

Margaret Levi, *Of Rule and Revenue*

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1 Citation

Levi, Margaret. 1988. *Of Rule and Revenue*. Berkeley and Los Angeles, CA: University of California Press.

2 Abstract

In *Of Rule and Revenue*, Margaret Levi constructs a “theory of predatory rule” to explicate variation in the revenue production policies of states. She argues that rulers always seek to extract as much revenue as possible to fulfill their idiosyncratic personal desires, but they cannot do so as they please: They are subject to constraints imposed by (1) their relative bargaining power vis-a-vis other social actors (a function of the distribution of material resources between the ruler and the ruled), (2) the transaction costs incurred by monitoring agents and constituents and punishing non-compliance, and (3) the discount rate that captures their individual time-horizons and their perceived security of rule. These constraints are in turn determined by economic structure and the distribution of the means of production, the broader international context, and the form of government in operation within the particular state. An important original contribution of Levi is to emphasize the importance of a particular transaction cost: the cost of achieving quasi-voluntary compliance. Quasi-voluntary compliance occurs when citizens are willing to voluntarily pay their taxes only on the condition that the state punishes free-riders - in this transaction cost-minimizing setup, voluntary contributions occur in the shadow of coercion. Levi’s theoretical approach ultimately seeks to emphasize the role of structural context, institutional constraints, and rational, strategic behavior, and is influenced both by classical marxism (see the focus on relative bargaining power), the new institutional economics of Douglass North (see the focus on transaction costs), and state-centric approaches (in arguing that institutional actors possess interests distinct from those of social actors).

3 Details

3.1 Predatory Rulers and the Maximization of the State’s Revenue Production

Levi’s motivating premise is that “[the] history of state revenue production is the history of the evolution of the state” (Levi 1988: 1). The state, defined as the “territorially bounded and centralized regulation of important aspects of social life” via the monopoly over the concentrated means of violence, can only extend its rule if it has the revenue to do so. Extant theories of the state, particularly those that focus on defining the state, shed little light on variation in state behavior, particularly vis-a-vis revenue production (ibid: 1-2). A new, ruler-centric theory is required.

Where states require revenue to extend their power, rulers require revenue to rule. Ruling minimally connotes providing for the common defense and justice, but over time it has incorporated an expanding array of collective goods. But rulers are not benevolent common-interest maximizers: *all* rulers are predatory, “in that they try to extract as much revenue as they can from the population” (ibid: 2). Their motives may well be diverse - “They may use the funds to line their own pockets. . . they may use the funds to support social or personal ends. . . they may have ideological ends. . . they may be altruistic;” but “whatever the rulers ends, revenue is necessary to attain them” (ibid). Hence Levi’s theory is baptized the *theory of predatory rule*.

3.2 The Constraints Upon Revenue Production

Rulers, however, cannot maximize revenue-extraction as they please - they are subject to three major constraints:

- *The distribution bargaining power*: “Rulers will have more bargaining power the more they monopolize coercive, economic, and political resources. . . When others possess resources that the ruler needs or when they can successfully resist the rulers demands, their bargaining power is increased” (ibid: 12). For Levi, the only resources that matter are those that “have a material basis and could, in principle, be quantified;” other resources such as legitimacy, status, and authority are treated as derivative of material resources (ibid: 17). These material resources can be categorized as (1) military resources (the means of coercion), (2) economic resources (capital), and (3) political resources (citizen support).
- *The presence of transaction costs*: “Rulers must devise policies that lower their transaction costs. These are the costs of implementing and enforcing policies. More specifically, they are the costs of measuring [the distribution of resources], monitoring [citizens and agents of the state], creating [institutional rules and contracts with social actors], and enforcing compliance [by operating a coercive apparatus] . . . An increasing stock of knowledge about efficacious administrative practice. . . reduces transaction costs. They are increased by increasing demands that rulers must arbitrate, negotiate, and meet” (ibid: 12). Perhaps the most important transaction cost, however, is that of inducing “quasi-voluntary” compliance - perhaps Levi’s most innovative concept in this work that is described further below.
- *Their own discount rates*: “An important constraint on the policy choices of rulers is their discount rates, that is, the extent to which they value the future relative to the present. The higher the discount rates, the less concern with the future. . . Low discount rates accompany security of rule. High discount rates follow from insecurity and intense rivalries” (ibid: 12). The discount rate is partially a product of the ruler’s “personal psychology,” and partially a product of exogenous factors, the most important of which “is military conflict,” which raises the discount rate (ibid: 35).

In short, predatory rulers seek to maximize revenue extraction to satiate their personal desires subject to the constraining effect of their bargaining power, the transaction costs of ruling, and their discount rates. Changes in these variables, in turn, engender changes in revenue production policies. And changes in these variables are themselves engendered by

- *Productive forces and economic structure*: These, by in large, constitute the classical Marxist notion of the means of production, including “the instruments and raw materials of production” as well as “labor power” (ibid: 35). Technological change and shifts in property rights regimes, in turn, are of extreme importance for Levi in predicting changes in the predatory ruler’s revenue production policies.
- *The international context*: Here, Levi borrows in particular from public choice’s notion of “voting with one’s feet” and Albert Hirschman’s conception of exit: “The bargaining power of the rulers will be reduced to the extent that subjects can make a better deal with an alternative ruler and to the extent that powerful constituents control external sources of revenue” (ibid: 37). This aspect seems mindful of Skocpol (1979)’s stressing that international pressures affect the prospects of domestic social revolutions.
- *The form of government*: Government structures affect all three aforementioned constraints. For example, representative institutions, such as parliaments, enhance the monitoring of rulers and taxpayers, reduce the bargaining costs inherent in contracting between the rulers and the ruled, and permit the formulation of acceptable sanctions for non-compliance, paradoxically facilitating revenue-extraction (ibid: 179-180).

3.3 The Concept of Quasi-Voluntary Compliance

An important original contribution of Levi’s work is to introduce the concept of *quasi-voluntary compliance*. Recall that this is a transaction cost that predatory rulers seek to minimize in order to maximize revenue

production. The logic of quasi-voluntary compliance is derived from legal theory, particularly the legal positivism of H.L.A. Hart, who emphasized that the authority of law cannot rest solely on coercion - law must also be voluntarily practiced by social actors. Levi's logic is as follows: Some citizens may be willing to pay taxes and contribute to the state's revenue-generating mechanisms, but they are unlikely to do so if others free-ride and make them look like fools. To mitigate this fear and induce prospective voluntary compliers to actually comply, the state sanctions non-compliers. In this logic, compliance "is voluntary in that constituents pay because they choose to. It is quasi-voluntary because they will be punished if they do not and are caught" (ibid: 23). Importantly, quasi-voluntary compliance also requires that the ruler credibly commit to the bargains it strikes with social actors, and when this is not achieved and quasi-voluntary compliance breaks down, "new policies cannot emerge" and "old policies can no longer be enforced" (ibid: 184).

3.4 State Formation

Importantly, Levi's focus is not primarily to explain state formation, but to explicate variation in the revenue production policies developed and renegotiated by predatory rulers as their bargaining power, transaction costs, and discount rates ebb and flow. That is, she is interested in what rulers do with a pre-existing state apparatus. Yet Levi does provide an account of the logic of state formation: "Individual, self-interested actors are united in the face of threats to their individual and common property rights. The threat can be internal, external, or both. They form a coalition aimed at dominating the state apparatus, as a means not only to combat their common enemies and delimit their own destructive rivalries but, equally important, to enforce each individual agreement to cooperate. However, they are successful only if they themselves give up power to a leader who then controls the apparatus of violence, is able to coordinate the members of the ruling group, and can ensure compliance through a selective use of rewards and coercion" (ibid: 46).

3.5 Levi's Approach in Relation to Marxist, State-Centric, and Neoclassical Theories

Levi's approach, which she softly baptizes as a rational choice approach, holds elective affinities with many pre-existing theoretical frameworks. From Douglass North's *New Institutional Economics* she borrows the focus on the transaction costs inherent in contracting between the ruler and the ruled; From Marxism she borrows the fact that contracting often occurs amongst individuals subject to substantial inequalities of power; and from state-centric approaches she borrows the notion that institutional actors can develop autonomous interests that are not epiphenomenal of social interests. But Levi also distinguishes her theory of predatory rule from these approaches: "The theory of predatory rule differs from the classical Marxist approach in its focus on rulers rather than on the dominant economic class. It differs from the new state-centered structuralism in its emphasis on deductive theory, which simplifies political, economic, and social complexity as a means for better understanding state organization and policies. It differs from public choice and neoclassical economists in its recognition of power and the unequal distribution of power" (ibid: 38).

4 Criticisms

Levi's theory of predatory rule has been criticized on at least two fronts. First, some accuse Levi of being unnecessarily materialist, and of sneakily incorporating ideational mechanisms without acknowledging them: "Ideational matters, however, seem part and parcel of her own central concepts. . . [for example,] the identification and even the existence of free riders may be contested terrain . . . greater attention to political culture is an essential direction for still greater realism" (Markoff 1989: 222). Second, others accuse Levi of cherry-picking her historical case studies (of Ancient Rome, Medieval France and Britain, Industrial Britain, and post-WWII Australia) and her interpretations of the historical record to bolster her theory: "The danger here arises because the evidence itself may be preinterpreted in light of theory. And this in turn may allow substantial elasticity when it comes to matching theory and evidence. For example, William Pitt the Younger is ascribed a low discount rate on the grounds of his length of tenure in office . . . he valued future revenues highly in comparison with current ones . . . Now, if one wanted to explain a *high* level of extraction by Pitt, one could point to the threat of war with Napoleonic France necessitating a high rate of discount on his part. With enough pre-interpretation of evidence, the theory cannot lose" (Dryzek 1990: 309).