



Dictatorship, Democracy, and Development

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Under anarchy, uncoordinated competitive theft by "roving bandits" destroys the incentive to invest and produce, leaving little for either the population or the bandits. Both can be better off if a bandit sets himself up as a dictator—a "stationary bandit" who monopolizes and rationalizes theft in the form of taxes. A secure autocrat has an encompassing interest in his domain that leads him to provide a peaceful order and other public goods that increase productivity. Whenever an autocrat expects a brief tenure, it pays him to confiscate those assets whose tax yield over his tenure is less than their total value. This incentive plus the inherent uncertainty of succession in dictatorships imply that autocracies will rarely have good economic performance for more than a generation. The conditions necessary for a lasting democracy are the same necessary for the security of property and contract rights that generates economic growth.

In my student days, in reading Edward Banfield's (1958) account of the beliefs of the people in a poor village in Southern Italy, I came upon a remarkable statement by a village monarchist. He said, "Monarchy is the best kind of government because the King is then owner of the country. Like the owner of a house, when the wiring is wrong, he fixes it" (p. 26). The villager's argument jarred against my democratic convictions. I could not deny that the owner of a country would have an incentive to make his property productive. Could the germ of truth in the monarchist's argument be reconciled with the case for democracy?

It is only in recent years that I have arrived at an answer to this question. It turns out that for a satisfactory answer one needs a new theory of dictatorship and democracy and of how each of these types of government affects economic development. Once this new theory is understood, one can begin to see how autocracies and democracies first emerge. I shall set out this conception in a brief and informal way and use it to explain some of the most conspicuous features of historical experience.

The starting point for the theory is that no society can work satisfactorily if it does not have a peaceful order and usually other public goods as well. Obviously, anarchic violence cannot be rational for a society: the victims of violence and theft lose not only what is taken from them but also the incentive to produce any goods that would be taken by others. There is accordingly little or no production in the absence of a peaceful order. Thus there are colossal gains from providing domestic tranquility and other basic public goods. These gains can be shared in ways that leave everyone in a society better off. Can we conclude that because everyone could gain from it, a peaceful order emerges by voluntary agreement?

From the logic of the matter, we should expect that in small groups a generally peaceful order will normally emerge by voluntary agreement but that in large populations it will not. The key to the matter is that each individual bears the full costs or risks of anything he or she does to help establish a peaceful

order or to provide other public goods but receives only a share of the benefits. In a tiny group, such as a hunter-gatherer band, each person or family will obtain a significant share of the benefits of a peaceful order, and the net advantages of such an order are so great that even a single family's share of the gains can easily outweigh the sacrifices needed to obtain it. Moreover, when there are only a few, the welfare of each noticeably depends on whether each of the others acts in a group-oriented way. Thus each family, by making clear that cooperation by another will bring forth its cooperation but that noncooperation will not, can increase the likelihood that another will match its behavior, thereby increasing the incentive each has to act in the group interest. The theoretical prediction that sufficiently small groups can often organize for collective action is corroborated by countless observations (Olson 1965).

This prediction is also in accord with the anthropological observations of the most primitive societies. The simplest food-gathering and hunting societies are normally made up of bands that have, including the children, only about 50 or 100 people. In other words, such a band will normally contain only a few families that need to cooperate. Anthropologists find that primitive tribes normally maintain peace and order by voluntary agreement, and that is to some extent what Tacitus, Caesar, and other classical writers observed among the less advanced Germanic tribes. The most primitive tribes tend to make all important collective decisions by consensus, and many of them do not even have chiefs. When a band becomes too large or disagreement is intense, the band may split, but the new bands normally also make decisions by unanimous consent. If a tribe is in the hunting-and-gathering stage, there is also little or no incentive for anyone to subjugate another tribe or to keep slaves, since captives cannot generate enough surplus above subsistence to justify the costs of guarding them.¹ Thus within the most primitive tribes of preagricultural history, the logical presumption that the great gains from a peaceful order can be achieved by voluntary agreement appears to hold true.

Once peoples learned how to raise crops effectively, production increased, population grew, and large populations needed governments. When there is a large population, the same logic that shows why small groups can act consensually in their common interest, tells us that voluntary collective action *cannot* obtain the gains from a peaceful order or other public goods, even when the aggregate net gains from the provision of basic public goods are large.² The main reason is that the typical individual in a society with, say, a million people will get only about one-millionth of the gain from a collective good, but will bear the whole cost of whatever he or she does to help provide it, and therefore has little or no incentive to contribute to the provision of the collective good. There is by now a huge theoretical and empirical literature on this point, and the great preponderance of this literature agrees that, just as small groups can usually engage in spontaneous collective action, very large groups are not able to achieve collective goals through voluntary collective action.³

Thus we should not be surprised that while there have been lots of writings about the desirability of "social contracts" to obtain the benefits of law and order, no one has ever found a large society that obtained a peaceful order or other public goods through an agreement among the individuals in the society.

THE FIRST BLESSING OF THE INVISIBLE HAND

Why, then, have most populous societies throughout history normally avoided anarchy? An answer came to me by chance when reading about a Chinese warlord (see Sheridan 1966). In the 1920s, China was in large part under the control of various warlords. They were men who led some armed band with which they conquered some territory and who then appointed themselves lords of that territory. They taxed the population heavily and pocketed much of the proceeds. The warlord Feng Yu-hsiang was noted for the exceptional extent to which he used his army for suppressing bandits and for his defeat of the relatively substantial army of the *roving bandit*, White Wolf. Apparently most people in Feng's domain found him much preferable to the roving bandits.

At first, this seems puzzling: Why should warlords, who were *stationary bandits* continuously stealing from a given group of victims, be preferred, by those victims, to roving bandits who soon departed? The warlords had no claim to legitimacy and their thefts were distinguished from those of roving bandits only because they took the form of continuing taxation rather than occasional plunder.

In fact, if a roving bandit rationally settles down and takes his theft in the form of regular taxation and at the same time maintains a monopoly on theft in his domain, then those from whom he exacts taxes will have an incentive to produce. The rational stationary

bandit will take only a *part* of income in taxes, because he will be able to exact a larger total amount of income from his subjects if he leaves them with an incentive to generate income that he can tax.

If the stationary bandit successfully monopolizes the theft in his domain, then his victims do not need to worry about theft by others. If he steals only through regular taxation, then his subjects know that they can keep whatever proportion of their output is left after they have paid their taxes. Since all of the settled bandit's victims are for him a source of tax payments, he also has an incentive to prohibit the murder or maiming of his subjects. With the rational monopolization of theft—in contrast to uncoordinated competitive theft—the victims of the theft can expect to retain whatever capital they accumulate out of after-tax income and therefore also have an incentive to save and to invest, thereby increasing future income and tax receipts. The monopolization of theft and the protection of the tax-generating subjects thereby eliminates anarchy. Since the warlord takes a part of total production in the form of tax theft, it will also pay him to provide other public goods whenever the provision of these goods increases taxable income sufficiently.

In a world of roving banditry there is little or no incentive for anyone to produce or accumulate anything that may be stolen and, thus, little for bandits to steal. Bandit rationality, accordingly, induces the bandit leader to seize a given domain, to make himself the ruler of that domain, and to provide a peaceful order and other public goods for its inhabitants, thereby obtaining more in tax theft than he could have obtained from migratory plunder. Thus we have "the first blessing of the invisible hand": the rational, self-interested leader of a band of roving bandits is led, as though by an invisible hand, to settle down, wear a crown, and replace anarchy with government. The gigantic increase in output that normally arises from the provision of a peaceful order and other public goods gives the stationary bandit a far larger take than he could obtain without providing government.

Thus government for groups larger than tribes normally arises, not because of social contracts or voluntary transactions of any kind, but rather because of rational self-interest among those who can organize the greatest capacity for violence. These violent entrepreneurs naturally do not call themselves bandits but, on the contrary, give themselves and their descendants exalted titles. They sometimes even claim to rule by divine right. Since history is written by the winners, the origins of ruling dynasties are, of course, conventionally explained in terms of lofty motives rather than by self-interest. Autocrats of all kinds usually claim that their subjects want them to rule and thereby nourish the unhistorical assumption that government arose out of some kind of voluntary choice. (These claims have an echo in some literature in the "transactions costs" tradition that attempts to explain the emergence of various kinds of governments partly or wholly through vol-

untary contracts and the costs of the transactions associated with them. See Barzel 1991; Kiser and Barzel 1991; North 1981; North and Thomas 1973.)⁴

Any individual who has autocratic control over a country will provide public goods to that country because he has an "encompassing interest" in it.⁵ The extent of the encompassing interest of an officeholder, political party, interest group, monarch, or any other partial or total "owner" of a society varies with the size of the stake in the society. The larger or more encompassing the stake an organization or individual has in a society, the greater the incentive the organization or individual has to take action to provide public goods for the society. If an autocrat received one-third of any increase in the income of his domain in increased tax collections, he would then get one-third of the benefits of the public goods he provided. He would then have an incentive to provide public goods up to the point where the national income rose by the reciprocal of one-third, or three, from his last unit of public good expenditure. Though the society's income and welfare would obviously be greater from a larger expenditure on public goods, the gain to society from the public goods that a rational self-interested autocrat provides are nonetheless often colossal. Consider, for example, the gains from replacing a violent anarchy with a minimal degree of public order.

From history, we know that the encompassing interest of the tax-collecting autocrat permits a considerable development of civilization. From not long after the first development of settled agriculture until, say, about the time of the French Revolution, the overwhelming majority of mankind was subject to autocracy and tax theft. History until relatively recent times has been mostly a story of the gradual progress of civilization under stationary bandits interrupted by occasional episodes of roving banditry. From about the time that Sargon's conquests created the empire of Akkad until, say, the time of Louis XVI and Voltaire, there was an impressive development of civilization that occurred in large part under stationary banditry.⁶

THE GRASPING HAND

We can now begin to reconcile the village monarchist's insight and the foregoing argument with the case for democracy. Though the village monarchist was right in saying that the absolute ruler has as much incentive to fix what needs repair as the owner of a house, his analogy is nonetheless profoundly misleading. The autocrat is not in a position analogous to the owner of a single house or even to the owner of all housing, but rather to the owner of *all* wealth, both tangible and human, in a country. The autocrat does indeed have an incentive to maintain and increase the productivity of everything and everyone in his domain, and his subjects will gain from this. But he also has an incentive to charge a *monopoly*

rent and to levy this monopoly charge on *everything*, including human labor.

In other words, the autocratic ruler has an incentive to extract the maximum possible surplus from the whole society and to use it for his own purposes. Exactly the *same* rational self-interest that makes a roving bandit settle down and provide government for his subjects also makes him extract the maximum possible amount from the society for himself. He will use his monopoly of coercive power to obtain the maximum take in taxes and other exactions.

The consumption of an autocratic ruler is, moreover, not limited by his personal capacities to use food, shelter, or clothing. Though the pyramids, the palace of Versailles, the Taj Mahal, and even Imelda Marcos's three thousand pairs of shoes were expensive, the social costs of autocratic leaders arise mostly out of their appetites for military power, international prestige, and larger domains. It took a large proportion of the total output of the Soviet Union, for example, to satisfy the preferences of its dictators.⁷

Some writers use the metaphor of the "predatory state" but this is misleading, even for autocracies. As we saw earlier, a stationary bandit has an encompassing interest in the territory he controls and accordingly provides domestic order and other public goods. Thus he is not like the wolf that preys on the elk, but more like the rancher who makes sure that his cattle are protected and given water. The metaphor of predation obscures the great superiority of stationary banditry over anarchy and the advances of civilization that have resulted from it. No metaphor or model of even the autocratic state can therefore be correct unless it simultaneously takes account of the stationary bandit's incentive to provide public goods at the same time that he extracts the largest possible net surplus for himself.

Although the forms that stationary banditry has taken over the course of history are diverse, the essence of the matter can be seen by assuming that the autocrat gets all of his receipts in the form of explicit taxation. The rational autocrat will devote some of the resources he obtains through taxation to public goods but will impose far higher tax rates than are needed to pay for the public goods since he also uses tax collections to maximize his net surplus. The higher the level of provision of public goods, given the tax rate, the higher the society's income and the yield from this tax rate. At the same time, the higher the tax rate, given the level of public-good provision, the lower the income of society, since taxes distort incentives.

So what tax rate and what level of public good provision will the rational self-interested autocrat choose? Assume for the moment that the autocrat's level of public-good expenditure is given. As Joseph Schumpeter (1991) lucidly pointed out, and Ibn Kaldun (1967) sensed much earlier,⁸ tax receipts will (if we start with low taxation) increase as tax rates increase, but after the revenue-maximizing rate is reached, higher tax rates distort incentives and reduce income so much that tax collections fall. The

rational self-interested autocrat chooses the revenue-maximizing tax rate.

Though the amount collected at any tax rate will vary with the level of public-good provision, the revenue-maximizing tax rate for the autocrat should not. This optimal tax rate determines exactly how encompassing the interest of the autocrat in the society is; that is, it determines what share of any increase in the national income he receives. He will then spend money on public goods up to the point where his last dollar of expenditure on public goods generates a dollar's increase in his *share* of the national income. At this point, the gain to society will, as we know, be the reciprocal of his share.

Though the subjects of the autocrat are better off than they would be under anarchy, they must endure taxes or other impositions so high that, if they were increased further, income would fall by so much that even the autocrat, who absorbs only a portion of the fall in income in the form of lower tax collections, would be worse off.

There is no lack of historical examples in which autocrats for their own political and military purposes collected as much revenue as they possibly could. Consider the largest autocratic jurisdictions in Western history. The Bourbon kings of France were (especially on the eve of the French Revolution) collecting all they could in taxes. The Hapsburg kings of Spain did the same. The Roman Empire ultimately pushed its tax rates at least to the revenue-maximizing level.

THE REACH OF DICTATORSHIPS AND DEMOCRACIES COMPARED

How would government by a rational self-interested autocrat compare with a democracy? Democracies vary so much that no one conclusion can cover all cases. Nonetheless, many practical insights can be obtained by thinking first about one of the simplest democratic situations. This is a situation in which there are two candidates for a presidency or two well-disciplined parties seeking to form the government. This simplifying assumption will be favorable to democratic performance, for it gives the democracy an "encompassing" interest rather like the one that motivates the stationary bandit to provide some public goods. I shall make the opposite assumption later. But throughout, I shall avoid giving democracy an unfair advantage by assuming better motivation. I shall impartially assume that the democratic political leaders are just as self-interested as the stationary bandit and will use any expedient to obtain majority support.

Observation of two-party democracies tells us that incumbents like to run on a "you-never-had-it-so-good" record. An incumbent obviously would not leave himself with such a record if, like the self-interested autocrat, he took for himself the largest possible net surplus from the society. But we are too

favorable to democracy if we assume that the incumbent party or president will maximize his chances of reelection simply by making the electorate as a whole as well-off as possible.

A candidate needs only a majority to win, and he might be able to "buy" a majority by transferring income from the population at large to a prospective majority. The taxes needed for this transfer would impair incentives and reduce society's output just as an autocrat's redistribution to himself does. Would this competition to buy votes generate as much distortion of incentives through taxation as a rational autocracy does? That is, would a vote-buying democratic leader, like the rational autocrat, have an incentive to push tax rates to the revenue-maximizing level?

No. Though both the majority and the autocrat have an encompassing interest in the society because they control tax collections, the majority in addition earns a significant share of the market income of the society, and this gives it a more encompassing interest in the productivity of the society. The majority's interest in its market earnings induces it to redistribute less to itself than an autocrat redistributes to himself. This is evident from considering an option that a democratic majority would have if it were at the revenue-maximizing tax rate. At the revenue-maximizing tax rate, a minuscule change in the tax rates will not alter tax collections. A minuscule *increase* in the tax rate will reduce the national income by enough so that even though a larger percentage of income is taken in taxes, the amount collected remains unchanged, and a tiny *reduction* in the tax rate will increase the national income so much that even though a smaller percentage is taken in taxes, receipts are unchanged. This is the optimal tax rate for the autocrat because changes in the national income affect his income only by changing tax collections.

But a majority at the revenue-maximizing tax rate is bound to increase its income from a *reduction* in tax rates: when the national income goes up, it not only, like the autocrat, collects taxes on a larger national income but also earns more income in the market. So the optimal tax rate for it is bound to be lower than the autocrat's. The easiest arithmetic example comes from supposing that the revenue-maximizing tax rate is one-third and that the majority earns one-third of the national income in the marketplace. The rational autocrat will then find that the last dollar in taxes that he collects reduces the national income by three dollars. One-third of this loss is his loss, so he just breaks even on this last dollar of tax collection and is at his revenue-maximizing rate. But if a majority mistakenly chose this same tax rate, it would be hurting itself, for it would lose two dollars (the same dollar lost by the autocrat plus one dollar of market income) from the last dollar it collected in taxes. Thus a majority would maximize its total income with a lower tax rate and a smaller redistribution to itself than would be chosen by an autocrat.⁹

More generally, it pays a ruling interest (whether an autocrat, a majority, or any other) to stop redis-

tributing income to itself when the national income falls by the reciprocal of the share of the national income it receives. If the revenue-maximizing tax rate were one-half, an autocrat would stop increasing taxes when the national income fell by two dollars from his last dollar of tax collection. A majority that, say, earned three-fifths of the national income in the market and found it optimal to take one-fifth of the national income to transfer to itself would necessarily be reducing the national income by five-fourths, or \$1.25, from the last dollar that it redistributed to itself. Thus the more encompassing an interest—the larger the share of the national income it receives taking all sources together—the less the social losses from its redistributions to itself. Conversely, the narrower the interest, the less it will take account of the social costs of redistributions to itself.

This last consideration makes it clear why the assumption that the democracy is governed by an encompassing interest can lead to much-too-optimistic predictions about many real-world democracies. The small parties that often emerge under proportional representation, for example, may encompass only a tiny percentage of a society and therefore may have little or no incentive to consider the social cost of the steps they take on behalf of their narrow constituencies. The special interest groups that are the main determinant of what government policies prevail in the particular areas of interest to those interest groups have almost no incentive to consider the social costs of the redistributions they obtain. A typical lobby in the United States, for example, represents less than 1% of the income-earning capacity of the country. It follows from the reciprocal rule that such a group has an incentive to stop arranging further redistributions to its clients only when the social costs of the redistribution become at least a hundred times as great as the amount they win in redistributive struggle (Olson 1982).

It would therefore be wrong to conclude that democracies will necessarily redistribute less than dictatorships. Their redistributions will, however, be shared, often quite unequally, by the citizenry. Democratic political competition, even when it works very badly, does not give the leader of the government the incentive that an autocrat has to extract the maximum attainable social surplus from the society to achieve his personal objectives.

LONG LIVE THE KING

We know that an economy will generate its maximum income only if there is a high rate of investment and that much of the return on long-term investments is received long after the investment is made. This means that an autocrat who is taking a long view will try to convince his subjects that their assets will be permanently protected not only from theft by others but also from expropriation by the autocrat himself. If his subjects fear expropriation, they will invest less, and in the long run his tax collections will be reduced.

To reach the maximum income attainable at a given tax rate, a society will also need to enforce contracts, such as contracts for long-term loans, impartially; but the full gains are again reaped only in the long run. To obtain the full advantage from long-run contracts a country also needs a stable currency. A stationary bandit will therefore reap the maximum harvest in taxes—and his subjects will get the largest gain from his encompassing interest in the productivity of his domain—only if he is taking an indefinitely long view and only if his subjects have total confidence that their “rights” to private property and to impartial contract enforcement will be permanently respected and that the coin or currency will retain its full value.

Now suppose that an autocrat is only concerned about getting through the next year. He will then gain by expropriating any convenient capital asset whose *tax yield* over the year is less than its *total* value. He will also gain from forgetting about the enforcement of long-term contracts, from repudiating his debts, and from coining or printing new money that he can spend even though this ultimately brings inflation. At the limit, when an autocrat has no reason to consider the future output of the society at all, his incentives are those of a roving bandit and that is what he becomes.¹⁰

To be sure, the rational autocrat will have an incentive, because of his interest in increasing the investment and trade of his subjects, to promise that he will never confiscate wealth or repudiate assets. But the promise of an autocrat is not enforceable by an independent judiciary or any other independent source of power, because autocratic power by definition implies that there cannot be any judges or other sources of power in the society that the autocrat cannot overrule. Because of this and the obvious possibility that any dictator could, because of an insecure hold on power or the absence of an heir, take a short-term view, the promises of an autocrat are never completely credible. Thus the model of the rational self-interested autocrat I have offered is, in fact, somewhat too sanguine about economic performance under such autocrats because it implicitly assumed that they have (and that their subjects believe that they have) an indefinitely long planning horizon.

Many autocrats, at least at times, have had short time horizons: the examples of confiscations, repudiated loans, debased coinages, and inflated currencies perpetrated by monarchs and dictators over the course of history are almost beyond counting.

Perhaps the most interesting evidence about the importance of a monarch's time horizon comes from the historical concern about the longevity of monarchs and from the once-widespread belief in the social desirability of dynasties. There are many ways to wish a king well; but the king's subjects, as the foregoing argument shows, have more reason to be sincere when they say “long live the king.” If the king anticipates and values dynastic succession, that further lengthens the planning horizon and is good for his subjects.

The historical prevalence of dynastic succession, in spite of the near-zero probability that the son of a king is the most talented person for the job, probably also owes something to another neglected feature of absolutisms. Any ruler with absolute power cannot, by definition, also have an independent source of power within the society that will select the next ruler and impose its choice upon the society. An independent capacity to install a new ruler would imply that this capacity can be used to remove or constrain the present autocrat. Thus, as is evident from modern dictatorships in Africa and Latin America, most dictatorships are by their nature especially susceptible to succession crises and uncertainty about the future. These uncertainties add to the problem of short time horizons that has just been described. In these circumstances, it may be advantageous to a society if a consensus emerges about who the next ruler will probably be, since this reduces the social losses arising from the absence in an autocracy of any independent power that could ensure a smooth succession. Given autocracy, then, dynastic succession can be socially desirable, both because it may reduce the likelihood of succession crises and because it may give monarchs more concern for the long run and the productivity of their societies.

DEMOCRACY, INDIVIDUAL RIGHTS, AND ECONOMIC DEVELOPMENT

We have seen that whenever a dictator has a sufficiently short time horizon, it is in his interest to confiscate the property of his subjects, to abrogate any contracts he has signed in borrowing money from them, and generally to ignore the long-run economic consequences of his choices. Even the ever-present possibility that an autocracy will come to be led by someone with a short time horizon always reduces confidence in investments and in the enforcement of long-run contracts. What do the individuals in an economy need if they are to have the maximum confidence that any property they accumulate will be respected and that any contracts they sign will be impartially enforced?

They need a secure government that respects individual rights. But individual rights are normally an artifact of a special set of governmental institutions. There is no private property without government! In a world of roving bandits some individuals may have possessions, but no one has a claim to private property that is enforced by the society. There is typically no reliable contract enforcement unless there is an impartial court system that can call upon the coercive power of the state to require individuals to honor the contracts they have made.

But individuals need their property and their contract rights protected from violation not only by other individuals in the private sector but also by the entity that has the greatest power in the society, namely, the government itself. An economy will be able to

reap all potential gains from investment and from long-term transactions only if it has a government that is believed to be both strong enough to last and inhibited from violating individual rights to property and rights to contract enforcement. What does a society need in order to have a government that satisfies both of these conditions?

Interestingly, the conditions that are needed to have the individual rights needed for maximum economic development are exactly the same conditions that are needed to have a *lasting* democracy. Obviously, a democracy is not viable if individuals, including the leading rivals of the administration in power, lack the rights to free speech and to security for their property and contracts or if the rule of law is not followed even when it calls for the current administration to leave office. Thus the *same* court system, independent judiciary, and respect for law and individual rights that are needed for a lasting democracy are also required for security of property and contract rights.

As the foregoing reasoning suggests, the only societies where individual rights to property and contract are confidently expected to last across generations are the securely democratic societies. In an autocracy, the autocrat will often have a short time horizon, and the absence of any independent power to assure an orderly legal succession means that there is always substantial uncertainty about what will happen when the current autocrat is gone. History provides not even a single example of a long and uninterrupted sequence of absolute rulers who continuously respected the property and contract-enforcement rights of their subjects. Admittedly, the terms, tenures, and time horizons of democratic political leaders are perhaps even shorter than those of the typical autocrat, and democracies lose a good deal of efficiency because of this. But in the secure democracy with predictable succession of power under the rule of law, the adjudication and enforcement of individual rights is not similarly short-sighted. Many individuals in the secure democracies confidently make even very-long-term contracts, establish trusts for great-grandchildren, and create foundations that they expect will last indefinitely and thereby reveal that they expect their legal rights to be secure for the indefinite future.

Not surprisingly, then, capital often flees from countries with continuing or episodic dictatorships (even when these countries have relatively little capital) to the stable democracies, even though the latter are already relatively well supplied with capital and thus offer only modest rates of return. Similarly, the gains from contract-intensive activities such as banking, insurance, and capital markets are also mainly reaped by stable democracies like the United States, the United Kingdom, and Switzerland. Though experience shows that relatively poor countries can grow extraordinarily rapidly when they have a strong dictator who happens to have unusually good economic policies, such growth lasts only for the ruling span of one or two dictators. It is no accident that the

countries that have reached the highest level of economic development and have enjoyed good economic performance across generations are all stable democracies. Democracies have also been about twice as likely to win wars as have dictatorships (Lake 1992).

THE IMPROBABLE TRANSITION

How do democracies emerge out of autocracies? It is relatively easy to see how autocratic government emerges and why it has been the predominant form of government since the development of settled agriculture: there is never a shortage of strong men who enjoy getting a fortune from tax receipts. It is much harder to see how democratic government can emerge out of autocracy.

It is a logical mistake to suppose that because the subjects of an autocrat suffer from his exactions, they will overthrow him. The same logic of collective action that ensures the absence of social contracts in the historical record whereby large groups agreed to obtain the advantages of government also implies that the masses will not overthrow an autocrat simply because they would be better off if they did so. Historical evidence from at least the first pharaohs through Saddam Hussein indicates that resolute autocrats can survive even when they impose heinous amounts of suffering upon their peoples. When they are replaced, it is for other reasons (e.g. succession crises) and often by another stationary bandit.¹¹ What special circumstances explain the cases where a more or less democratic¹² or at least pluralistic government emerges out of an autocracy?

One obvious special circumstance is that, partly for the reasons just set out, the richest countries are democracies, and democracies have usually prevailed in the competitions with their major autocratic competitors, whether fascist or communist. The triumphant democracies have sometimes encouraged or subsidized transitions to democracy in other countries. In some cases, such as Germany, Japan, and Italy after World War II, the victorious democracies more or less demanded democratic institutions as a price for giving independence to the vanquished nations. The theoretical challenge is to explain not these transitions but rather those that are entirely internal and spontaneous.

Easy as it would be to argue that the initially or spontaneously democratic countries were blessed with democratic cultures or selfless leaders, this would be an ad hoc evasion. The obligation here is to explain the spontaneous transitions to democracy from the same parsimonious theory that has been used in the rest of this essay.

The theory suggests that the key to an explanation of the spontaneous emergence of democracy is the *absence* of the commonplace conditions that generate autocracy. The task is to explain why a leader who organized the overthrow of an autocrat would not make himself the next dictator or why any group of conspirators who overthrew an autocrat would not

form a governing junta. We have seen that autocracy is a most profitable occupation and that the authors of most coups and upheavals have appointed themselves dictators. So the theory here predicts that democracy would be most likely to emerge spontaneously when the individual or individuals or group leaders who orchestrated the overthrow of an autocracy could not establish another autocracy, much as they would gain from doing so. We can deduce from the theory offered here that autocracy is prevented and democracy permitted by the accidents of history that leave a balance of power or stalemate—a dispersion of force and resources that makes it impossible for any one leader or group to overpower all of the others.

But this deduction does *not* give us any *original* conclusion: rather, it points directly toward one of the major inductive findings in some of the literature in history and in political science on the emergence of democracy. If the theory here is right, there must be a considerable element of truth in the famous “Whig interpretation” of British history and in the explanations of democracy offered by political scientists such as Robert Dahl (1971) and, especially, Tatu Vanhanen (1989). If the theory offered here is right, the literature that argues that the emergence of democracy is due to historical conditions and dispersions of resources that make it impossible for any one leader or group to assume all power is also right.

Yet it is also necessary to go back again to the theory for a crucial detail. Even when there is a balance of power that keeps any one leader or group from assuming total control of a large area or jurisdiction, the leader of each group may be able to establish himself as an autocrat of a small domain. A dispersion of power and resources over a large area can result in a set of small-scale autocracies but no democracy. If, however, the different contending groups are scrambled together over a wide and well-delineated domain, then small autocracies are not feasible. They may not be feasible also if each of the leaders capable of forming a small-scale autocracy believes that a domain of that small scale would not be viable, whether because of aggression by other autocrats or for any reason.

If scrambled constituencies or any other reason rules out division of a domain into miniautocracies, then the best attainable option for the leader of each group when there is a balance of power is power sharing. If no one leader can subdue the others or segregate his followers into a separate domain, then the alternative is either to engage in fruitless fighting or to work out a truce with mutual toleration. The provision of a peaceful order and other public goods will, in these circumstances, be advantageous for all of the groups; thus, the leaders of the different groups have an incentive to work out mutually satisfactory arrangements for the provision of such goods. Given peaceful conditions, there are great gains to leaders and other individuals in each group from being able to make mutually advantageous contracts with others and thereby a common interest in estab-

lishing a disinterested and independent judiciary. With several groups, it is not certain in advance how elections will turn out, yet each group can, by allying with other groups, ensure that no one other group will continually dominate elections. Thus elections as well as consensual agreements among the leaders of the different groups can be consistent with the interest of the leaders and members of each group.

Though there are a fair number of democracies, there have not been many spontaneous and entirely autonomous transitions from autocracy to democracy. Most of the democracies in the English-speaking world owed a good deal to the pluralism and democracy that emerged in late seventeenth-century Britain and thus they usually do not offer a completely independent test of the argument about the transition to democracy offered here.

Happily, the initial emergence of democracy with the Glorious Revolution of 1689 in England (and its very gradual transition from a democracy with a highly restricted franchise to universal suffrage) nicely fits the logic of the democratic transition predicted by the present theory. There were no lasting winners in the English civil wars. The different tendencies in British Protestantism and the economic and social forces with which they were linked were more or less evenly matched. There had been a lot of costly fighting and, certainly after Cromwell, no one had the power to defeat all of the others. The restored Stuart kings might have been able to do this, but their many mistakes and the choices that ultimately united almost all of the normally conflicting Protestant and other political tendencies against them finally led to their total defeat.

None of the victorious leaders, groups, or tendencies was then strong enough to impose its will upon all of the others or to create a new autocracy. None had any incentive to give William and Mary the power to establish one either. The best option available to each of the leaders and groups with power was to agree upon the ascendancy of a Parliament that included them all and to take out some insurance against the power of the others through an independent judiciary and a Bill of Rights. (The spread of the franchise is too long a story to tell here. But it is not difficult to see how, once the society was definitely nonautocratic and safely pluralist, additional groups could parlay the profitable interactions that particular enfranchised interests had with them—and the costs of suppression that they could force the enfranchised to bear—into a wider suffrage.)

With a carefully constrained monarchy, an independent judiciary, and a Bill of Rights, people in England in due course came to have a relatively high degree of confidence that any contracts they entered into would be impartially enforced and that private property rights, even for critics of the government, were relatively secure. Individual rights to property and contract enforcement were probably more secure in Britain after 1689 than anywhere else, and it was in Britain, not very long after the Glorious Revolution, that the Industrial Revolution began.¹³

Though the emergence of a democratic national government in the United States (and in some other areas of British settlement, such as Australia and Canada) was partly due to the example or influence of Great Britain, it also was due in part to the absence of any one group or colonial government that was capable of suppressing the others. The 13 colonies were different from one another even on such important matters as slavery and religion, and none of them had the power to control the others. The separate colonies had, in general, experienced a considerable degree of internal democracy under British rule, and many of the colonies were, because of the different religious and economic groups they contained, also internally diverse. Many of the authors of the U.S. Constitution were, of course, also profoundly aware of the importance of retaining a dispersion of power (checks and balances) that would prevent autocracy.

THE DIFFERENT SOURCES OF PROGRESS IN AUTOCRACIES AND DEMOCRACIES

Since human nature is profoundly complex and individuals rarely act out of unmixed motives, the assumption of rational self-interest that I have been using to develop this theory is obviously much too simple to do justice to reality. But the caricature assumption that I have been using has not only simplified a forbiddingly complex reality but also introduced an element of impartiality: the same motivation was assumed in all regimes. The results are probably also robust enough to hold under richer and more realistic behavioral assumptions.

The use of the same motivational assumption and the same theory to treat both autocracy and democracy also illuminates the main difference in the sources of economic growth and the obstacles to progress under autocracy and under democracy. In an autocracy, the source of order and other public goods and likewise the source of the social progress that these public goods make possible is the encompassing interest of the autocrat. The main obstacle to long-run progress in autocracies is that individual rights even to such relatively unpolitical or economic matters as property and contracts can never be secure, at least over the long run.

Although democracies can also obtain great advantages from encompassing offices and political parties, this is by no means always understood (Olson 1982, 1986); nor are the awesome difficulties in keeping narrow special interests from dominating economic policymaking in the long-stable democracy. On the other hand, democracies have the great advantage of preventing significant extraction of social surplus by their leaders. They also have the extraordinary virtue that the same emphasis on individual rights that is necessary to lasting democracy is also necessary for secure rights to both property and the enforcement of

contracts. The moral appeal of democracy is now almost universally appreciated, but its economic advantages are scarcely understood.

Notes

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1. There is quantitative evidence from an exhaustive survey of ethnographic accounts showing that references to slaves are virtually absent in the accounts of the very most primitive peoples but rather common in more advanced agricultural societies (Hobhouse, Wheeler, and Ginsberg 1930). Slavery is unprofitable in hunting-gathering societies (Olson 1967).

2. Small tribes can sometimes form federations and thereby increase the number who can obtain collective goods through voluntary action (Olson 1965, 62–63). Some of the very earliest agricultural societies may have been of this character. But when the number of small groups itself becomes very large, the large-number problem is evident again and voluntary collective action is infeasible.

3. For citations to much of the best literature extending and testing the argument in *The Logic of Collective Action*, as well as for valuable new analyses, see Hardin 1982 and Sandler 1992.

4. This literature is most constructive and interesting, but to the extent to which it tries to explain government in terms of voluntary transactions, it is not convincing. North, while emphasizing transactions costs and contracts, also uses the notion of the “predatory state” and the logic of collective action in his account of the state, so his approach must be distinguished from Barzel’s.

5. For the definition of an encompassing interest and evidence of its importance, see Olson 1982. The logical structure of the theory that encompassing interests will be concerned with the outcome for society whereas narrow groups will not is identical with the logic that shows that small groups can engage in voluntary collective action when large groups cannot.

6. Many of the more remarkable advances in civilization even in historic times took place in somewhat democratic or nondictatorial societies such as ancient Athens, the Roman Republic, the North Italian city-states, the Netherlands in the seventeenth century, and (at least after 1689) Great Britain. The explanation for the disproportionate representation of nonautocratic jurisdictions in human progress is presented later in the article.

7. The theory offered here applies to communist autocracies as much as to other types, though the theory needs to be elaborated to take account of the “implicit tax–price discrimination” pioneered by Joseph Stalin. This innovation enabled Stalinist regimes to obtain a larger proportion of social output for their own purposes than any other regimes had been able to do. This explained Stalin’s success in making the Soviet Union a superpower and the great military capacity of many communist regimes. It also generated a unique dependence of the system on its management cadre, which ultimately proved fatal. For how the offered theory applies to communist autocracies and the societies in transition, see Clague and Rausser 1992, pref., chap. 4; Murrell and Olson 1991; Olson 1993.

8. Schumpeter’s analysis is in his “Crisis of the Tax State,” written in the highly taxed Austria–Hungarian Empire late in World War I; Ibn Kaldun’s is in his classic, *The Mugaddimah*.

9. A mathematical and a geometrical proof of this conclusion and an analysis of many other technical questions raised by the present theory is available on request.

10. When war erodes confidence about what the boundaries of an autocrat’s domain will be, an autocrat’s time horizon with respect to his possession of any given territory shortens—even if he believes that he will remain in control of

some territory somewhere. In the limit, complete uncertainty about what territory an autocrat will control implies roving banditry. The advantages of stationary banditry over roving banditry are obviously greatest when there are natural and militarily defensible frontiers. Interestingly, the earliest states in history emerged mainly in what one anthropologist calls “environmentally circumscribed” areas, that is, areas of arable land surrounded by deserts, mountains, or coasts (see Carneiro 1970). The environmental circumscription not only provides militarily viable frontiers but also limits the opportunity for defeated tribes to flee to other areas in which they could support themselves (as Carneiro points out). This in turn means that the consensual democracy characteristic of the earliest stages of social evolution is, in these geographical conditions, replaced by autocratic states earlier than in other conditions.

11. For more examples of other types of reason, see Olson 1990.

12. In the interest of brevity, democracy is here defined as competitive elections, social pluralism, and the absence of autocracy, rather than in terms of universal suffrage. Although how a narrower suffrage turns into a wider suffrage can be explained by straightforward extensions of the logic of the theory offered here, developing these extensions and testing them against the historical evidence would not be a small undertaking.

13. For striking evidence on how the growth of cities was much greater in medieval and early modern Europe in democratic or less autocratic regimes, see DeLong and Schleifer 1992. In effect, the DeLong and Schleifer paper is a test of the advantages of democracy that I put forward.

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