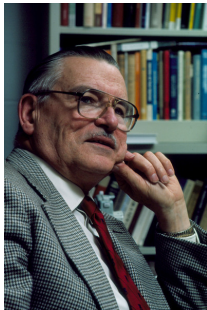


Origins of the state (2/2)



Questions

- Why / how do (large) groups of individuals come to establish 'state' institutions with coercive power?
- How should / does such a 'state' make decisions?
- How / when is the coercive enforcement of such decisions compatible with the interests and sovereignty of citizens?

Two perspectives

- **Last time:** The state as a product of a (hypothetical) 'social contract' (Buchanan 1975, Buchanan and Tullock 1962)
- **Today:** The state as an historically evolved set of social institutions emerging from the self interested actions of individuals (Olson 1993)

Olson's (1993) criticism of the constitutional perspective

- Olson rejects social contract theory as a *positive historical* account for the emergence and maintenance of order in large societies.

Like Buchanan and others, his analysis begins by assuming an original state of anarchy

- In a 'natural' state of complete anarchy, individuals have little incentives to produce goods beyond what can be immediately consumed.
- Thus, there will be *little or no production* in such a state.
- There exist potential gains from providing peace and other public goods. *In principle*, these gains can be shared to make everyone better off.
- At this stage, *social contract theories* assume that, *since it is in their mutual interest*, members of society will establish a (constitutional) social order.

The establishment of order in large groups

- In small groups (tribes), peaceful order can be (and is) established and maintained by voluntary consensus and informal enforcement.
- In a large society, maintenance of order requires the existence of an agent with coercive power (e.g. Buchanan's protective state).
- The creation of such an agent (e.g. by establishing a constitution) constitutes a **public good**.

“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.”

Questions

- “Why, then, have most populous societies throughout history normally avoided anarchy?”
- What are the implications concerning the emergence and performance of different forms of government (e.g. dictatorship and democracy)?

Anarchy and specialization in theft

- In a state of anarchy, some individuals will be more skilled than others at using violence. Such individuals are likely to specialize in theft.
- Olson calls these types of individuals 'bandits' and distinguishes two types:
 - **'Roving bandits'** move from place to place and steal from different individuals at different points in time.
 - **'Stationary bandits'** settle in a particular area and repeatedly steal from the same people.

Q: Which type of bandit would you prefer in your own neighborhood?

- Olson argues that the *stationary bandit* strategy is better for the bandit *as well as his victims!*

Roving and stationary bandits

- *Roving* bandits will tend to take everything they can from their victims.
 - Whatever they don't take, the next bandit will!

⇒ little incentive for victims to produce, save, and invest.
- A rational *stationary* bandit will
 - take only *part* of his victims' property
 - protect his victims from other bandits (monopolize theft)

⇒ leaves victims with an incentive to produce and invest.
- A stationary bandit may even provide public goods (e.g. infrastructure) *if this increases 'his share' of production* sufficiently.

Olson's thesis:

- Governments as we know them today have historical origins in stationary banditry.
- Different forms of government (autocracy, democracy) can be usefully modeled as self interested 'bandits' to understand differences in their economic performance.
- Transitions between states of anarchy, autocracy, and democracy result from the self interested behavior of individuals acting, in principle, as aspiring bandits.

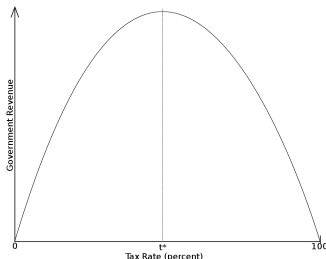
“Thus government for groups larger than tribes normally arises, not because of social contracts or voluntary transactions of any kind, but rather because of rational self-interest among those who can organize the greatest capacity for violence.”



Feng Yuxiang (1882-1948)

Dictatorship and economic development

- Suppose for simplicity an **autocratic leader** extracts resources by way of *proportional taxation*.
- In general, he will want to choose the *revenue maximizing tax rate*, at which the marginal revenue from further taxation is outweighed by the resulting loss in national income (due to disincentives).



- The revenue maximizing tax rate determines the autocrat's '**stake**' in the society's income.
 - If the revenue maximizing tax rate is, say 50%, the dictator earns 50 cents for every additional dollar of income.

Dictatorship and economic development

How much will a dictator invest in public goods that increase productivity and income (e.g. infrastructure, education)?

- Up to the point where the marginal cost of the additional public good provision is equal to his *share* of the resulting increase in national income.
- E.g. if the revenue maximizing tax rate is $1/3$, he will invest in the public good up to the point where an additional dollar invested generates 3 dollars in additional income.

⇒ *Relative to the 'social optimum,'* an autocrat will set tax rates 'too high' and 'under-invest' in productivity-increasing public goods. None the less, Olson suggests that these investments are responsible for historic economic development:

"From history, we know that the encompassing interest of the tax-collecting autocrat permits a considerable development of civilization. (...) 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."

Democracy and economic development

- For comparison, Olson proposes a *deliberately* pessimistic model of democracy as essentially another type of bandit.
- His model assumes that democratic governments serve the interests of a *bare majority* of citizens (constituents).
- Just like autocrats, these governments seek to extract resources via taxation.
- **But:** A democratic government's 'stake' in the society's income is not limited to its tax revenue. It includes the supporting majority's post-tax income, giving the government a *more encompassing interest*.

Therefore, Olson predicts:

- Democracies will set taxes below the revenue maximizing level.
 - Marginally lowering tax rates from the revenue maximizing level has no effect on revenue, but a positive effect on constituents' post-tax incomes.
- Democracies will provide more public goods than dictatorships. (Due to larger overall stake.)

Democracy and economic development

“It would (...) 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.”

Credibility and stability of property rights

- Economic productivity depends in part on investments that pay off only in the long run.
- Incentives to undertake such investments depend upon confidence in future security of property rights.
- To maintain incentives for private investments, leaders would like to *promise* to extract less in the future (i.e. to respect private property)
- According to Olson, *autocracies are less capable of credible commitment because they are not controlled by an independent judiciary.*
- Greater confidence in security of property may have contributed to economic success of democracies.

Transition from autocracy to democracy

- The theory predicts that autocracy arises naturally from anarchy.
- But (how) does democracy emerge?
- Some authors have suggested that democracy emerges due to the threat of revolution from oppressed citizens. (E.g. Acemoglu and Robinson 2006).
- This is inconsistent with Olson's theory because it ignores the collective action problem faced by an oppressed citizenry. (See Apolte 2012)
- Olson argues that democracy emerges in historically coincidental and *exceptional circumstances* where “a group of leaders who orchestrated the overthrow of an autocracy could not establish another autocracy” because the balance of power produces a “stalemate” in which they find it in their interest to share power.

Summary

- Olson (1993) provides a (conjectural) *historical* account of the origins of government.
- He rejects social contract theory because the collective benefits from establishing order do not explain why individuals would contribute to establishing it.
- He argues that states first emerged as a form of organized *theft* by *stationary bandits*.
- Autocratic governments are predicted to engage in *limited* theft, and to invest in economic development.
- Democratic governments are predicted to engage in less theft and invest more in public goods.
- Olson predicts that democracy emerges when there is a stalemate among aspiring bandits attempting to overthrow and replace a sitting autocrat.

Literature

(* = required)

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