$  to  $L_1$  – something that could not be accomplished without the extremist shift even if, contrary to our assumptions, the enterprise were able to keep out newcomers. Which choice will in fact be made in any specific case will depend on the relative magnitude of elasticities to extremism ( $\partial y/\partial E$  and  $\partial f/\partial E$ ) and on the own price elasticity of labor supply ( $\partial y/\partial L$ ). Specifically, other things equal, the extremist shift will be the more likely the more elastic to income is labor supply, because this implies a greater inflow of newcomers and therefore a greater dilution of the incumbent members' rents from success; furthermore, it will be the more likely the smaller is its negative impact on productivity and the larger its negative impact on labor supply. In terms of Figure 3, given the slope of the  $y(L)$  curve, case (a) obtains when a given increase in E triggers a small downward shift of the MRPL curve and/or a large leftward shift of the  $y(L)$  curve.

(Figure 3 about here)

This, then, is mature extremism, a child of the success that befalls to middle-aged, well-behaved political enterprises. To be concrete, the first and

foremost of such successes, in the examples to be examined in the next section, is the conquest of state power by a revolutionary organization, and mature extremism is then the radicalization of a successful revolution. It is a way of preventing newcomers and latter-hour converts ("opportunists") from sharing in the pie of rewards that success delivers to long-time fighters at last; at the same time, it is a device that solves a cooperative's intractable problem of adjusting a redundant membership downward. Remarkably, the root cause of mature extremism lies in the monopsonistically cooperative nature of political enterprise, and is magnified by free-entry market equilibrium, whereas it would have no *raison d'être* if political organizations were classical profit-maximizing firms. As the two cases of Figure 3 illustrate and the next section will substantiate, mature extremism is a very real possibility but not an unavoidable outcome. Thus "fellow travellers", "middle-of-the-roaders", the national bourgeoisie, the progressive intelligentsia, the middle peasantry, and other such figures were in principle right to take their chances and -- in many, not all instances -- support the communist revolution. Our model of mature extremism thus satisfies the requirement, set forth in the Introduction, that actors in the political market be *ex-ante* rational.

By contrast, an extremist shift is unambiguously profitable and will be observed in equilibrium if success comes to an enterprise that had not exhausted the productive potential of extremism and starts from an initial equilibrium like point B in Figure 2(b) where  $\partial f/\partial E > 0$ . Recall that here extremism had not been pushed up to the income-maximizing level because of the labor supply constraint. If now the MRPL curve shifts outward the participation constraint is relaxed and the firm can afford to increase E towards, if not all the way to, an equilibrium at the income-maximizing degree of extremism (as in Figure 2(a)), with higher expected income and lower employment than at the starting point. Also, because there is still some way to go before a decline in productivity sets in and enforces an upper bound on the rational increase in E, the magnitude of the extremist shift will be substantially larger than when marginal returns to extremism are already negative to begin with (as in Figure 3). The situation is depicted in Figure 4 where the new fully optimal equilibrium is at C (where the positive productivity of extremism may or may not be exhausted). This picture seems to fit the case of a political organization that labors under especially adverse circumstances, and that is blessed with a sudden, unexpected strike of luck: then it can draw on an

unexploited "reserve" of extremism to its advantage. Thus revolutionaries who succeed in a conquest of power that appeared most unlikely beforehand are particularly prone to large doses of extremism, and therefore are not likely to find allies and fellow travellers along the way because these people rationally expect the revolutionaries soon to turn against them and their policies to be very harsh indeed. As will be elaborated in the next section, this characterization may go some way toward making sense of the ominous excesses of a lonely, hard-fighting group such as the Khmer Rouge of Cambodia, whose unexpected victory in 1975 was mainly due to the fall of the American-backed regime in nearby Vietnam.

(Figure 4 about here)

If success often brings political radicalization, one should think that hardships and failures symmetrically bring moderation. However, the matter is not that simple. First, a moderate reaction to bad luck may rescue the political firm, but may as well spell its doom. Secondly, sometimes we observe radicalization as a response to strain, and in particular, radicalization by dying or doomed political regimes – what we have called senile extremism. Let us examine each aspect in turn.

As before, adverse shocks can be parameterized by a fall in success parameter  $S$  in function (2), which shifts the MRPL curve downward (equivalently, the analysis could be carried out in terms of an upward shift of the labor supply curve driven by an exogenous increase in the reservation wage in function (1)). Starting from a full-maximization, market-clearing equilibrium, the organization now finds it difficult if not impossible to retain its workforce because expected income falls. A relaxation of extremism naturally increases labor supply, but its effects on political productivity depend on the starting point. Suppose first that at the initial equilibrium there was "too much" extremism from the productivity point of view ( $\partial f/\partial E < 0$ ). Then there is some room to increase productivity by turning moderate. If the adverse shock is not too bad, increased productivity and income may join with the reduced disutility of political effort to bring about a new, moderate equilibrium at a lower income and larger membership than before the shock. But if the shock is worse and/or the elasticity of labor supply price to extremism  $\partial y/\partial E$  is low and/or the level of "excess" extremism held in stock is low, so that a "small" dose of moderatism does not suffice, then the firm enters the range where



increasing moderation begins to decrease productivity ( $\partial f/\partial E > 0$ ), which as was shown in section 3 may well lead down a descending spirals to the organization's collapse.

(Figure 5 about here)

The two possibilities are illustrated in Figure 5. Following an exogenous fall from  $MRPL_0$  to  $MRPL_0'$ , which dries up volunteer supply to the firm, extremism is relaxed to the point of maximum productivity ( $\partial f/\partial E = 0$ ), which brings this curve up to its highest achievable position  $MRPL_1$ , and simultaneously rotates labor supply down to  $y_1$ . Thus the fact that extremism was "excessive" to begin with provides a buffer that cushions off some of the adverse shock. However, whereas in case (a) this buffer proves sufficient to reach a new equilibrium at C, in case (b) it does not: then further moderation shifts down the marginal product curve and the firm cannot help but race toward extinction. Therefore, if a mature political enterprise chooses an equilibrium degree of extremism that is near the peak of the profitable range, this equilibrium will be a fragile construct, leaving the firm with slim margins to adjust to adverse circumstances. Paradoxically, it will be the more extreme regimes, those which carry radicalization deep into the region of negative returns, that will have more resources for adaptation to the bad weather.

A somewhat similar result obtains if the adverse shock hits a regime that rationally chose not to turn extremist upon success in the first place, as in Figure 3(b). Here the difference is that the regime starts with excess employment at D, which provides it with a kind of shock absorber: as  $MRPL$  falls, the employment-income pair slides down along  $y_0$  from D toward A with  $E$  unchanged. Should this buffer prove insufficient in the face of a very bad shock, however, since this regime must be at or near the productivity-maximizing level of extremism, there is not much it can do to improve its position: either decreasing or increasing  $E$  would further depress productivity, and even with a moderate turn the favorable reaction of labor supply would be small in case 3(b) and therefore likely to be insufficient to match the fall in expected income and yield a viable, lower-level equilibrium.

On the other hand, if in the initial equilibrium there was "too little" extremism ( $\partial f/\partial E > 0$ ), a moderate reaction to political failure is out of question: there is no buffer here, even a small dose of moderation would depress productivity and hasten the organization's collapse. Rather, since there is an

unexploited productivity potential of extremism, an opposite, extremist reaction to failure may rescue the position if the shock is not too bad and, crucially, if extremism's adverse effect on labor supply is not too strong or can be offset in some way. It is the fact that moderation was "excessive" to begin with that provides a buffer this time. Figure 6 illustrates the case. Increasing extremism shifts up the labor supply curve to  $y_1$ . If it also shifts the marginal product curve above its initial position, say to  $MRPL_1$ , then a new equilibrium may be feasible at C, with smaller membership and higher income than at the starting point A. But if the productivity-maximizing level of extremism is reached – the buffer is wholly used up – before the shifting labor supply constraint is met, then nothing can save the regime.

(Figure 6 about here)

A regime in these straits will find it helpful to find some device that softens or counteracts the negative reaction of labor supply to extremism. The Republic of Salò<sup>7</sup> was a brand-new fascist regime set up by the German army in North-Central Italy in September 1943, yet it was already doomed at birth because war prospects were hopeless by then. Being widely regarded as a puppet of the Nazis, it had to face widespread desertion from the previous fascist party and an acute shortage of volunteers, but for the very same reason a broad application of mobilization, coercion and terror turned out to be productive and increase resources at least in the short run (which was the regime's horizon anyway). So the Salò regime drew on this reserve of extremism and went on to meet its fate in less than two agonizing years while ostensibly radicalizing its programs and policies all along. Conventional explanations for this observation typically rely on a "rally round the flag" psychology: under the impending threat the good old boys turn up to prove their loyalty and claim for more of the same. Remarkably, however, the main force that came to the regime's support were not veterans but young, untested new volunteers: the regime targeted propaganda and recruitment to the youth, albeit inexperienced. Our model can accommodate this observation by noting that the young have a lower reservation wage than the general population: when, other than in the final days of a totalitarian regime, may a teenager hope to become a small but powerful political boss? He may well undertake a successful political career after the regime's downfall, but by then he will no

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<sup>7</sup> The fullest treatment in English is Deakin (1966).

longer be a teenager. This implies that his best alternative opportunities rank very low compared to political activism here and now. Shifting recruitment toward the young is tantamount to a parametric fall in the reservation wage which, by function (1), increases labor supply. Furthermore, if as seems plausible, those who have better alternative opportunities are more averse to the harder effort required by more extreme tasks and viceversa, then in function (1) the second-order cross partials between reservation wage and extremism have a positive sign:  $\partial^2 y / (\partial W_0 \partial E) = \partial^2 y / (\partial E \partial W_0) > 0$ . If so, then turning to the young and lowering the reservation wage has a further beneficial effect on labor supply: it reduces the elasticity of the supply price of labor with respect to extremism, thereby giving the regime more room to satisfy the labor supply constraint while pushing extremism to its maximum productivity.

This, then, is senile extremism if and when we observe it: a horror story in which, paradoxically enough, the regime buys time by allowing ever more extreme policies to be pushed forward by militant youngsters as the catastrophe draws nearer. For them, however, it is just the rational thing to do.

## 5. Some evidence from revolutionary regimes.

A number of real-world examples were provided at the end of section 3 to illustrate the working of infantile extremism, which is presumably the least controversial of the three brands of extremism modelled in the present paper; on the other hand, an illustration of the more infrequent and perplexing phenomenon of senile extremism was offered at the end of section 4. This section is devoted to supply some evidence to substantiate our analysis of the mature extremism syndrome, which is perhaps the main contribution of this paper, and, as a byproduct, to substantiate our predictions about political decline. Although one could look to a variety of situations, the cases surveyed below are all drawn from the multi-faceted world of revolutionary politics and regimes of various colors, especially because they provide a particularly stark, unequivocal realization of a favorable shock: the conquest of power itself. Our

concern will therefore be to see if and when the victorious organization turns extremist upon taking over the government, and with what consequences<sup>8</sup>

The first class of cases includes the successful revolutionary regimes which did not turn extremist, as depicted in Figure 3(b). Four cases<sup>9</sup> spring readily to mind: the fascist regimes that rose to power in Italy in 1922 and shortly afterwards in Portugal and Spain, the short-lived anarchist regime that ruled over Catalonia from 1936 to 1939, the Sandinista regime that conquered power in Nicaragua in 1979, and the African National Congress that, led by Nelson Mandela, rose to power in post-*apartheid* South Africa. Whatever programs or policies had carried these movements to power, they were not radicalized in the wake of victory; besides cracking down on open challengers, the regimes did not resort to revolutionary terror against broad sections of the population, did not break with and suppressed the allies with whom they had conquered and shared power, did not engage in internecine conflicts and purges within their ranks, and did not develop the institutions and policies of totalitarianism, though they certainly had the potential to do so. As a result, in each case the ruling organization was large and remained relatively open and non-monolithic, enjoying widespread, though selective, popular support until the end and sometimes beyond, as witnessed by the enduring underground popularity that surrounded the Spanish anarchists through much of the Franco era, by the broad acceptance and good recollections of fascism among the Italian people up through the outbreak of World War II, and by the excellent showings of the Sandinista front in the free 1990 election in Nicaragua, with a 40 percent vote share, and of the ANC in the South African election of 1994, with 63 percent of the vote. Making inferences about decline is difficult because Italian fascism and Catalonian anarchism were terminated by overpowering outside force, while the ANC shows as yet no sign of decline. However, the good performance of the Sandinistas just cited and the long permanence of the Spanish and Portuguese regimes even as their *raison d'etre*,

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<sup>8</sup> Throughout, the reader is asked to keep in mind that levels of extremism in our model are not, strictly speaking, comparable across cases but only within cases. While one can rigorously speak of more or less extremism than before within a given case (what we called a shift toward, or away from, extremism), differences in equilibrium levels of extremism between different cases could be, and in fact often are, truly enormous.

<sup>9</sup> On the Spanish anarchists see the references cited in the Introduction, and in addition Joll (1979) and Hobsbawm (1971). On the fascist regimes see the comprehensive historical account by Payne (1995). On the Sandinista revolution see O'Kane (1991, ch. 8) and Ferrero (1995) for discussion and references. On the South African case see The Economist's survey (1995).

both domestic and international, was slowly waning, finally yielding to a relatively smooth and peaceful democratic transition, seem to confirm the model's implication that the prior avoidance of an extremist shift left substantial room to withstand long-term decline without, however, having the option of buying time by turning moderate, an asset that only prior radicalization might have made available.

Why did just these regimes eschew the extremist drift? The specific reasons are different in each case but they all fall within the comparative statics propositions derived in the previous section. In the case of the Catalanian anarchists, as described in the Introduction, the equilibrium level of extremism achieved before the conquest of power (see Figure 2(a)) – in everyday anarchist practice as it were – was already very high, and this in turn was because the negative reaction of volunteer supply to increased extremism was (in absolute value) very small over the whole policy range due to the peculiar anarchist device of compensating increased disutility of political labor with total individual freedom of action. A very extremist starting point implies that we are far down the range of negative productive returns to extremism and therefore these negative returns are presumably very high on the margin. These factors together imply that further radicalization once in power would have caused a catastrophic fall in support and resources and a modest reduction in membership, thus yielding case 3(b). In a sense, it was the perpetual extremism of the anarchists that made mature extremism not worth the while.

The fascist case may be rationalized by thinking of fascism as a form of capital dictatorship. In all three cases fascism was brought to power by the great fear of communism that haunted the bourgeoisie as a wave of working-class militancy swept Europe after the Russian revolution. It also answered, especially in Italy, working-class demands for social security and welfare policies, but in a way that did not threaten the propertied classes. A radicalization of the regime once established would have implied extensive interference with the market, property rights, and the distribution of wealth, that is, a direct clash with the special interests that lay behind its accession to power and hence a substantial fall in support and resources. The barrier to mature extremism here arose from the fact that fascism was a class dictatorship of the "wrong" kind from a totalitarian point of view.

The unique feature that set the Nicaraguan case apart from all other Marxist revolutions was the inordinate degree of concentration of wealth directly in the hands of the Somoza dictatorship: when the dictator and his cronies fled the country, they left behind huge vacant properties for the Sandinistas to seize that put the government in control of about 40 percent of GNP without having to expropriate anybody. With the big propertyholders gone, an extremist shift would have pitted the regime upfront against small ownership and the middle class and would therefore have been very damaging to the economy and popular support. Unlike most other revolutionaries, the Sandinista regime was blessed at its inception by a bequest of such magnitude as to render mature extremism just too costly.

Finally, in the South African case there were powerful sectors within the ANC pushing for reverse discrimination and retaliatory policies against the whites; but a break with their liberal white allies and the institution of a "black dictatorship", in a country whose financial, physical and human capital was overwhelmingly concentrated in whites' hands, would have implied such a catastrophic fall in the regime's available resources as to make the prospect unattractive. Mature extremism was prevented here by the fact that the blacks in South Africa were just the "wrong" race to be made the social base of a racial dictatorship: big numbers but no capital resources.

Next we examine the class of revolutionary organizations which did turn extremist after the conquest of power, as in Figure 3(a). A good, visible indicator of such a mature extremist drift is the resort to widespread repression, revolutionary terror, and political purges by these regimes, all usually conducted in a campaign-like fashion, that is, by promoting mass mobilization directed from above<sup>10</sup>. These are good indicators of extremism because the "enemies" against whom repression and purges are directed are themselves a product of the regime's policies and a function of its radicalism. Now under many circumstances repression and terror, coupled with tightened central control on resources, have a feedback effect well known to students of totalitarianism: they increase the supply of political labor to the regime because by reducing the range of alternative opportunities open to individuals, they

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<sup>10</sup> On revolutionary dictatorships and totalitarian regimes the classic works are Arendt (1973) and Friedrich and Brzezinski (1965). For an appraisal and generalization of these approaches from a political economist's standpoint, as well as for analysis of the relationship between repression, terror, and loyalty, see Wintrobe (1998). See also the recent work by O'Kane (1991, 1996) on revolutionary terror and terrorist regimes, which also provide a useful selection of case studies.

increase the cost of remaining outside and put a premium on conformity and opportunism; formally, repression lowers the reservation wage and therefore curve  $y(L)$  slides downward. Thus there are not just one but two effects of the first extremist shift, in successive stages: first it squeezes out excess membership, as it was meant to, and then it swells it up again by virtue of a totalitarian reaction. For this reaction to occur, at least two basic conditions must be met: first, the economic structure must be such as to permit centralized control of responsible positions and managerial jobs for the regime to allocate rewards to loyal supporters; and second, access to the ruling organization and its bureaucratic extensions must be arranged on a voluntary, secular basis, in the sense that selection or self-selection for political office must not be made conditional on prior credentials acquired outside the political realm. If the first condition does not hold, then there is no point in the people's offering their loyal services to the regime; if the second condition is not met, then opportunistic entry prompted by the regime's radicalization is foreclosed and will not be observed. The Jacobin dictatorship, to be examined below, is one example in which the first condition was not satisfied, whereas Iran's Islamic republic is one example which does not satisfy the second condition. In these two cases the totalitarian reaction of labor supply to extremism did not materialize.

The Iranian revolution<sup>11</sup> clearly turned extremist after victory, even though, like the Sandinistas, it was blessed by the bequest of the huge fortunes left behind by the fleeing Shah, amounting to 20 percent of total assets of all private firms in the country. However, after the first wave of repression and purges, the regime did not continue to escalate radicalization and terror but, despite continued infighting within the ruling elite, seemed to settle into a fairly stable pattern of policies and institutions. A key to understanding both features is suggested by the religious nature of the regime's extremism. On the one hand, this offers an avenue to redistribution other than encroaching on private property rights, *i.e.* charitable giving ordained by the faith and managed by the clergy, something that was not available to the Sandinistas. On the other hand, as suggested above, in a theocratic polity political service may not be offered directly to the regime but must first pass through the bottleneck of religious service, which prevents the totalitarian reaction of political labor supply to extremism. This rules out one powerful motive for

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<sup>11</sup> O'Kane (1991, ch. 11) is a useful compendium of information on the Iranian regime.

further radicalization, as is typically observed in the totalitarian regimes to which we now turn.

Communist regimes and Nazi Germany comprise the range of cases in which the above-stated conditions were both fulfilled and the totalitarian reaction occurred. These regimes, in turn, had mixed feelings toward the totalitarian reaction: on the one hand the latter is evidence that its radical policies were effective in curbing opposition and removing potential competitors for the regime's monopoly of power, on the other hand the increased labor supply dilutes per capita incomes and brings back the problem which the extremist shift was intended to address. Then a second extremist shift may be a rational response to the totalitarian reaction to the first shift. In turn if this second shift, once carried out, has a substantial negative impact on resources and popularity, it may temporarily be relaxed and give in to a period of moderation and recovery until the stage is set for the next wave of attack; if on the other hand, the negative effect of the second shift on productivity is negligible, then no ups and downs of successive phases of "attack" and "retreat", "advance" and "consolidation" are needed and the regime can continue on its course of increasing radicalization until the end.

The totalitarian reaction and the ensuing second extremist shift are illustrated in Figure 7, where the starting point A corresponds to the extremist equilibrium C of Figure 3(a) where  $\partial f/\partial E < 0$ . By the totalitarian reaction, labor supply shifts down to  $y_0'$  with equilibrium at B. Further radicalization shifts labor supply up to  $y_1$  and productivity down to MRPL, yielding a new equilibrium at C. In case (a) income at C is lower than at B so the second extremist shift will not be made, whereas it will be made in case (b) where the reverse relationship holds. As with the first extremist shift in response to success, also the second shift will be more likely to be profitable if it has a small effect on productivity and a relatively large effect on labor supply.

(Figure 7 about here)

The Cuban revolution<sup>12</sup> is a good example of case 7(a). Here there is no doubt that the revolution underwent dramatic radicalization after 1959, rapidly turning the country into a Soviet-type system and stamping out any social or political unrest aroused in the process, and it is clear that as a reaction the party grew big and ramified into all corners of society and elicited diffuse

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<sup>12</sup> On the Cuban regime see the discussion in Ferrero (1994, 1995) and the references cited therein.



participation. However, in contrast to communist precedents, mature extremism and totalitarian reaction did not trigger further radicalization and successive waves of revolution and purges: by the end of the 1960s the regime had settled onto a pattern of institutions and policies that have remained more or less unchanged to this day, and the party has remained a comparatively broad, participatory organization. Why? An answer is suggested by the special technique employed by the Cubans to dispose of undesirable or uncooperative people: instead of being deported to labor camps as in the Soviet Union or to the countryside to undergo reeducation as in China, they were let free to leave and indeed shown to the door. This implies that political service to the party was, to a degree, self-selected rather than drafted, and therefore a second extremist shift would have caused a relatively small contraction of volunteer supply (compare case (a) with case (b) of Figure 7) and thus would have been unprofitable. The Cuban example is also a neat illustration of the ability of such a regime to hold on basically unchanged in the face of traumatic hardships, in this case the abrupt end of foreign aid after the Soviet Union's collapse. Observers have been surprised by Castro's enduring popularity and stability in power despite his refusal to yield to market-type reform and political liberalization. They should not have been, though. As a consequence of previous avoidance of a second extremist shift, when Soviet aid dried up the Cubans were at point B in Figure 7(a), providing them with a substantial buffer of "excess" volunteers to bear the brunt of the shock and therefore requiring at most a small (hence feasible) dose of moderation.

The Soviet Union up to the Khrushchev era and communist China at least up to the end of the Maoist period<sup>13</sup> are the prototype 7(b) cases in which successive "revolutions from above" alternated with periods of liberalization and recovery. Starting without any substantial bequest from heaven, as in Nicaragua, these regimes had to turn at once to confiscation and collectivization, thus parting company with their previous "fellow travelers" and setting up the "dictatorship of the proletariat" as their working class base predisposed them to do; the negative reaction of political labor supply to the extremist shift was magnified by foreclosing any avenues of escape, Cuban-style, which made them more perfected totalitarian systems. For the same reason, as the totalitarian reaction, i.e. the opportunistic flocking to the regime's

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<sup>13</sup> The literature here is of course enormous. For a guide to selected references and discussion see Ferrero (1994) and, on the Soviet Union, the works cited in note 10 above.

service, developed, it was profitable to effect the second extremist shift. Since each time the economy and the bureaucracy were disrupted by the new outburst of "class struggle", a moderate turn was ushered in to let them recover, again with mixed effects on political labor supply (moderation first increases labor supply then, by relaxing totalitarian control, it decreases it), until the regime was ready for the next turn of the screw. This wavelike pattern of radicalization and moderation is, from our perspective, entirely due to the fact that the second extremist shift was both profitable in the short run and damaging in the longer run as it curtailed resources and support to the regime. Remarkably, in both the Soviet Union and China the last moderate turn was the re-enfranchisement of the victims of terror (the Gulag's surviving inmates and the victims of the Cultural Revolution), a move that prompted the purging of the Stalinists and the Maoists respectively to make room for the newcomers, giving the regimes, under Khrushchev and Deng Xiao Ping respectively, some more steam to carry on. Such an opportunity for horse-switching would not be available to the Cubans, who practiced the exit option, or to the Nazis, who practiced the extermination option to dispose of their victims.

As a contrast, consider Nazi Germany, perhaps the paragon of the totalitarian syndrome<sup>14</sup>. Unlike the communist dictatorships, the Nazi regime turned extremist right after 1933 and followed a steady course of continuing radicalization until the end, without any temporary relaxation, so much so that the impending military defeat was apparently not perceived as such until the very last months of the war, by which time no amount of moderation could save the regime. Nazism was many things at once, including aspects of the fascist regimes discussed above, but unlike them it was above all a racial dictatorship, and unlike the South African ANC, its race base was the "right" one from a totalitarian point of view. Now as radicalization centered on stepping up the policies of cleansing the German nation and the whole world of inferior races, this did little damage to the economy and indeed provided for cheap slave labor to boost the profits of German businesses and to support the war effort. Whereas the radicalization of class struggle under communism directly impinged on ownership rights and work incentives and

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<sup>14</sup> The interpretation offered in the text is based on Burleigh and Wippermann (1991). See also the discussions and information contained in the works cited in note 10 above.

thus necessitated breaks, the radicalization of race struggle could proceed uninterrupted to the verge of final collapse.

The Nazi example seems thus a borderline case in which, in terms of both Figure 3(a) and Figure 7(b), the MRPL curve shifted down very little, if at all, as a consequence of increasing extremism. On the other hand, if the MRPL shifted up under the impact of radicalization, then radicalization could proceed even further without lapses or retreats. This is the case illustrated in Figure 4 of the previous section, complicated by a second-stage, downward shift of  $y(L)$  if and when a totalitarian reaction occurs as in Figure 7. In this class we may conveniently include two regimes which, each in its own terms, went to historically unmatched extremes: the Pol Pot regime in Cambodia, 1975-79, and the French revolution<sup>15</sup>. As shown in the previous section, when the productivity potential of extremism is still positive at takeover ( $\partial f/\partial E > 0$ ), the extremist shift will be certain to occur and the largest possible in magnitude, because it does not backfire on productivity. Equivalently, and perhaps more appropriate to the case, one could view the French revolution as the story of a young, broad coalition which suddenly found itself in control of the state at a very moderate starting point and groped toward its equilibrium policy mix as events unfolded and experience showed that further radicalization continued to pay off: it is like undergoing the growth process of infantile extremism (see Figure 2 in section 3) but with the benefit, or the curse, of state power. In any event, the Jacobins accomplished no more and no less than the other "bourgeois" revolutions before and after, and similarly, the Khmer Rouge played out basically the same policy ingredients as the Soviets and the Chinese had before; what is unique to these regimes is that they managed to go so far so fast, as evidenced by the appalling human toll.

The key to this frenzy was probably, in the Cambodian case, a level of agricultural productivity so abysmally low at takeover (because of the devastation of war) that extremism could not do much harm provided the human cost was not counted in: forced labor in the rice fields and irrigation projects could for the time being extract additional resources for the regime to use as long as skill and output quality were unimportant and one did not mind executing or starving to death over 20 percent of the population in three years.

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<sup>15</sup> On the Pol Pot regime, the best selection I could make of the scanty scholarly literature that exists includes Etcheson (1984), Jackson (1989), and Kiernan (1996). See also the discussion in O'Kane (1996). On the French revolution and the Jacobin terror the literature is again unmanageably large. For useful overviews from the point of view adopted in this paper see O'Kane (1991, ch. 4) and Skocpol (1979).

The totalitarian reaction undoubtedly ensued, with new recruits, especially very young boys, rushing to volunteer for political service, and it was met with sweeping purges in the party and the military and increased armed confrontation at the borders up until the regime's overthrow at the hands of the Vietnamese in early 1979. Thereafter Pol Pot retreated to the jungle with a not insubstantial following of young guerrillas who were able to engage the new government's forces for years to come. Had it not been overturned, the regime might have turned moderate to adjust to bad times as it had so much excess extremism to spare.

In contrast, the French revolution's radicalization consisted essentially of defending its democratic achievements against counterrevolution from within and without. In turn, successfully waging a series of civil and foreign wars required squeezing supplies and conscripts out of a reluctant countryside to feed the cities and the armies. Given the economic structure of the time, this did not, and could not, involve central control of production but simply requisitioning and commandeering private producers and traders, military-style. At least for the time being, and for the purpose at hand, this technique worked and proved capable of broadening and strengthening the Jacobins' power base, while the terror struck at ever-closer rings of associates. But then just as victory on all fronts had been achieved and the revolutionary dictatorship seemed secure, Robespierre and his friends suddenly found themselves alone, were swiftly overthrown and brought to the guillotine without apparently leaving any politically significant trace behind. A case of bad miscalculation? Maybe, but this paper's approach suggests a different rationale: Robespierre's fatal weakness lay in instituting terror without totalitarianism. The absence of centralized control of the economy meant that the Jacobins had it the easy way but, as suggested above, it also meant that the totalitarian reaction of labor supply to each successive dose of extremism did not take place. The absence of the totalitarian reaction means the absence of a countervailing force to the drift toward an extremist corner that the escalation of extremism, in response to each new round of political success, necessarily entails. In terms of Figure 4, the totalitarian reaction helped Pol Pot to end up at an interior solution, whereas its absence pushed Robespierre toward a left-hand corner where the political organization shrank to such a tiny size as to finally collapse.

## 6. Conclusion.

By making the political enterprise and its policy choice the center of analysis, this paper has tried to make sense of the different facets of extremist political behavior in the real world. Its main contribution has been to show that because a political firm engaged in long-term operation may be meaningfully interpreted as a form of producer cooperative, its tendency to curtail its membership when faced with an increase in revenue provides a mechanism that explains the otherwise puzzling phenomenon of mature extremism, *i.e.* the extremist reaction to political success such as the conquest of power. While such an explanation stands or falls with the appropriateness of the labor-managed firm model to describe the working of a political organization, the comparative statics predictions generated by the model have been tested on a broad sample of cases of revolutionary regimes. While doing justice to the complexity of each historical case is obviously beyond the scope of this paper, it turns out that despite its high level of abstraction, our model fits reasonably well the broad comparative picture of radicalization (or lack of it) in these regimes, and is therefore a promising starting point for further study.

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Figure 1

Monopsony equilibrium

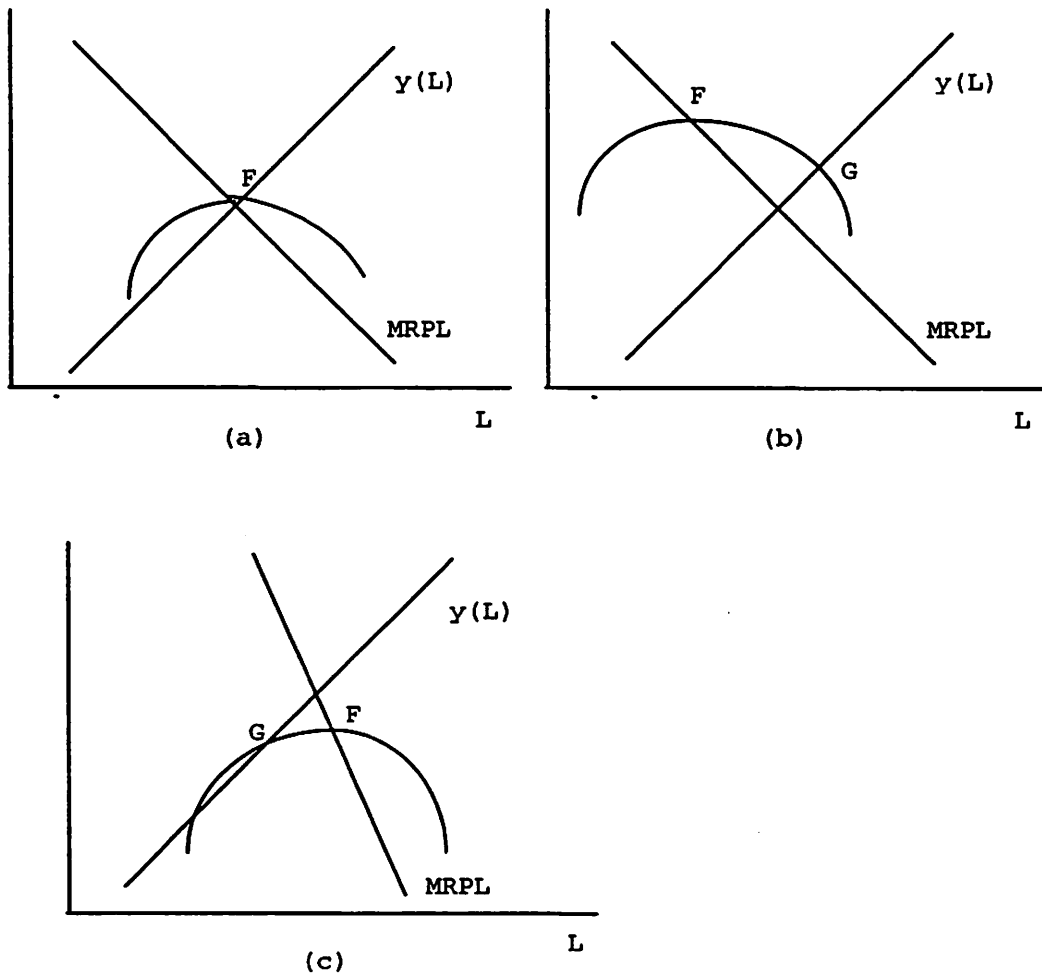
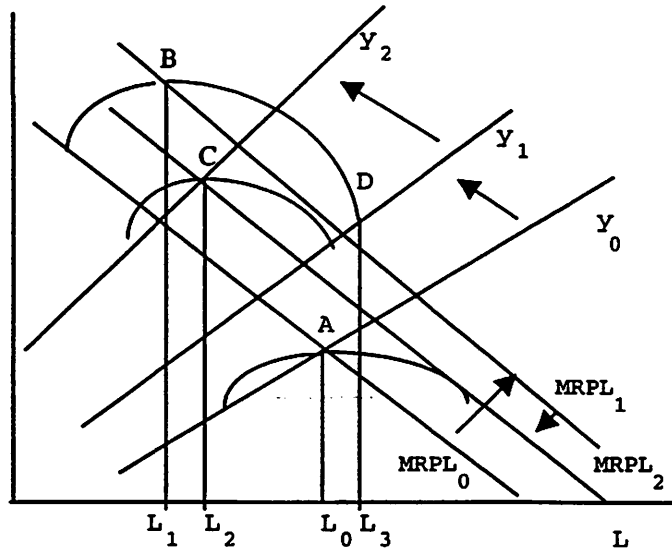
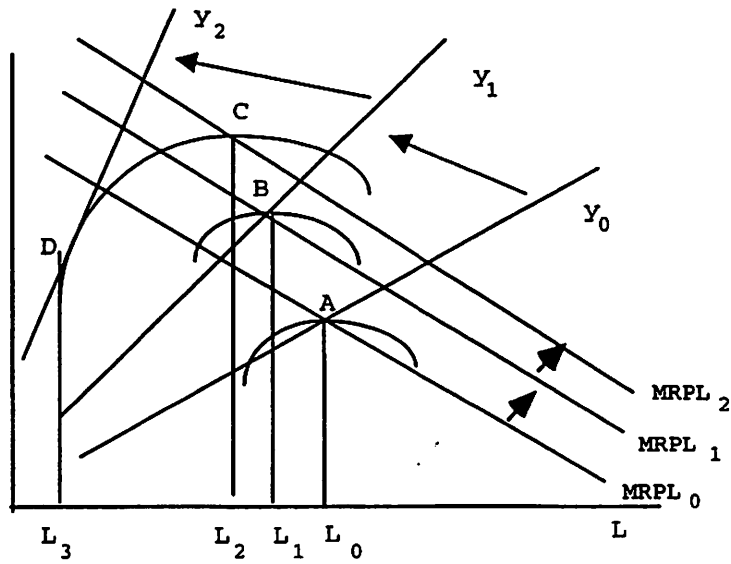


Figure 2

Infantile extremism



(a)



(b)

(c)

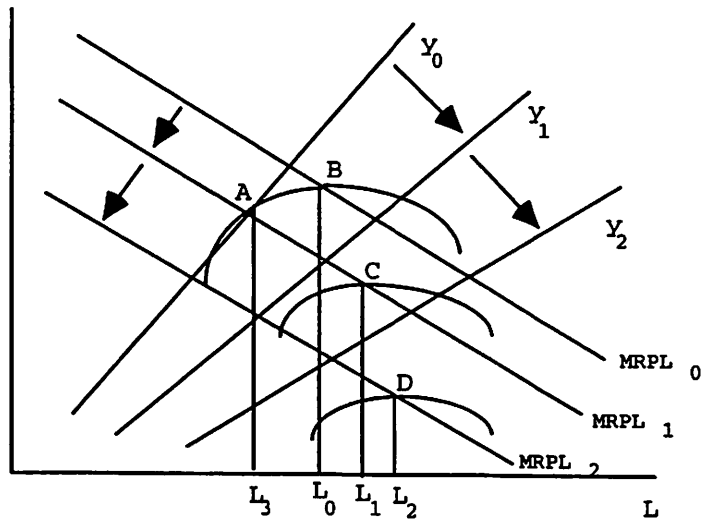
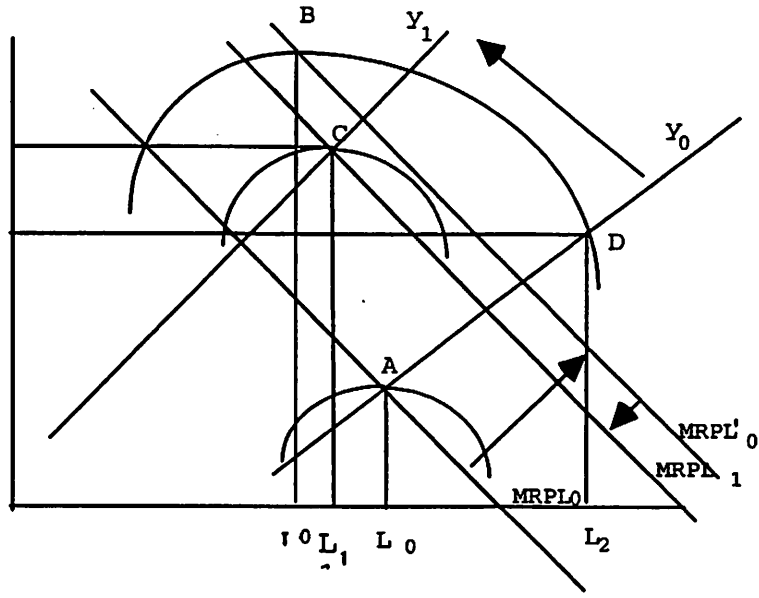
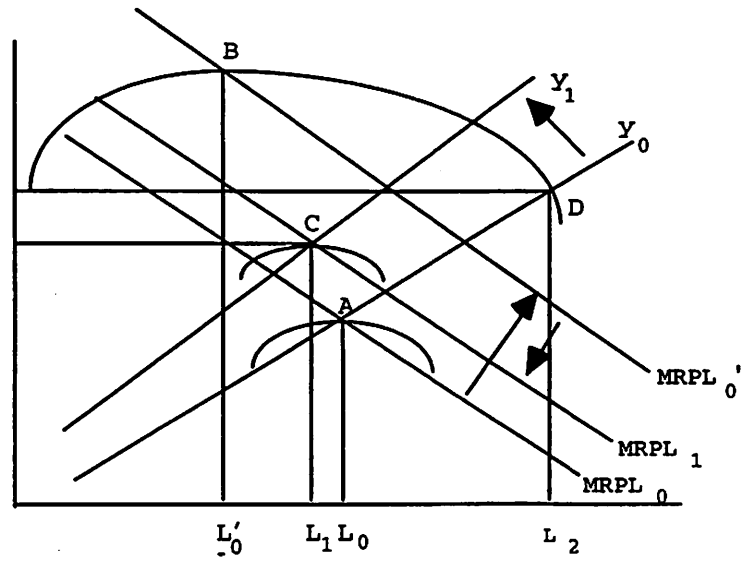


Figure 3

Mature extremism with negative returns



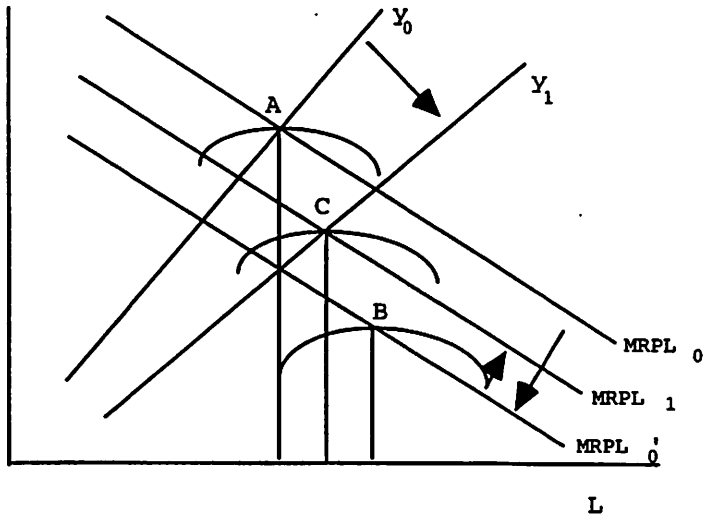
(a)



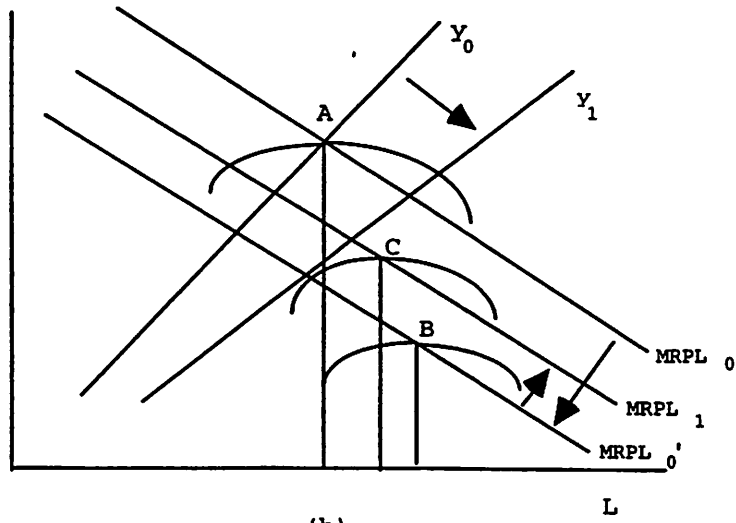
(b)

Figure 5

Moderation



(a)



(b)

Figure 4

Mature extremism with positive returns

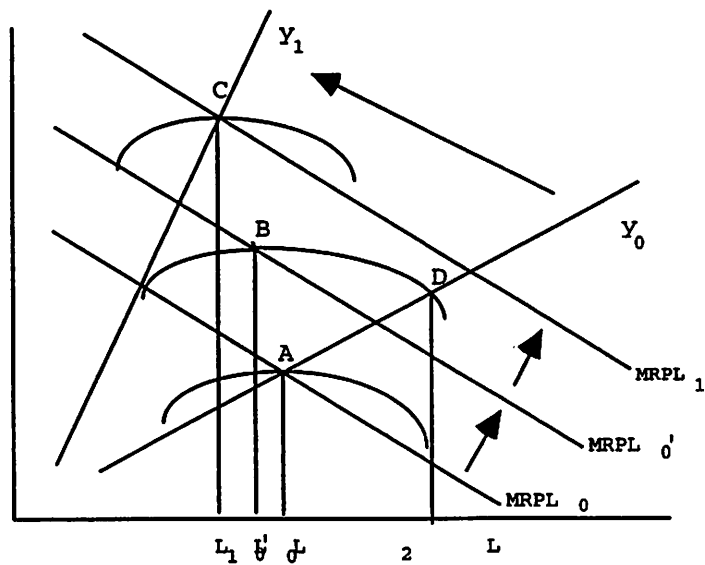


Figure 6

Senile extremism

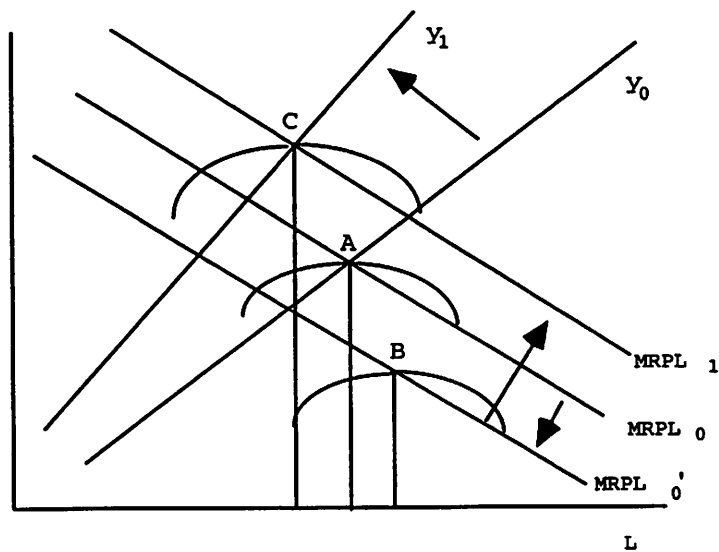
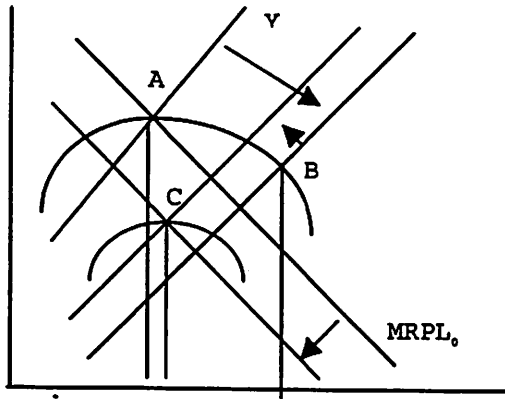
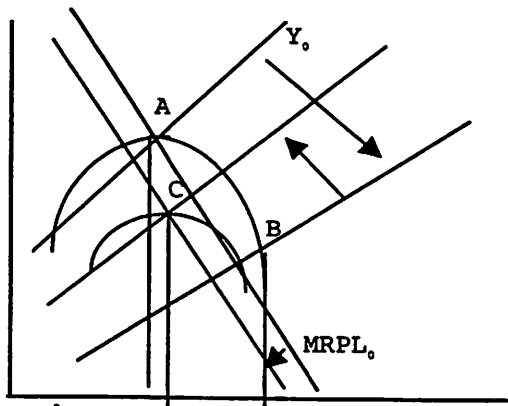


Figure 7

Totalitarian reaction and extremist response



(a)



(b)