

# Uncertainty and Politics

## Introduction

Economics has dedicated itself to studying individual means to their ends. Mainly, it has studied man in a market context, where the exchange is voluntary. Some people tried to introduce individual actions in a political setting to the field, but it was not until the second half of the 20<sup>th</sup> century that it became relevant. A school of thought was created with the same basic principles of market interactions but applied to a political context, where coercion is usually the means to an end. James M. Buchanan was one of the leading exponents of the Public Choice Theory. He dedicated himself to extensively analyzing individuals' incentives when the state is involved.

Buchanan and the Public Choice School make a descriptive analysis of these government interactions, but for the most part, they do not propose any government or constitutional arrangement as the "best one." This other normative part of the study of state interactions, explain-

ing why certain types of government are good or bad, has been the subject of political philosophy for centuries. Historically, numerous ideas and discussions have existed about the shape and scope of government, institutions such as private property, and what is and should be called justice.

In the following pages, this work will analyze political interactions when deciding rules (using Italian Fascism as an example) and when individuals must act within established rules. Game Theory is the primary tool to analyze these "games." Uncertainty is proposed as a driving factor when players must maintain "good" and "fair" behavior in Political Games.

## Uncertainty and "Fairness"

Uncertainty, understood as not being able to classify potential results of an action,<sup>1</sup> has many essential roles when talking about human action, some more apparent than others. For example, uncertainty is vital for entrepreneurship in a market setting with voluntary exchange: when undertaking an enterprise, individuals do not know the possible results of their actions; they could be successful or fail

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<sup>1</sup>Frank Knight, *Risk, Uncertainty and Profit* (Cambridge, MA: Riverside Press, 1921), p. 232.

horribly. According to Knight, the entrepreneur’s role is tackling uncertainty, assuming the costs and the benefits of their actions.

Why is it important to talk about uncertainty in this way? James Buchanan, one of Knight’s students at the University of Chicago, would later use this concept of uncertainty to explain incentives in the political setting.

### *The Political Game*

According to Tremblay and Tremblay, “a game is a description of a strategic setting that identifies a set of *rules* that describe player motives, actions, and payoffs”<sup>2</sup> (italics added). There is a potentially infinite number of “games,” but in this case, we will categorize games by making two simple distinctions, the first one being if a game is private (market) or public (state) sector. The second distinction is whether the game happens when players decide the rules of their future actions or act within them. There is only one private game; even though private contracts can establish rules, the focus is on those rules made and enforced by the state. In the private game, players can only act within the already-established set of rules, and they cannot modify them. On the other hand, this theory divides the Political Game into two: acting within the already-established set of rules and deciding the rules. The first is Political Game 1, and the second is Political Game 2.<sup>3</sup>

<sup>2</sup>Victor J. Tremblay and Carol H. Tremblay, *New Perspectives on Industrial Organization* (New York: Springer, 2012), p. 57.

<sup>3</sup>It is important to make the distinction between these two scenarios for political actors, because they find themselves in both games from time to time. For example, congressmen, who legislate and make decisions, are in

**Figure 1. Types of games.**

Categories	Private	Public
<b>Already-established rules</b>	Private game	Political Game 1
<b>Deciding over rules</b>	NA	Political Game 2

Political Game 1 works, in a way, like the private game: the law limits the possible means to ends players can use, and the player cannot deviate from these rules without consequences. Political Game 2 is when individuals write and create laws in a society. This game happens before and directly affects the private games and Political Games 1. From a contractarian point of view,<sup>4</sup> when deciding what rules will be written, players participating in the process will seek their interests and try to get written rules that benefit them.

Un-ironically, this Political Game 2 has rules itself: decision-making rules. These rules could be the percentage voting rule under which a proposal becomes law. This rule can sometimes be low or high, reaching total unanimity.

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both positions at the same time, most of the time. Dividing the two games allows us to sketch out how the incentives work in each case. (James M. Buchanan and Geoffrey Brennan, *The Reason of Rules* [Cambridge University Press, 1985], pp. 18-19.

<sup>4</sup>Contractarianism is a current of thought similar to contractualism, with the difference that it is based on individualistic assumptions, such as self-interest, to explain why decisions are taken when deciding over the rules of society (Win-chiat Lee, “Contractarianism” *Encyclopedia of Global Justice*, 11th edition [Springer, 2011]).

## Why Choose “Fair” rules in Political Game 2?

If each player tries to impose his/her self-interest when deciding the rules that will govern society, what incentive is there to stop them from choosing the rules that will only benefit them? Buchanan and Brennan propose a “Veil of Uncertainty”:

Faced with genuine uncertainty about how his position will be affected by the operation of a particular rule, the individual is led by his self-interest calculus to concentrate on choice options that eliminate or minimize prospects for potentially disastrous results.<sup>5</sup>

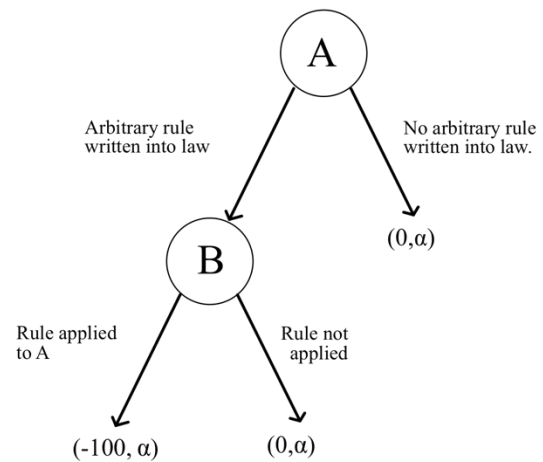
In Political Game 2, faced with the uncertainty surrounding a player’s role in society in future actions, the player minimizes their potential costs by not imposing arbitrary rules. This action, in turn, leads to the first game tree (Figure 2).

There are two players. A faces the decision of whether to create an arbitrary rule or not. The framework assumes that A has enough power to pass such a law, and B will replace A as the decision-maker during the second period. The focus is on A’s decision-making, so the payoff for B will be a random number,  $\alpha$ . If A passes the rule, he cannot apply it because he will leave his position before such a thing can happen.

On the other hand, if A writes an arbitrary rule into law when B gets the turn in power, B can decide whether to apply the rule to A. For A, if they write an arbitrary rule into law, their average payoff is -50. On the other hand, if they decide not to do so, their expected payoff is 0, in which case B would not have a turn because there is no rule to enforce and apply. This

<sup>5</sup>Buchanan and Brennan, *The Reason of Rules*, pp. 42-44.

**Figure 2. Game Tree for the Political Game 2. The -100 value is symbolic, denoting a negative payoff to A.**



possible negative outcome for A will hold him from writing “unfair” rules into law. The possibility that they will be in a position where they could have a negative payoff will hold them from taking such a path.

We will apply the theory to a historical case in the next section. As political players become more certain about their position, they will tend to make more arbitrary decisions, making them prone to becoming an authoritarian government.

## Different Political Ideologies of the 20<sup>th</sup> Century

The contemporary reader is aware of the fact that the most prominent political ideologies during the last century were Communism, Fascism, and a democratic idea, where democracy became an end instead of a means to choose a government. All these had different expressions in different places and times, but they were all characterized by an expansion of power and scope of government. Fascism,

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out of these different ideas, is the one most prone to becoming a dictatorship, usually relying on a single person or a small group of people; communism, even if it does become a dictatorship, is not supposed to become one from the point of view of their political philosophy. That is why this work selects Fascism to explain the importance of uncertainty when deciding the rules of society: here, decision-making over rules is even more centralized than in the other ideologies.

### *Fascism*

Fascism has appeared throughout history in many ways, and it first appeared in Italy after the First World War as a political movement.<sup>6</sup> In 1919, the *Fascio di*

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<sup>6</sup>The popularization and creation of the Fascist movement, as other movements such as Communism and Socialism, was a consequence of the social sentiment that evolved during the *Belle Époque*: there was a high degree of inequality, in wealth, and before the law. In 1848, the *Statuto Albertino* was established, which would work as a constitution for Italy. This document, which was not approved by any assembly or referendum, was established in an arbitrary way by the King back then. In this document there were two government branches: the king, with executive powers, and a parliament, which, even though it was the “democratic part” of the government, was only chosen by a low percentage of the people. The requisites to vote were very restrictive. The government during this age was characterized by a heavy amount of cronyism, which held back the peninsula’s economic growth. When the First World War arrived, Italy was a poor, divided nation. There was a general discontent with the country’s political institutions, and even though the voting base was expanded by reducing requisites through the years, the stage was set for radical change. (John Pollard, *The Fascist Experience in Italy* [Routledge. 1998] pp. 1-17, 24-25.)

*Combattimento* was born (Fascism’s political “Combat Group”), with Benito Mussolini as the leader. Initially, the Fascist movement had three basic ideas: anti-capitalism, anti-clericalism, and republicanism.<sup>7</sup> However, with ideas similar to those of the Socialist Party, which was extremely popular, the Fascists failed to get enough votes in their first election. As a result, they did not get even one seat in parliament, with the Socialist Party having the majority in said branch of government.

Even though the Socialist Party was very popular, a general disgust towards the Party existed among the public. As a result, the Fascist movement quickly had a shift in its ideals. They took the side of those opposing socialism: small business owners, independent farmers, and landowners. This niche was the new part of the “political market” that the Fascists decided to take on.

Rapidly, more people started to join the Fascist movement. These new followers, characterized by not being afraid of using violence to achieve their ideals, started taking control of local governments they failed to get through the democratic way. This *modus operandi* set the stage for a possible civil war, and amid all the tension created, Mussolini took power over the whole nation in October 1922.

Cleverly, when Mussolini took power, he presented himself as a nationalistic leader, seeking to preserve the culture and identity of the Italian regions, and would be willing to fight the influence of the socialists over the territory. This way, he gained the favor of the King, who, even after losing a big part of his influence, was still played a big role in Italian poli-

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<sup>7</sup>*Ibid.*, pp. 25-26.

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tics. The Fascist movement came into power without any hard-strong ideals but with the idea of getting to power.

For three years, the Fascist government had to play with the existing rules (at least officially). They were in a Political Game 1, and it was not until 1925 that a series of reforms started to take place, turning the government into a regime that Mussolini himself would call *totalitarian*.

*Rule changes: Political Game 2 and formal institutions*

In this second phase of Fascism, the party and Mussolini started a Political Game 2. They would choose the rules governing the other games outlined earlier in this paper. Making emphasis on the rules of the game, Buchanan and Brennan's hypothesis (the Veil of Uncertainty) would work better in a framework that requires a significant percentage of votes when deciding the rules. In this case, Mussolini had a one-person or small-percentage decision rule: he could place rules that would make him a political leader for the rest of his life. In addition, he could shape formal institutions to start a process that would later change the informal institutions.<sup>8</sup>

A perfect example of these rules is the following article from the "Law of Defense of the State":

Art. 4 Whoever reconstitutes, even under a different name, any association, organization or party that has been dissolved by order of the public authorities, is liable to imprisonment ranging from three to ten

years, and moreover is subject to permanent exclusion from public office.<sup>9</sup>

Any person who tried to promote a prohibited movement faced a long jail sentence. Mussolini even ordered the dissolution of any political party that represented a threat to the Fascist movement. He expelled the Republican, Communist, and Socialist parties from the country, as they were considered a threat to Fascism.<sup>10</sup>

Another significant reform during this period was the abolition of local elections (the last chance the opposition had to get any power in government): Fascist officials replaced local officials. Mussolini also reformed the police force to align it with Fascist ideals. These measures strengthened the figure of Mussolini as a supreme leader: dissidence was penalized, and he terminated any government institution that represented a potential threat to the Party. As a result, the possibility of Mussolini leaving power diminished considerably. Nevertheless, no government can have an extended stay in power if most people do not support it: he faced the risk of opposing another movement like the Fascist one.<sup>11</sup>

*Informal institution changes*

On paper, a legislator can write anything into law, but most of the time, these rules need some informal institution backing them. The Fascist Party knew this, so they started a propaganda campaign to change people's thoughts, making it easier to rule for the *Duce*.

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<sup>8</sup>Formal institutions are understood as those written in a country's laws, and informal institutions as customs and expected behavior in a society.

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<sup>9</sup>Pollard, op. cit., p. 66.

<sup>10</sup>Ibid.

<sup>11</sup>Ibid., p. 59.

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The first step was education reform, in which they added propaganda excessively, even in math textbooks. This way, people would start to grasp the ideals of the Party from an early part of their lives, associating Mussolini and the Party with something inherently good.<sup>12</sup> Then, when these people finished school, they would treat Fascism as a necessary and inevitable truth.

Fascist youth groups also played a crucial role in influencing people's opinions. In 1932 it became mandatory for people under 18 to attend these groups. The Party laid out all kinds of incentives to get young people's attention: sports facilities, grants, and even paid vacations. All of these were prizes for being an active member of the youth groups.<sup>13</sup>

Finally, clubs for adults had benefits like those of the youth groups. All these things turned people into lookouts for the Party, helping to identify those people who did not sympathize with the Party.

These initiatives had such success that the image of Mussolini was that of someone who does not make mistakes, someone who is perfect. "Mussolini is always right"<sup>14</sup> became a common phrase among the population. This "shaping" of informal institutions, combined with restrictive rules about dissidence and a police

state, gave the Party 90 % of the votes in the 1929 "elections" (assuming the results were legitimate). Mussolini had created partial consent among the population, or so it seemed.

#### *Putting political figures on his side*

There are people in every society who, although they do not directly participate in a nation's politics, have great power and influence over the nation, and Italy was no exception. There were three groups that Mussolini had to convince to join him to become Italy's "supreme leader": the Church, the King, and commercial interest groups.

In 1929 Mussolini would "reconcile" with the Catholic Church, acknowledging it as a part of the Italian culture and identity. Moreover, he used it to make his nationalistic plan more robust: Italy's large percentage of Catholics made it attractive for Mussolini to reconcile with the Catholic Church.

There seemed to be a non-aggression pact with the King. The King would hand Mussolini control over the army, and Mussolini would get new territories, adding noble titles to the King's repertoire. Specifically, the conquest of Albania in 1939 made the King of Italy also King of Albania, and with Ethiopia's invasion in 1936, he became Emperor of that country.<sup>15</sup>

Finally, regarding the commercial interest groups, Mussolini maintained a high level of cronyism, giving out subsidies, monopolies, and any rents to keep them "happy" or at least keeping them on the Fascist Party's side.

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<sup>12</sup>Usually, primary school textbooks tend to show the historic figures of a country as good people with principles (e.g., the Founding Fathers of the United States). But the education reforms that the Fascist Party was doing were much more invasive, to the point where math problems were being used to express good things about the *Duce* and the Party (Pollard, op. cit., pp. 70-73).

<sup>13</sup> Ibid.

<sup>14</sup> Ibid., p. 60.

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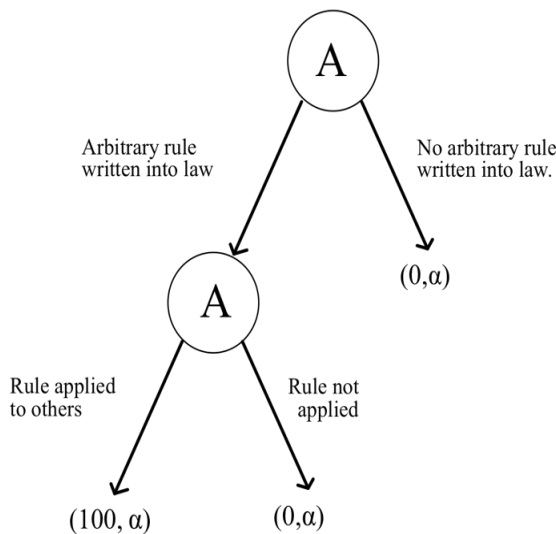
<sup>15</sup>Ibid., p. 74.

*“Unlimited Power”*

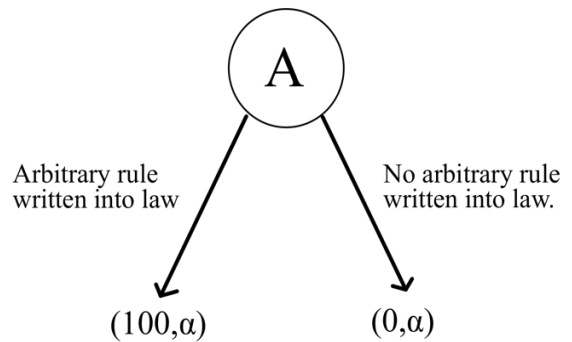
Once Mussolini had the law, the people, and the influential actors on his side, the possibility of him leaving power seemed non-existent. However, according to what we propose here, there was no uncertainty about his future role in society so he could make his “payoff” calculus in the following manner. Since there was “no chance” that he would leave the power, the previous game tree would look like Figure 3.

Unlike Figure 2, in this case, there is no B player in the second period. Instead, it is A who chooses whether to apply the rule. A faces the same decision in period 1, but he now get to decide in period 2. Since applying the rule will always yield a positive payoff and not applying it does not yield anything, A will always apply the rule. Performing a backward induction, since A will always apply the rule in the second period, Figure 3 synthesizes into Figure 4.

**Figure 3. Game tree in which the player’s role will not change.**



**Figure 4. Backward-induced Figure 3.**



When the subject decides whether to write an arbitrary rule into law, he will always have a greater benefit than not writing it. This scenario was precisely Mussolini’s position: he could write any rule into law without fear of leaving his current role in the Italian government; he was sure about his position.

Fascism, as a totalitarian movement itself, to achieve its ends (applying arbitrary rules at will) must try to eradicate all uncertainty about the Party’s future. If Mussolini had waited until he had enough people in parliament and done everything the “democratic” way, he could not have placed such rules as the ones he did. First, he probably would not have had enough support to make such substantial changes to government, and second, his role could change, and by not being elected to the following term, he would have been deeply in trouble, as others could have applied the rules he wrote into law, to him. For Fascism to happen as it did, it was instrumental for Mussolini to take and exercise power as he did. His biggest mistake, or so it seems, was getting into a war with foreign powers.

*Other cases*

Fascism, as was mentioned before, has appeared in many different forms, not only

Figure 5. Game matrix for the Political Game 1.

$X$  represents the benefit of breaking a rule for the political actor, and  $c$  is the cost imposed on him as punishment if the regulator decides to impose it.

		Regulator	
		NP	P
Political actor	B	$(X, \alpha)$	$(X-c, \alpha)$
	NB	$(0, \alpha)$	$(-c, \alpha)$

Figure 6. Figure 5 with new assumptions.

		Regulator	
		NP	P
Political actor	B		$(X-c, \alpha)$
	NB	$(0, \alpha)$	

in Italy, and it is worth mentioning a case that had more success than in Italy: Francisco Franco in Spain. His road to power was like Mussolini's: reestablishing a national identity and fighting opponents. However, unlike Mussolini, Franco did not participate in World War II. He remained neutral, and ruled Spain until his death, remaining in power for thirty-six years.

### Uncertainty and the Political Game 1

The analysis up to this point has concerned only Political Game 2 and exemplified how the "Veil of Uncertainty" that

Buchanan and Brennan propose influences players' actions when deciding the rules that will govern society. Nevertheless, uncertainty fulfills other roles in the political setting, which is why this section talks about Political Game 1: playing *within* an already established set of rules. Players' decisions can take two paths: acting according to the law or breaking it.

There is a new scenario for this game, in which there are two players: the political actor (be it a politician, bureaucrat, or any government official) and the regulator (the person in charge of watching over the political actors). The political actor can either break (B) or not break (NB) a



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rule, and the regulator, can either punish (P) or not punish (NP) the political actor. As in the previous analysis, the objective of laying out this game is to find out if there are any dominant strategies for the political actors, which is why the regulator's payoff is also a non-relevant number for the analysis,  $\alpha$ .

To further simplify the analysis, we will assume that, after some time, the regulator would find out about the political actor's actions and will move to punish them; if the political actor does not do anything, they shall not receive any punishment. So, for the sake of the analysis, (B, NP) and (NB, P) cells are annulled, creating Figure 6. Now, the political actor's actions come down to the expected values of X and c.

What is the role of uncertainty here? As the c value becomes more uncertain, the political actor will be less tempted to break the rule, as he cannot make a payoff calculus because he may not know the possible punishment for his actions. It has been said, proposed, and done multiple times, that if the punishment for breaking the law is sufficiently severe, the political actors will not break the law. The problem is that knowing the cost of their actions, they can find ways to make X bigger than c (even if c is a death penalty, which, in extreme cases, could still be applied to this analysis). If c is uncertain, then the political actors cannot make any payoff calculus, and, faced with the possibility of the costs being higher than the benefits, they would tend not to break the rules.

#### *Types of Law and Punishment*

Using the assumptions presented, it is relevant to present examples of how uncertainty applies to Political Game 1.

Three different scenarios facilitate the analysis of Political Game 1 and uncertainty. The first one is similar to what is known as *Continental Law*, where codified punishments for specific actions exist. If a player breaks a rule, the punishment will always be similar and may change according to how severe was the rule-breaking activity. Then, there is a system similar to *Common Law*: law that is derived from judicial decisions instead of from statutes. Here, precedents are significant for court decisions, and sometimes, there is some discretionary power left to the court if the precedents are not enough to make a decision. There exists some deviation in the degree of punishments applied. Finally, a system where courts can apply a punishment as they see fit, but with no legal precedents regarding the breaking of rules.

In the first system there are codes and laws with assumptions, and if those assumptions happen in real life, punishment is already established for that action. Assuming there is a law concerning any rule-breaking that could happen on the political actor's part, the political actor has all the tools necessary to make a cost-benefit analysis of any potential rule-breaking actions. So, being able to make a payoff calculus, the political actor can search for ways in which the benefits outweigh the costs, no matter how high these are. Therefore, Continental Law fails to stop political actors from rule-breaking behavior because, knowing the costs of their actions, they may find ways to outweigh the costs. Rule-breaking behavior will happen every time the political actor finds an X higher than c.

The second and third scenarios are pretty similar; they are the same legal system, in two different stages: the second one is at an advanced stage, in which

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players have broken the rules already, and courts have established precedents to punish rule-breaking; in the other one, there are no direct precedents indicating how to handle a political actor breaking a rule.

With a long history of precedents, the political actor, the player, has information he can use for his payoff calculus. Nevertheless, he will not be sure about the cost of his actions. There will always be some error margin if it is the case that there are not enough precedents for a specific case. Then, like the Continental Law example, he will be able to do a payoff calculus, and since there is always some error margin, he could make sure their  $X$  is sufficiently high to make the probability of  $c$  being higher than  $X$  a small one, i.e., he can minimize risk. Since there is some level of uncertainty and risk to the total amount of  $c$ , players are less prone to breaking the rules than in a continental law scenario.

Finally, the third scenario is the one in which there are no precedents for rule-breaking behavior. This scenario is usually the case for newly founded governments with new types of government. Such could be the case, not being a perfect match, for when the United States was founded: even though they inherited some traditions from the United Kingdom's legal system, there were new characteristics to their republican and federal system. In this case, there are many unknown degrees of punishment for all the new rules. The third scenario could be called a "pure" situation: there is no information about the punishments for rule-breaking behavior. Therefore, the payoff calculus is impossible for the player. Faced with a highly uncertain  $c$ , and therefore the possibility of having a  $c$  significantly higher than  $X$ , the political actor shows some risk aversion, and will

tend not to break any rule.

This last scenario of "perfect" uncertainty of  $c$  when breaking a rule would be ideal in theory. However, even though players will tend not to break any rule, there will always be players less averse to risk and will break the rules eventually. Once this happens, they create information, and other players can use it to calculate their payoff. Therefore, this third, "perfect" scenario is not a stable equilibrium: it is easily destroyed, and it must always eventually become the second scenario sketched out above. Under this framework and theory, to promote good and fair behavior among political actors within a specific framework of rules, there must be uncertainty regarding  $c$ .

### Conclusion

Given the framework sketched out in this paper, there are two types of Political Games: players must choose what rules will be written into law, and players must act within already-established rules. Uncertainty incentivizes political actors to act fairly or reasonably in both Political Games. Buchanan and Brennan's "Veil of Uncertainty" is one of the bases for the analysis of this paper.

First, we tried to prove the validity of Buchanan and Brennan's theory by using Fascism as an example. Emphasizing uncertainty of future political roles, it shows how reducing it is necessary for authoritarian regimes to succeed. Mussolini was partly successful: he created a system where he could stay in power indefinitely, tried to shape social institutions to project himself as an "infallible supreme leader," and convinced influential people to support him. Following the theory, it could be said that this uncer-

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tainty reduction was incorporated into his decision-making process, changing his expected payoffs of putting any rule that would benefit him. Political Game 2 will have “better” outcomes if the political role of the players is not certain.

On the other hand, there is Political Game 1, where the importance of uncertainty is not surrounding the player’s future role, but the importance of uncertainty comes from the expected value of the variable  $c$ . It is concluded that players will have less incentive to break the rules in a system without information about the value of  $c$ , as they do not know the probabilities or expected values of the punishment for breaking the rules. A “perfect” system was explained, with its limits: it is unstable, and some players will eventually break the rules, creating information for other players to use as input in their decision-making process.

As in the market setting, uncertainty plays an essential role in both Political Games.