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## How Democratic Institutions Emerge

### Abstract

The paper discusses the emergence of democratic institutions. It assumes that institutions can be created if they are compliance-inducing, and tries to answer the question when and why institutions bring about compliance. The paper is divided into two parts. In the first part, I discuss the emergence of institutions generally by applying the concept of the social dilemma. In the second part, I look into the compliance-inducing capability of democratic institutions.

Key words: Institutions; rational choice institutionalism; social dilemma; equilibrium; consolidation of democracy.

### Introduction

The title of this paper suggests that the main issue which I will discuss here is the phenomenon of emergence of democratic institutions (which is also partly contained in the issue of emergence of institutions as such). That is correct. However, as will be shown later, the emergence of institutions cannot be separated from the question: "when can institutions bring about compliance?" I will argue that institutions are created if they are compliance-inducing. Without compliance, there are no institutions. There is no automatic correlation between the emergence of institutions and their compliance-inducing character. It would be possible to imagine institutions which just emerged only to collapse or change their character in short time. The reason for such collapse is the absence of compliance-inducing capacity. I am, therefore, interested in exploring how compliance-inducing institutions emerge. The issue of emergence and compliance by democratic institutions can be divided in two parts: (1) power to induce compliance in the course of their establishment, (2) power to induce compliance as they are sustained (when they have existed for a long time). By this I wish to indicate that not only are there two areas in the research of institutions, but that the research of these two areas leads to different conclusions on when and how institutions bring about compliance. In the latter case - of an existing democratic system - the likelihood of compliance is far greater. The reason

is that institutions are comparatively autonomous, in other words, there is a higher probability that socio-economic conditions in a consolidated democratic system will generate compliance with democratic institutions. Democracy always survives in economically developed countries since dependence on income creates rise-aversion and generates the need for physical security (Przeworski 2005: 265). And this is what institutional routines and rules provide.

### Compliance in an institutional vacuum

Illustration from the previous section demonstrates that it is easy to defend the institutions' endogeneity thesis when a society is wealthy and when institutions have been functioning for some time. In comparative literature there is general agreement that economic development affects the stability of democracy, i.e. the power of democratic institutions to commit actors to a particular behaviour (Przeworski et al. 2000; Landman 2003: 65-93). There is less research on what is the probability that institutions will emerge and induce compliance in the context of undemocratic or collapsed undemocratic regimes. Uncertainty as to whether democratic institutions can commit anyone to compliance is higher since socio-economic conditions are far worse in that context. Therefore, I am interested in what can be said about the emergence and compliance by democratic institutions if we assume an unfavourable socio-economic context. The question is: how do institutions emerge, can they even emerge and when is compliance first introduced if they emerge in the context of unfavourable socioeconomic conditions.

Let us then imagine that a non-democratic regime is organising the first free elections or that they are being organised in the context of an institutional vacuum. Here we can find some enlightening historical examples. When the Allies departed from occupied and war-ravaged West Germany and Japan after World War II, they left behind democratic and market economy institutions. These institutions took root and they still govern political and economic relations in these countries. When the US occupying forces left Haiti in 1934, they also left behind democratic and market institutions. Yet, these institutions did not deter President Sténio Vincent from becoming the absolute dictator of Haiti only one year later (Przeworski 2004: 520).

The explanation of the emergence and compliance by democratic institutions in the first example is clear: they were created and supported from outside. There is no way to regard it as an autonomous process in which actors, on the basis of their self-interest (or any other interest) achieve a situation of equilibrium in which institutions are accepted voluntarily. However, why didn't democratic institutions achieve compliance in the second case? Does this mean that democracy is unachievable when conditions conducive to it do not exist, that is, when institutions have just been created and are fragile? Haiti is perhaps too distant an example for understanding the issue at hand. There are better known cases from our nearest and more distant environment. Let us take the examples of Croatia, Serbia, Georgia and Ukraine

in the period 2000-2004, i.e. the time of the so-called electoral revolutions (Bunce & Wolchik 2011). Why can we find different degrees of democratic institutions' stability in these states since 2000, 2003 and 2004, respectively? In other words, why can in some cases be stated that democratic institutions were strengthened at the end of 2008 (Croatia), in others that such outcome was highly probable, although not completely irreversible (Serbian), while in third (Georgia, Ukraine) that there was a high risk for democracy to collapse, thus bringing the system back into a hybrid or undemocratic state? At this point, I will suggest my conclusion, which I will attempt to substantiate further in this paper. There are several conditions under which democratic institutions in poor societies with no democratic tradition can emerge and induce compliance:

- (a) if electoral institutions are at least accepted to a degree which guarantees multiple electoral rounds;
- (b) if military power is evenly balanced, i.e., if the expected redistribution reflects the equilibrium of military forces of key actors;
- (c) if institutions are perceived as fair, i.e., if they potentially offer all actors an opportunity to come to power.

Condition (b) is probably crucial as it might be more important than the other two: if electoral institutions guarantee several electoral rounds (which allows for the recurrence of the prisoner's dilemma, as will be further discussed in the next section) and if they are fair, the disequilibrium of military power may avert players from cooperation. Military disequilibrium has its own driving forces. These forces are also conditions which prevent the emergence of democratic institutions:

- (d) low income level, inducing actors to violate agreements since they have nothing to lose;
- (e) the existence of a security dilemma, which motivates actors to circumvent democratic institutions and to monopolize military power.

I discuss (a), (b) and (c) in sections 4-5 and (d) and (e) in section 6 (For a more extensive discussion of (e), see: Pavlović and Antonić 2007).

### **New institutionalism in political science**

I start by placing the argument into a theoretical paradigm. This text draws on the perspective of new institutionalism in political science. An institutionalist in political (and social) sciences is someone who believes that institutions are endogenous, i.e. relatively autonomous and not a reflection of relationships established in the social structure (March & Olsen 1984, 1989, 2006). In other words, institutions influence the behaviour of decision-makers and the outcomes of interactions. There are three ways to consider this influence. Institutions structure the outcomes by: (a) defining who may participate in the political contest, (b) influence the shaping of

political strategies, and (c) influence what the actors believe is possible and desirable (influence the shaping of their preference) (Steinmo, 2001: 570-571).

In the light of existence of several types of institutionalism (Taylor & Hall 1996; Thelen 1999; Peters 2005; Rhodes et al. 2006; Peters & Pierre 2007), I go for rational choice institutionalism. Without getting into further discussion on the basic assumptions of this variant of institutionalism (Steinmo 2001, Weingast 1996, 2002, Peters 2005; Shepsle 2006), I would like to point to just two important concepts, as they are necessary for what I will attempt to show in this paper. First, rational choice institutionalism contributed to a particular understanding of institutional endogeneity, according to which, for institutions to be able to induce compliance, they must be self-enforcing. As we will see later, democratic institutions, deriving from democratic constitution, cannot be established by a third party. It is up to actors themselves to agree on their acceptability and subsequently to sustain them. Derived from that is the idea of relative autonomy of institutions: their compliance power is always contingent on circumstances, since actors are not facing the same incentives for sustaining institutions.

Another important concept is equilibrium. Among rational choice theorists, there are at least two camps with different understanding of the issue of equilibrium. According to one view, equilibrium is structurally induced. Others argue that equilibrium is a product of social interaction, or that it is self-imposing (Alt, 2002: 150). I would like to examine this latter type of equilibrium, as I intend to show that equilibrium is not always possible, namely, that it does not necessarily result in democratic institutions (Pavlović 2006). Although it is generally considered that institutions reduce transaction costs, increase the predictability of interactions, increase certainty, and induce stability (Alt & Alesina 1996: 647; Alt 2002: 149), all of which should conform to the rational interest of each actor (individual or group), this still does not mean that some actors will find it more rational to circumvent democratic institutions. If at least one actor believes that she would be better off by pursuing his strategies beyond these institutions, democratic institutions may not emerge. I will discuss these conditions in sections 4-6.

The question I now wish to answer draws upon the Prisoner's dilemma (Axelrod 1984; Taylor 1987; Poundstone 1992). For the purpose of this paper it will be reshaped into a social (or democratic) dilemma (Mueller 1996: 51). My purpose is to point to the issue of mistrust between actors which prevents the emergence and establishment of democratic institutions.

I briefly explain the gist of the dilemma. Imagine two farmers who cultivate corn. FARMER B's corn is due for harvesting two weeks later than that of FARMER A. The farmers have two options: to harvest their corn by themselves or to help each other. If each minds his own corn, the payoff is minimal for both. If they cooperated, each could secure greater utility. The conclusion is clear: it is better to cooperate than not to cooperate. However, what guarantees that farmers will cooperate, i.e. that the farmer whose crops are due for harvest first, would later help the other?

FARMER B can help FARMER A to harvest his corn, but why would FARMER B trust that FARMER A would reciprocate two weeks later? Having no guarantees that FARMER A would help him, FARMER B has no reason to help FARMER A. And since FARMER A knows this, he has no reason to seek his help. This brings us to the minimal utility which is detrimental to both farmers. Note that in this case, nothing is illogical: the behaviour of both farmers is perfectly rational when things are seen from their personal perspective, before final payout is due. Of course, had the farmers known the final outcome, perhaps they would have helped each other. But even then, FARMER B could not be sure that FARMER A would cooperate once he saw his corn stacked in the barn. This is the point of the Prisoner's or social, dilemma: although cooperation is in the interest of two perfectly rational individuals, the outcome will for both of them be suboptimal, but it would nonetheless be rational. Rationality, in this case, is self-defeating.

Why does it happen? There are two reasons. The first reason is the fact that in the dilemma described above, interaction takes place only once. If I know that I will never meet you again, it is rational not to cooperate and to use your help. If you know that, you will avoid any interaction implying cooperation with me. Repeated interactions change the perception of actors about what pays better.

The second reason is the actors' short sight. Specifically, loss incurred from non-cooperation is long-term. If the farmers do not cooperate for years, they will have more loss than gain from non-cooperation. But loss is deferred, while short-term benefit of non-cooperation is immediate. If FARMER A succeeds in convincing FARMER B to help him, and then fails to return the service, his benefit in the short term is higher, because the fact that he does not have to reciprocate the service does not create opportunistic cost. The vast majority of actors behave short-sightedly, since they have a tendency to time discounting (Elster 2007: 114-118). Just as a bigger house in the distance may seem smaller than a small house near you, so a larger amount of money you should receive later may seem smaller than a smaller amount you receive now (ibid: 115).

### **The social dilemma: rational choice or democracy?**

The question asked at the beginning is: under what conditions can rational individuals be expected to comply with the democratic rules of the game? Rational choice theorists ask that question in a general way: what can motivate individuals to comply with rules and norms imposed by institutions? I will now attempt to answer this question in a generalized way, but the reply will also have to be partly specific, because we are not dealing with institutions in general, but with democratic institutions.

As we know, constitutional democracy, in which future incumbents are chosen in democratic elections, generates winners and losers. This is normal in situations of social conflicts. If there are conflicts and winners and losers, then the next logical

question is this: why do losers have no incentive to behave subversively? Compliance by losers in democratic elections is central to the stability of a democratic system (Anderson et al. 2005). Given that in a democracy someone must always lose, this question, more specifically, could look like this: Why do political forces which lose an election continue to comply with the outcome instead of trying to topple the system and win power by force? On the one hand, trust is necessary. On the other, it is necessary for democracy to be perceived as a fair system of distribution. In other words, actors must trust each other that whoever wins power will not abuse it. And they will believe it if they have reason to believe that they stand the chance to win power in the future (Przeworski 1991; 2005).

The crux of the problem partly corresponds to the prisoner's dilemma: let's not forget that the main problem which actors must overcome is the lack of trust resulting in non-cooperation. Cooperation in democracy implies willingness by actors to conform to democratic norms and procedures. Cooperating is the person who agrees to comply with outcomes of democratic institutions, even if not in their favour. But actors in democracy, just as in the prisoner's dilemma (PD), are from time to time tempted to stop cooperating, i.e. cease complying with democratic outcomes (behave subversively). This can be true also of those who win power, and not just those who lost it. It is not difficult to imagine circumstances in which there is no institutional way of preventing power-winners from usurping all the power and thus turning a democracy into an undemocratic regime. The example of Hitler's Germany best illustrates this point.

How can democracy be expressed as the prisoner's dilemma? Take a look at Figure 1 and assume that the numbers in boxes, instead of years of imprisonment, indicate rewards (payoff) for cooperation and defection (non-cooperation). If they cooperate (comply with democratic procedures), both actors score a total of 20 units divided into equal parts (BOX 1). If both defect, they win the minimal payoff of three units (BOX 4). Payoffs in BOXES 2 and 3 show payoffs for defection. In these cases, defector (not complying with democratic procedures), can gain more than in the case of reciprocal cooperation.

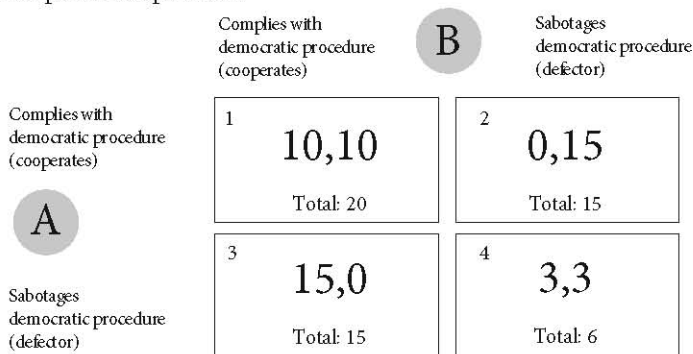


Figure 1. Structure of the Prisoner's Dilemma game applied to democratic dilemma

Now let us imagine that PARTY A and PARTY B are running in some hypothetical parliamentary election. PARTY A, which accepts the rules of democratic game, has won. PARTY B, previously in power, also accepts democratic rules and steps down from power voluntarily, surrendering the rule to PARTY A. (Both parties are awarded with 10 units, BOX 1). The fact that Party A has now come to power yields it the opportunity to seize all the power (and win 15 units, BOX 3). This is the temptation of defection, always latently present in democracy, as there is no one else to enforce democratic institutions, but the actors themselves. Let's assume that PARTY A decides to accept democracy only if it continues to win elections. For that, it is necessary to create some conditions. In the next four years, the party gradually replaces people in top positions in the army, police, judiciary, media, electoral commission, public enterprises, state audit institution, central bank, universities, hospitals etc. Replacements are carried out gradually so that no one can protest. (If it is done at once, PARTY B may immediately call for street protests).

On the next election, four years later, PARTY B sweeps to victory, but this time PARTY A states that it does not want to cede power to PARTY B, since, for example, the latter has no idea of national or state interests. Electoral Commission annuls the elections and organises new ones in which, with inevitable manipulations, PARTY A wins. Theorists of democracy who accept old institutionalism could not explain how that happened. They should, in fact, claim that this outcome is impossible, because relevant institutions (courts, police, etc.) would have intervened to prevent the obliteration of democratic procedures. But in this case, after four years, it is no longer possible: since replacements were already made, rule of law, independent judiciary and depoliticised police could no longer be invoked, because all of them no longer existed. PARTY A gained more than it would have had it cooperated and PARTY B was naïve for trusting it. Of course, had PARTY B known four years before that PARTY A would act this way, it may not have surrendered power to it (thus securing itself maximum payoff of 15, BOX 2). PARTY B may also claim that it does not recognize the rigged election and threaten to call mass rally, an armed rebellion, or invite another country to restore democratic order by military intervention. Until that happens (if it does happen at all), years can pass in the state of violence, whereby both actors would gain less than they would had they continued to cooperate (BOX 4).

As mentioned earlier, rational actors in a democratic system are constantly faced with a temptation to quit the game under the democratic rules. Let us recall that the strongest motive for defection in the prisoner's dilemma was self-protection from the worst possible outcome. The same could happen in a democracy: before any interaction occurs, due to the lack of trust and the desire to avoid subversive practices, actors can opt for non-cooperation in order to avoid a situation of looking naïve. The prisoner's dilemma ends with a collectively suboptimal outcome exactly because PARTY A knows that PARTY B thinks the same way as PARTY A would were it in the same position - it would defect. Hence the final outcome would be suboptimal (BOX 4); it implies a complete lack of cooperation through democratic procedures or an attempt to control social resources by force.



In order to shed some more light on issues of democratic dilemma and requirement of self-enforcement, it is necessary to emphasize that overcoming of the dilemma cannot be guaranteed by constitution, if constitution is construed as a contract. According to this view, the sustaining of democracy is not an agreement among actors, but a constitution shaped as a binding social contract (Dimitrijević 2008; Molnar 2008). The constitution regulates democratic rights and freedoms, and sets limitations to power. However, from the perspective of the rational choice theory, the constitution is not a contract. In fact, the constitution does not address the issue of compliance by the parties, but only the issue of coordination (Hardin 1989).

Such an understanding of the constitution sheds a little needed light on the way in which democratic institutions can be sustained by self-enforcement. In order for a democracy to take root, it must be supported by all parties involved in the process. If the state was a contract guaranteed by a third party which is not party to the contract (as Hobbes believed), it could bring non-democratic actors to reason and punish them, and democracy would never face the problem of non-cooperation manifested in the prisoner's dilemma. The reason for this is that Hobbes regarded the state as autonomous vis-à-vis politically organised civil society. However, the claim that constitutional democracy is a social contract is incoherent from the standpoint of rational choice theory, since contract can exist only if there is someone above the actors who can guarantee it. Democracy, by contrast, is a system in which no one can be above the will of the parties. In other words, no one can guarantee a democratic order but the parties themselves. "The most important element that a formal constitution and a contract by convention have in common is that both depend not on sanctions from some external power, as legal contracts typically do, but on sanctions and incentives internal to the group governed by them". (Hardin 1989: 102) Democracy is an agreement by which individuals have decided to cooperate. If they decide to discontinue cooperation, no one can prevent them or force them to do otherwise. The constitution, therefore, resolves the issue of coordination if actors are willing to cooperate; if not, the constitution grants no guarantee of cooperation.

Therefore, in order to consolidate democratic institutions, the overcoming of the democratic dilemma needs to meet several conditions. Weingast lists a total of four:

- agreement of the parties (actors) must create rules and rights binding for all parties;
- actors bound by the agreement must believe that they are better off if they comply than if they do not;
- each party must be prepared to change their behavior (from defecting to cooperating), but only if the other party does the same;
- parties to the agreement must be prepared to defend their agreement from those who may violate it, including political leaders elected to coordinate activities in the interest of all (Weingast 2002, 682, 2004).



However, since conditions cannot be monitored by a third party, but only by the signatory parties, institutions can be sustained (induce compliance) only if they are self-enforcing.

### Consolidation of democratic institutions

The concept of equilibrium is central to the issue that I address now, since rational choice institutionalism argues that institutions of constitutional democracy may emerge even in conditions of the prisoners' dilemma. In fact, some early rational choice theorists claim that overcoming of the collective action problem (Olson 1965) is the key political problem, meaning that without overcoming the collective action problem, there would be no politics (Weale 2004).

The Prisoners' dilemma (PD) concept is used by rational choice theorists to explain how institutions emerge. Institutions, it is argued, always advance social cooperation which is presumed to be preferable to the absence of cooperation. What makes reciprocal cooperation worthwhile in the prisoner's dilemma is that it enables coordination (Hardin 1989, 103).

In the absence of institutions and coordination, individuals are constantly faced with a threat of lower utility and prosperity. It is evident that defection will be attractive only if the game is played only once. However, a game which is played only once is a rare occurrence in real life (Weale 2004: 92). In the light of repeated interaction, actors will have to agree to the creation of institutions, because it would make them realise that it is more rational to cooperate and thus increase benefit. Hence, actors will always choose cooperation if interaction is iterated (Taylor 1987; Axelrod 1984; Weingast 2002: 671; Weale 2004). That is to say that cooperation will become self-enforcing, since actors will realise, after several consecutive rounds, that cooperation offers better payoff than non-cooperation.

If, as it follows from section 1, the democratic dilemma is easy to overcome (or does not arise at all) in a strong economic system where actors have a strong interest to cooperate, how can it be overcome in unfavourable economic conditions where democratic institutions have just emerged? Can democratic institutions be consolidated in such a way that they are not changed or undermined after each change of government? The literature about democratic transition argues that transformation from one system to another can be made only if the newly emerged system was a consolidated democracy (Elster et al., 1998, Linz & Stepan 1996). For, it is one thing to establish institutions, and another to comply with these institutions continually. The general view is that democracy is consolidated when key political forces agree that return to the undemocratic system is undesirable (Schneider & Schmitter 2004: 67). The motive, or rational interest for such accord must be generated by democratic procedures themselves; except in special cases, no one but the actors can guarantee it. This is the very meaning of the famous phrase that democracy is consolidated only if it becomes the "only game in town", that is, if it is

accepted attitudinally and not only behaviourally (Diamond 1999; Schedler 2001). Indeed, where the stability of institutions is guaranteed by none other than those governed by them, actors need to be willing to sustain these institutions themselves. Democracy is, therefore, consolidated only when it becomes self-enforcing, i.e. when it generates reasons for actors to stay in equilibrium.

In order to understand the problem of maintaining equilibrium in a democratic system from the perspective of rational choice theory, it is necessary to invoke to the definition of institutions by the rational choice institutionalism. Aside from governing the rules of the game by reducing uncertainty (Alt, 1996; 2002), institutions grant rewards and impose sanctions for compliance or non-compliance. Failure to comply is the same as to undermine a democratic system in order to annul its results (Przeworski 1991: 28). Democratic institutions are designed to sanction those unwilling to comply. This sanction, however, is only conditional, because if the sanction is what guarantees cooperation and equilibrium, then there would be no voluntary way out of PD. The way out of the dilemma would then be possible only by use of external force (as in the case of Germany and Japan after World War II), which calls into question one of the fundamental assumptions of rational choice theory—that democracy is an agreement guaranteed by agreeing parties, and not a contract (constitution) guaranteed by a third party which is not party to the agreement.

As I announced at the end of Section 2, it is possible to overcome PD in two cases. The first is the case of continuous iteration. It is illogical to expect that elections will be held only once. The holding of multiple electoral rounds could lead actors to realize that cooperation pays off better than defection. Let's assume that PARTY A rigged the elections several times, but that after ten years of such electoral practice PARTY B succeeded in ousting PARTY A from power by violent or peaceful means. (Let's say, PARTY A has miscalculated how much it should steal, so PARTY B "unexpectedly" won, thereby gaining the support of the media and army). The past has left its mark on PARTY B and now that party not only wants to take over power, but also to retaliate for the ten years of harassment. Now PARTY B cheats and harasses Party A - by electoral fraud, arrests of opposition political leaders, their prosecutions, misuse of public funds, etc. After a few rounds of mutual harassment, PARTY A comes into power and starts all over again. What does such a circulation of political elites tell us? Reciprocal gain from subversive action is followed by difficult years come when the one who first acted subversively has to suffer more severe consequences than those of a simple electoral defeat. Overall, all sides stand to lose, since non-cooperation (violation of the electoral process) reduces general benefit in the long run. If the outcome of every interaction is always as shown in BOX 4, it means that neither side can, in the long run, increase its benefit at the expense of the other. It has also been shown by an experiment: defection is possible only once; in the second round, the sucker from round 1 would respond by playing tit-for-tat, and reciprocal defection will be perpetuated (Axelrod 1984). Reciprocal defection would make actors realize

that they could get more from cooperation in the long run. Over time, the practice of trust that no one will abuse power would be created and trust would then bring actors into equilibrium: no one would have any reason to abuse power as long as there is no reason for the other to do so. In such a society, after a few decades, it would be possible to have a democratic political culture.

Cooperation resulting from iterated interaction and mutual trust create the view among actors that everyone has a chance of winning the next election. As already mentioned in Section 1, in stable democracies, democratic institutions are more powerful since compliance of actors guarantees greater security and certainty. “[Democratic] states emerge for different reasons, but must provide security; however, they collapse if they are not fair” (Gligorov 1994: 54). Democratic justice, i.e. the possibility for everyone to win elections, is a distinctive feature of democratic institutions, not necessarily present in other kind of social institutions.

How do democratic institutions enable this? Democracy is an institutionalised uncertainty, i.e. a system of decentralised strategic action in which knowledge is inevitably local. In an undemocratic system, by contrast, there is always an actor who knows exactly what will happen or there is always someone who knows what outcomes should be expected, that is, what the political elite or ruler want. In a democracy, such an actor does not exist (Przeworski 1991: 47). The absence of political monopoly is *differentia specifica* of democracy compared to all other models. It maintains the equilibrium, cooperation, trust and legitimacy of the system, and still enables rational behaviour of actors. Rationality is, on the other hand, absolutely capable of generating this kind of system. This means that “political actors comply with current defeats because they believe that the institutional framework governing democratic competition enables them to satisfy their interest in the future” (ibid.: 19).

We have seen that one way to get out of PD is to establish trust among actors. The same goes for democracy. Only trust here is called legitimacy. Trust-generating rationality (belief that the system offers everyone equal chances of winning) sets the foundations of legitimacy. Legitimacy in this context does not equal satisfaction with a regime. The term is broader: “legitimacy means that society as a whole believes the existing political institutions are the most appropriate, regardless of how it feels about the specific people who hold office at any given time” (Lipset & Lakin 2004: 210). Legitimacy resolves the problem of collective action by sending a signal to actors which make them conclude that non-cooperation does not pay off. If a regime is legitimate, then actors do not have to think about whether someone might decide to obliterate democratic institutions. In a legitimate democratic system, ubiquitous way of thinking is along these lines: “I do not need to prepare to rebel, because no other major actors are preparing to do so” (ibid: 213). This situation - in which no one has any reason to defect, provided that all others cooperate - expressed in the language of game theory and rational choice theory, is called equilibrium.

## When do we have no reason to cooperate?

We have seen that there are cases where institutions may be self-enforcing and that rationality can generate democracy. But why does not democracy emerge everywhere? Why are there so few African or Asian countries with a democratic system? Why are we still talking about the consolidation of democracy and the uncertainty of democratic institutions over a decade after “democratic revolutions” took place Serbia, Georgia and Ukraine?

Overcoming the social (democratic) dilemma and emergence of democratic institutions is uncertain in two cases. The first relates to income levels. When actors have little to lose, they have no reason to obey rules and norms offered by democratic institutions. It is always more rational and cost-effective to maintain or come to power by force. In my opinion, this is the main reason which prevents the emergence of democracy from some kind of natural order which today exists, for instance, in the majority of African countries. Countries are poor, military force is not equilibrium and conditions for the consolidation of democratic institutions are thus contingent. Therefore, institutions may be endogenous, i.e. shape the behavior of actors, their strategies and preferences (Weingast 2002: 660; Weingast & Wittman 2006: 6), but this proposition is not universally defensible.

Another reason is so-called security dilemma. For institutions to produce compliance, the process of nation and state -building should be completed. In societies where the degree of economic welfare is sufficiently high, compliance with institutions is still not secured if the community has not solved the issue of national identity and state territory. Societies in which some aspect of national and state question is still disputable (territory, right to national self-determination, minorities, etc.) cannot consolidate democratic institutions. This because the process of nation-building, in situations where ideal conditions for security risk or danger to the nation are present, may run counter to building democratic institutions. This condition was first seriously considered by Linz and Stepan when they identified it as one of the independent variables which may affect the consolidation of democratic institutions. They wrote:

“Under what empirical conditions are the logics of state policies aimed at nation-building and the logics of state policies aimed at crafting democracy congruent? Conflicts between these different policies are reduced when empirically almost all the residents of a state identify with one subjective idea of the nation, and that nation is virtually contiguous with the state. These conditions are met only if there is no significant irredenta outside the state’s boundaries, if there is only one nation existing (or awakened) in the state, and if there is low cultural diversity within the state. Virtually only in these circumstances can leaders of the government simultaneously pursue democratization policies and nation-state policies [...] That congruence empirically eliminates most stateness problems and thus should be considered supportive conditions for democratic consolidation. However, under

modern circumstances, very few states that are nondemocratic may begin a possible democratic transition” (Linz & Stepan 1996: 25).

Nationally heterogeneous societies in which the national question is not solved are societies in which the dominant type of rift is often opposed to building democratic institutions. Societies divided along the lines of identity content, dominated by the politics of symbols and faced with a security risk cannot consolidate democratic institutions before these issues are resolved (Pavlović and Antonić 2007). The security dilemma generates instability and perpetuates PD, as it prevents the achievement of equilibrium by perpetuating incentives for actors not to cooperate, as gains from non-cooperation are potentially higher than those of cooperation. The equilibrium of military power is again crucial here. Perils to the territory, nation and state necessarily monopolize military power in the hands of a political elite which then has no incentive to cede it to others. The causal chain, therefore, looks somewhat like this: threatened identity, territory (or both) creates an disequilibrium of military power by providing an incentive for one side to monopolize military force, using security dilemma as an excuse. Monopoly, in turn, allows that side to avoid cooperation (non-compliance with democratic procedures), because prospective long term gains from defection are higher.

## Conclusion

The explanation of democratic consolidation lies in the right incentives (Weingast 2002: 679; 2004). If incentives for behavior are appropriate, actors will behave in a desirable way (as dictated by institutions). These incentives are: continuous reiteration of the prisoners’ dilemma and the fairness of institutions. But all this may not be feasible if there are no adequate circumstances in which military power is either equilibrium or neutral, if socio-economic conditions are unfavorable and if a strong identity crisis, a disputed territory, or an open state issue are present in society. In such cases, the way out of the democratic dilemma is practically impossible without external influence.

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