**Olson, Mancur. 1993. “Dictatorship, Democracy and Development.” *American Political Science Review 87*(3): 567-76.**

While leaders in democracies and authoritarian regimes are all self-interested, they differ from each other still because democracies tend to have a better mechanism to ensure long-term stability, avoiding state extraction and succession crises (for contract enforcement and protection of property rights), thus encouraging investment and economic prosperity.

Autocracy & development

* "Stationary bandits” (e.g. warlords in early China), unlike roving ones in the state of nature, monopolizes and rationalized state extraction (i.e. taxation) and the protection of the tax-generating subjects when they have long-term time horizon.
* In an autocracy, encompassing interest of the autocrat acts as the source of order and other public goods and likewise the source of the social progress that make these public goods make possible.
* However, autocrats face a dilemma. 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. In the meantime, the higher the tax rate, given the level of public-good provision, the lower the income of society, since taxes distort incentives. They should reach the revenue-maximizing tax rate.
* However, while long-term vision may promote economic development in authoritarian regimes, due to great uncertainties (no independent third-party can monitor autocrats' promise and great propensity of succession crises), autocracies cannot guarantee lasting commitment of property protection and contract enforcement, thus discouraging development.
* Throwing dictators out will face a problem: Next person will not be necessarily better.

Democracy & development

* With a better mechanism for the protection of property rights and contract enforcement, democratic societies provide better conditions for greater economic development (e.g. UK and industrial revolution).
* Because of the majority’ in addition earns a significant share of the market income of the society (autocrats only tax and let their subjects retain the after-tax revenue), its revenue-maximizing tax rate is bound to increase its income from a reduction in tax rates (but autocrats cannot have their tax rate too low otherwise they will get nothing).
* Democratic transition in addition to foreign intervention (e.g. Germany and Japan)  
  Democracy emerges when no side that participated in the overthrown of autocrats can overpower each other in the political arena (counter example: China in the early 20th century). In the end, power-sharing becomes the only option and thus breeds election and independent judiciary (e.g. England after the Glory Revolution and the US after the Independent War).

**Thoughts and comments**

* What drives dictators to maximize their revenues? (cf Geddes 07)
* How do those work together to overthrow the dictator resolve the problem of cooperation and coordination? Why does the process of democratic transition have to be elite-dominated?
* Lessons for China's future economic growth: The key issue is to sustain investor's confidence by institutionalization and regularizing the process of political succession. In this sense, China is not necessarily an anomaly and the future remains to be seen (we only observed three leaders after 1992).

**Notes**

* Olson assumed both of the majority and the minority have the same income level. To maximize his own revenues, the dictator thus sets tax rate high to enrich himself (the dictator does not tax himself). For Acemoglu et al, elites are ex ante richer than the citizens, thus being afraid of redistribution and prefer lower tax rates.
* Why do democracies produce rule of law and enduring institutions? It is not that self-evident.
* How does the tax rate differ in autonomy and democracy (and when democracy is dominated by a small special interest group)? Assume total output as , where is the tax rate.
  + Dictators seek to maximize their revenues (), hence When , reaches the maximum when .
  + Majorities (account for 50% of population) in democracy seek to maximize their welfare, which includes total tax collected and their shared post-tax revenue, thus . when reaches maximum.
  + Special interest group only accounts for less than 50%, saying 20%, or population. Hence . when reaches maximum. Together it follows that democracy sets the lowest tax rate.