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Was Mancur a Maoist?:

An Essay on Kleptocracy and Political Stability

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Mancur Olson held two conflicting views about state power. In *The Rise and Decline of Nations (RADON)*, published in 1982, he argued that instability was good for democratic accountability. Long-lasting regimes produce entrenched interests that build up influence over time and engage in rent-seeking that leads to sclerosis in the economy. Uncertainty about the identity of the future holders of political power limits the harm that incumbents can do; private interests would not be willing to pay much to seek benefits that might not be durable. Thus, it is desirable to break up entrenched coalitions to keep the state efficient.

One way to do this is to lose a war. The period after a major disruption caused by war or revolution provides an opportunity for states to act with little influence from organized groups, but beginning a war in order to lose it is hardly a policy to be recommended. Thus, other solutions must be found. One possibility is a competitive democratic system with the rotation in power of groups with different political agendas. The problem, however, is that entrenched groups may be more powerful than politicians. Political groupings come and go, but all may need the support of business and professional elites, religious organizations, and labor unions. Thus, if ordinary democratic change seems too weak a constraint, countries might engage in "context smashing" along the lines of Chairman Mao's Cultural Revolution. Such a thoroughgoing attack on entrenched interests, might, however, require a period of authoritarian or military rule. Although Olson, himself, did not reach this conclusion, politics as usual seems too pallid a response to the massive rent-seeking that worries him. He aims not only to change the identity of those holding political office but to break up private coalitions as well.

Later, after the fall of the socialist regimes in Europe and the Soviet Union, Olson made a

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very different claim. In “Dictatorship, Democracy and Development” (1993) he argued that the stability of a single kleptocrat or “stationary bandit” is superior to the competitive rent seeking of a large number of petty autocrats or politicians acting as “roving bandits”. Notice the tension here. In the first scenario, disorganization and uncertainty are positive features of a political system because they limit entrenched power. In the second, disorganization and chaos are undesirable characteristics that destroy value by undermining stable expectations. Both kinds of instability can be the result of rapid change. However, Olson never presents the conditions under which a break with the past will be a boon and those under which it will unleash competitive rent seeking. In the light of his analysis, the challenge is both to limit the power of distributive coalitions and to establish an impartial system of law and politics to limit future rent seeking.

I argue in Part A that there is a real inconsistency in Olson’s thinking on the role of stability and change. In part B, I define two kinds of stability (one desirable and the other undesirable) that are in tension in Olson’s work. Part C argues that the fundamental insight of *The Logic of Collective Action* has unclear implications for constitutional design because of this tension. Next, in parts D and E, I develop the connections between the *Logic of Collective Action* and Olson’s subsequent work in RADON and in his writing on the socialist economies and the transition process. In part F, I propose a way to build on his insights to develop a more complete analysis of democracy and transition. Part G concludes by summing up Olson’s dilemma and suggesting where research might be concentrated. My one disappointment is that Olson, himself, will not be able to comment on my efforts. I rely on his friends and colleagues to substitute.

A. Resolving the Inconsistency?

In Olson’s defense, his two theoretical claims operate at very different levels of generality. One could read the first scenario in RADON as applying to cases where a violent upheaval or a war has destroyed the previous regime, but where it has been replaced by a stable constitutional framework that limits the damage that any political party or interest group can do. As Olson concludes: “[O]ther things being equal, the most rapid growth will occur in societies that have lately experienced upheaval but are expected nonetheless to be stable for the foreseeable future” (RADON, 165). There are no revolutionary parties that can threaten to destroy the constitutional structure. Just like the stationary bandit, the group in power wants to extract as much personal wealth as possible from the system, but it is constrained by the constitutional structure and its

limited time in office. The competition for political power is not a destructive process but acts to limit rent extraction. The risk is monopoly rent extraction by an entrenched business\political clique but that clique has been disorganized by the recent upheaval. In contrast, in the second scenario in “Dictatorship, Democracy and Development”, political competition is unbounded and can take the form of extortion and violence. Thus, one could fit these works together in the following form: destructive political struggle by “roving bandits” is worse than entrenched autocracy which is worse than competitive democratic politics operating within constitutional constraints.

This is the solution that Olson seems to have adopted in *Power and Prosperity* (PP, 2000). He claims that there is no inconsistency between the benefits of sharp breaks with the past that disrupt distributive coalitions and the costs of “roving bandits.” But, Olson’s resolution is too glib -- for three reasons.

First, if all politicians and their supporting groups are committed private wealth maximizers, then democratic politics loses some of its luster. If incumbents are unlikely to be reelected, some of them may decide to milk their positions for all they are worth. Even if incumbents have no private militias, they may do a good job of cleaning out the government’s coffers and using their positions for private gain. At the extreme, a competitive system can slip over into one surprisingly close to the roving bandit case. The only difference is that the governing coalitions are sequential monopolists instead of individuals competing at the same time for the common pool of resources available to the state. The rent-seeking activities can be very destructive, however, as each group in power grabs what it can and covers its tracks to limit the next group’s ability to recover what was taken. Thus, Olson’s discussion of roving and stationary bandits highlights a limitation of his earlier work. As he acknowledged in *Power and Prosperity*, frequent shifts in the governing group are not sufficient to facilitate growth; there must be a stable background set of laws and practices.

Second, Olson is rather favorably disposed to stationary bandits because he has too mechanically applied an economic model to a political situation. In the standard economic model, the common pool is given by nature. It is not under the control of decisionmakers. A resource is owned in common, such as an ocean fishery or an underground oil reserve. Those who value it will engage in inefficient rent-seeking as they try to keep others from obtaining the resource’s

benefits. Fishermen will invest in fast boats to beat others to the fishing ground; sustaining the fishery over time will be difficult as each individual only balances his own gain and loss in deciding whether to catch one more fish. Neighboring land owners will pump the oil out of the ground too fast because they want to benefit at their neighbors' expense. Olson's insight was to recognize that a country's resources could also be viewed as a common pool. With no centralized political power, each "roving bandit" or warlord grabs what he can in a manner that is inefficient and costly to the citizens. Just as with a fishery or an oil reserve, giving property rights to a single monopoly owner solves the problem of over-extraction. A "stationary bandit" is to be preferred to a group of roving bandits. True, the ruler acts like a monopolist, but he is productively efficient and does not waste resources on rent-seeking competition.

Olson's model, however, ignores important features of autocracies not captured in the economic work on common pools. Autocrats may be both more and less powerful than he assumes. First, they may be so powerful that they can affect the size of the resource pool under state control. Kleptocrats might decide to nationalize an industry (or privatize one) simply to extract rents; they might support large capital projects just to obtain the kickbacks that they make possible. Second, they may be less powerful than an established monopolist. Even very brutal kleptocrats are not usually all powerful. Their very venality making them vulnerable to the corrupt demands of underlings (Rose-Ackerman 1999:114-121). Olson argues that autocrats will support policies that maximize the surplus they can extract from the state and hence will support efficient productive relations. However, that conclusion fails to consider the issue of how the autocrat maintains himself in power. He will usually need allies in and out of government, and aiding them may be very inefficient. In short, as Boaz Moselle and Benjamin Polak demonstrate in a formal model (2001), the power of an autocrat may have negative as well as positive consequences. He may be able to draw more of society's resources into his orbit than a collection of venal but relatively weak independent rent seekers, and he may not be able to use these resources efficiently. Thus, it is not obvious that a single ruler will impose fewer costs on the general public in a corrupt, rent-seeking environment.

Third, Olson's economism is also reflected in his inattention to the noneconomic motives of rulers (cf. Cameron 1988:565-568). He does discuss Stalin in *Power and Prosperity*, but his focus is on the Soviet Union's efforts to accumulate revenue from the profits of enterprises. Olson

is interested in power, it seems, mainly as a route to wealth. But, as the cases of Hitler, Stalin, and Mobutu illustrate, an autocrat may destroy others simply because they are a threat or because he dislikes their ethnic group. The capacity to carry out such desires may be open to someone who controls the state, but not to a “roving band.” The “bandit” metaphor misses the other goals, both altruistic and self-seeking, that rulers have beyond wealth-maximization.

The real challenge for Olson is reflected in his 1996 paper with Martin McGuire. That paper demonstrates the superiority of a stationary bandit or autocrat over roving bandits and also shows that democracy, as modeled there, is superior to autocracy. In their formulation, the governing coalition in a democracy earns income from production as well as from taxing the rest of the society so it has a stronger interest in creating a productive society than does the autocrat. Left open is the possibility that a democracy dominated by narrow distributive coalitions might be inferior to a stationary bandit who maximizes his own gain by taking a comprehensive view of the state’s economic potential. Olson claims to be a supporter of democracy, but that conclusion does not follow as a general matter from his own models. Stationary bandits may be worse than groups of roving bandits (Moselle and Polak, 2001), and democracies controlled by narrow, rent-seeking groups may be worse than some autocracies. If the standard is economic success, the ranking could be just the reverse of Olson’s.

B. Competition versus Stability

The weakness of Olson’s attempt to reconcile the disparate strands in his thinking highlights his struggle to deal with the tension between competition and stability in political life. Olson recognized this tension but left many issues unresolved – both theoretical and empirical. To begin to understand his difficulties, notice that there are two types of stability: the stability of fixed laws and practices (“framework stability”) and the stability of fixed power relationships between economic and political actors (“coalitional stability”). Framework stability permits competitive markets to operate so long as the substance of the rules facilitates trade and there are effective institutions to resolve disputes, such as courts or arbitration organizations. Coalitional stability encourages some types of economic activities but is unfavorable to broad-based competitive markets. The powerful want discretion to favor their own interests. Those with power could be inside government, such as members of the armed forces and the police, or they could be powerful private interests. Both groups will demand benefits in return for their support, and clear,

transparent rules and open government operations are unlikely to be on their lists. They want accommodation, not legal constraints. This is the stability that worries Olson in *The Rise and Decline of Nations*.

Olson wants to discourage coalitional stability while encouraging framework stability. He is not much interested in pure questions of distributive justice or democratic legitimacy. His focus is the link between government structure and economic development. My aim is to provide a framework for thinking about this link. I draw on Olson's insights while seeking to avoid the contradictions and inconsistencies of his analysis. I begin with Olson's fundamental contribution to political science, *The Logic of Collective Action*, and argue that it could have one of three implications for democratic theory. I then explore these implications in the light of Olson's theory and my own view of the pluralistic project.

C. The Logic of Collective Action

The Logic of Collective Action (LCA) makes the fundamental point that individuals with common interests will not always be able to organize for collective action because of the incentive to free ride. Olson claims that smaller groups will be able to organize more easily than larger groups. Actually, the logic of his argument concerns not the number of individuals or firms affected but the size of each relative to the total benefit. Even if the overall number of beneficiaries is very large, a small subset may have an incentive to organize if its members collectively form a large proportion of the total benefits. They will not seek the optimal benefit for the total group, but they will bear the cost of organizing if their own expected benefits exceed the costs of collective action.

Another part of Olson's argument concerns groups that organize for other reasons, such as labor unions or professional associations, or that provide selective benefits to members, such as access to recreational facilities, insurance, discounted products. Groups that can overcome free rider problems in this way can also be active politically although there may be a gap between the leadership's political interests and those of the membership.

The conclusion of his analysis is that not all interests will be well-represented in the political arena. Even though candidates must appeal to a broad constituency to be elected, they will actually listen more closely to organized groups simply because they *are* organized and hence are able to present their point of view. These groups may also be prominent among those that

finance campaigns and that can create good or bad publicity for politicians.

The biases that Olson isolates highlight a weakness of pluralist models of politics. The pluralists' optimism about democracy's ability to manage conflicts in diverse societies is cast in doubt. However, the policy implications of Olson's insight are not clear. Three responses are possible. First, one might argue that democracy itself is flawed and should be replaced with another form of government. Second, one might support reforms that minimize the power of narrow organized groups. A final implication is that democracies should be constructed to enable all interests to organize -- approximating a pluralist result. Olson himself is pessimistic about reform. This can be seen by exploring the implications that Olson draws from *The Logic* as presented both in *The Rise and Decline of Nations* and in later writing about the transition from socialism. I do this in the next two sections in a way that highlights his view of democracy and his concern for the power of organized groups.

D. Minimizing the Power of Organized Groups

Olson's view of pluralistic democracy is essentially a dark one. Groups may organize in "civil society," but if they engage in political action, it will be to seek special favors for their limited membership. Thus, in RADON, Olson focuses on ways to achieve the second option, that is, a democracy where narrow groups can not capture the state and distort spending and regulatory priorities. He adds a temporal dimension – groups will be more successful at amassing rents the longer they have had to build up a close relationship with the politically powerful. Over time, small concentrated groups will organize first, followed by more diffuse ones. Some people with common interests never will be able to organize. The key point is not the age of the organized groups or the regime's stability, but the duration of their interaction with each other. Groups are viewed as essentially harmful, and the goal is to limit their influence.

One way to achieve this goal is to break the established links between government and private organizations. Olson's main empirical examples are drawn from the post-war experience of Germany and Japan. In both cases, democratic constitutions were imposed by the victorious powers with more or less input from local elites. These are not examples of the ordinary operation of competitive democratic politics shaking up the power of organized lobbies. Instead, one regime failed amid widespread destruction, and another took its place. However, it is not obvious whether defeat in World War II simply made democracy possible or whether it also enhanced its

performance. First, in Germany although interest groups were dismantled during the war, many organized elements of civil society regained influence in the post-war period. Labor unions with roots in the Weimar past reestablished themselves (Edwards, 1998; Jacoby, 2000). Occupation officials turned to established Protestant and Catholic clergy for support (Bolling, 1964), and business associations with Nazi and Weimar pasts reorganized quickly after the war (Jacoby, 2000). Second, the success of Germany and Japan depended, in part, upon the victors' behavior and other external factors (Cameron, 1988). In Western Germany, a massive influx of funds from the victors worried about the Soviet threat helped create a stable government and fuel growth. In Japan, economic recovery was spurred by the Korean War which led to an increased American demand for Japanese goods and services (Watnuki, 1975, 1977). But the American influence in Japan was not limited to the indirect impact of the Korean conflict. The occupation is described as a "revolution" by one author (Kersten, 1996). Japan went through a profound transformation with widespread purges that left only the bureaucracy relatively untouched (Kersten, 1996; Kohno, 1997). The need for purges, however, suggests that the war itself was not sufficient to destroy entrenched groups.

To see the problem with Olson's claims, compare Germany in the aftermath of the two world wars. Both defeats imposed severe costs on the country and destroyed political as well as physical structures. Why wasn't the aftermath of World War I as favorable to Germany? Determining the independent influence of Olsonian "context smashing" after World War II does not seem possible both because all distributive coalitions were not smashed and because the post-war rebuilding process included many other elements -- most notably, the conduct of foreign powers.

On the other side of the ledger, there are a number of countries where entrenched interests do seem to have hurt economic performance. Olson contrasts the post-war problems of the United Kingdom with Germany and Japan, but that case is not, to me, especially convincing given the frequent changes in control of the UK government after the war. True, the class system imposes costs, but both Japan and Germany have status-based cultural traditions. Olson's best case is South Africa under apartheid (RADON, 161-165), but many others exist, such as Mexico during the years of PRI dominance. Both South Africa and Mexico are now in the midst of a transition to a more inclusive and competitive democratic state -- a change that occurred without war or violent revolution and with the continuing presence of many well-organized groups. Thus, on the one hand,

violent upheaval does not always destroy organized groups, and on the other hand, entrenched powers have sometimes been weakened by non-violent political change.

The policy implications of Olson's empirical claims are controversial. He admits that the theory "does shift the balance marginally in the revolutionary direction" (RADON, 140), but he seems nervous that this conclusion is "unduly dramatic". Although it is "silly" to conclude that countries should "casually engage in revolutions or unsuccessful wars" (RADON, 87-88), he does see benefits in China's cultural revolution that occurred under autocratic conditions (PP, 166,167).

In the end, Olson was simply uncertain about the implications of his theory. He was pessimistic about the operation of democratic governments in which private groups organize to influence public policy and cartelize markets. However, he also criticized libertarians for ignoring the way private groups can cartelize without the state's help (RADON, 177-180). His criticism is well-taken, but his pessimism about democracy was so profound that he did not follow up this observation with support for government regulation of monopoly. Only at the very end of the book does he imagine the passage of "rigorous anti-trust laws [that would apply] to every type of cartel or collusion that used its power to obtain prices or wages above competitive levels" (RADON, 236). This is, however, not a recommendation but a prediction of what would happen if the citizenry of some country becomes persuaded of the value of his ideas. Widespread education in the evils of distributive coalitions in public and private life is all he has to offer (RADON, 237). Thus, one is left to wonder if Olson might sometimes favor nondemocratic solutions.

In RADON, Olson argues that one way to limit the role of groups is to have a political system that is periodically upset. This is a political variant of the common proposal by students of bureaucracy that officials should be rotated frequently to limit corruption and favoritism. However, because Olson acknowledges the value of stability to economic growth, he pulls back from a strong recommendation along those lines. He much prefers to emphasize the way the theory supports policies of free trade and free international movement of labor and capital (RADON, 141). However beneficial such policies may be, they have little to do with the questions of constitutional design raised implicitly by his analysis. Olson did not take a position on such issues as the role of referenda and recalls, term limits, conflict-of-interest regulation, or campaign financing. He has a short discussion of the way electoral rules may determine whether broad-based political parties form and of the advantage of presidentialism, but this is treated almost as an aside and is not picked

up in the discussion of applications (RADON, 47-53). He is caught in a familiar dilemma of public choice scholars. If you imagine that all political actors are only out for themselves, why bother even to propose reforms that require those with political power to act in the public interest?

One possible response to Olson's pessimism might be severe limitations on the ability of groups to organize – a limitation that might even extend to political parties. The state would not facilitate the development of business associations, unions, or civil society groups for fear that they will develop into distributive coalitions. The idea is to limit the organizational capacity of groups with an agenda that is not all encompassing. Olson never directly espoused such policies, but they seem consistent with his theory. At the same time, he might have supported an expansion of the possibilities for direct democracy consistent with Bruno Frey's rosy views of the role of referenda in the Swiss Cantons (Frey 1994, Frey and Stutzer 2001). Olson's ideal is to produce a democratic politics unmediated by groups and arms-length relationships.

E. The Transition Process in the Post-Socialist Countries

The collapse of the socialist regimes in Europe and the Soviet Union must have been a challenge for Olson. At first glance, they would seem a good test for his theory. With the regimes breaking down, he might have predicted rapid economic growth along the lines of post-war West Germany and Japan. This did not happen. Over ten years later, only a few countries close to Western Europe have returned to levels of per capita GDP experienced at the time of the change in regime.

In RADON, published in 1982, Olson suggested that he had some thoughts about the application of his theory to existing soviet regimes (RADON, 165), and *Power and Prosperity* includes three chapters on these regimes and the transition. According to him, the Soviet regimes at first benefitted from the breakdown of established distributive coalitions, but over time other coalitions built up that undermined economic performance (PP, chapters 7, 8, and 9). In the Soviet Union, state ownership gave Stalin a way to extract resources from enterprises without taxation, but over time, the nomenklatura found ways to subvert this process. The large state-owned firms were organized to exploit the system for their managers' benefit. This reduced the state's ability to collect the revenue needed to operate the government. Olson argues that when the regime fell, these same managers were poised to take advantage of the situation (PP, 165). In other words, his theory applies because the "revolutionary" regime changes were not thoroughgoing enough. The

“fenestration” processes that purged old apparatciks were too timid and did not reach the real “distributive coalitions” that were often not in obvious positions of political power. When the regimes changed, these coalitions were able to appropriate state assets in some countries and industries. However, these groups did not have comprehensive control. New entrepreneurs and oligarchs also arose to challenge them. In Russia a combination of Soviet-era nomenklatura and new oligarches have captured much of the economy’s capital stock.

China, in contrast, went through a “cultural revolution” that overturned established holders of political and economic power. Mao “decimated the very administrators and managers on which his economy depended” (PP, 167). The immediate result was chaos, instability, and very poor economic performance, but as a result, “well-entrenched coterie of administrators” were not so prevalent as in the Soviet Union. This made Deng’s reforms easier to implement because there were “few industries, enterprises, or coterie of administrators whose insider lobbying could undermine Deng’s market-oriented reforms” (PP, 167). Olson claimed that Deng’s success was “largely” due to the destruction of narrow interests in the cultural revolution (PP,167). Olson’s analysis in PP thus ups the ante over the claims made in RADON. Olson’s support for the result, if not the goals, of China’s cultural revolution suggests that he might recommend such upheavals even in existing democracies. It might be argued that one weakness of democracy compared to autocracy is the difficulty it has in conducting thoroughgoing purges. In his apparent support for periodic and severe upheavals, Olson comes close to the rhetoric of Maoism.

His view of the transition as insufficiently harsh, is in tension with the claim that development cannot occur unless property rights and law are stable. Fixed, transparent rules of the game are desirable for economic growth because they permit economic actors to operate against a stable set of shared background norms. This view of the “rule of law” came to the fore in Olson’s work written after the fall of the socialist regimes (Olson 1993). The problem is a temporal one. Once an old regime has been overturned, how long does it take to establish a rule of law and can this be done before new distributive coalitions arise or old ones regroup? Who, in practice, has an incentive to establish an impartial rule of law in the aftermath of regime change? The difficulty in Russia and elsewhere seems to have been that narrow, distributive coalitions arose very quickly and essentially captured state assets before functioning democratic institutions could be created. Nominal democratic forms existed, but the gainers in the early days were close to Olson’s “roving

bandits.” Those who got rich were a mixture of opportunistic members of the old nomenklatura, new business leaders with few scruples, and outright gangsters who used threats and violence. Sometimes these groups colluded, or one person might straddle the boundaries.

The initial unfairness of the property distribution seems to be having a long-term negative effect, and the legitimacy of the new government may be challenged by those who were left out. This may be a special problem in the post-socialist countries because the distribution of property occurred recently and occurred against a background of relative equality. In that context, efforts to give owners strong, clear legal protections may not be broadly accepted. Although most people may agree on what the law of contract, property, and tort should accomplish, *given* a fair property distribution, these same rules may be widely resisted if the background allocation of rights is contested. Olson’s failure to consider questions of fairness may have blinded him to some of the problems of creating a stable regime out of chaos. New laws and rules need to be established quickly to avoid further instability, but these rules may not have the effect of promoting stability and the “rule of law” if they distribute wealth and influence unfairly.

The sheer disruption of past practices was not sufficient to produce a state that operated in the interests of the unorganized. The state was weak in the face of the demands of powerful interests. Russia, for example, lacked an essential feature of Germany and Japan, a constitutional framework enforced by occupying powers. Its constitution is inherited from the Soviet period. Furthermore, the perceived illegitimacy of the distribution of property is making it difficult to regularize legal rules and implies that a second transition may be desirable that redistributes wealth in a way that furthers competition and is viewed as fair and legitimate by the citizenry. Here is where a real break with the past may be needed, but for all the reasons that Olson advanced, such a policy is unlikely to be carried out.

Olson did not confront the political problems created by the distribution of property. Instead, the experience of the post-socialist countries seems to have convinced Olson of the costs of chaos when there is a free-wheeling search for profit unconstrained by legal rules (Olson 1993). Beyond calls for market-friendly reforms, Olson never confronted the institutional difficulties posed by the process of recreating a state in the aftermath of drastic changes in political and economic conditions.

F. Pluralist Democracy and Transparency

In RADON and his writing on the post-socialist transition, Olson analyzed two options: autocracy and one kind of democracy. Democracy won out, but it was a rather washed-out democracy, designed to minimize the power of narrow organized groups. Because I believe that Olson's position is both unrealistic and overly pessimistic, I turn to a third option -- a democracy that accepts the reality of private organized groups and seeks to use and channel them to promote the democratic project.

Like Olson, this third option accepts the necessity both of representative institutions and of delegation to the executive as the only way to govern a complex modern state. Unlike Olson's preferred democratic model, however, the state facilitates private group organization and strong political parties and seeks to increase the state's transparency and accountability and to enhance private organizational capacity (Rose-Ackerman, 1999: 122-174). There are constitutional checks against certain kinds of interest group deals that harm individual rights. The list of rights and their interpretation will raise vexing and difficult issues, as the history of both United States and post-war German Constitutional law reveals. Nevertheless, such a framework permits stable private and political organizations to develop and seeks to balance and constrain them, not break them apart.

Once one recognizes that states need *both* to guarantee a set of basic individual rights and to respond flexibly to changed conditions and shifting political demands, periodic upheavals look very unattractive especially from the perspective of encouraging economic growth. That solution would only have appeal if it were clear that certain protections for property and personhood were off-limits to any government or regime and if the citizenry prefers a government incapable of action to one that can implement long-term policy initiatives. Given the complexity of modern policy issues, the direct democracy option also seems unrealistic and risky given the population's lack of knowledge and time and Olson's own concerns about free riding.

Under this view, democracy should facilitate the organization of groups that further broad public goals. Olson seems to believe that true public interest groups do not exist; to him, those that claim to represent the public interest are covers for narrower concerns. Although such groups cannot be derived from a model based on pure economic self-interest, they do exist in some societies and where they do not exist, democracy may suffer. Notice that I am not asserting that the groups actually do represent majoritarian sentiments in all cases. My only claim is that group

members have an ideological commitment to a cause that cannot be reduced to narrow economic concerns and that can be plausibly cast in public interest terms. Thus, this category would include a wide range of environmental, human rights, and consumer protection groups as well as pro-choice and anti-abortion lobbies. These groups have an obligation to argue for their positions before government bodies and to present information to decisionmakers. The government has an obligation to hear their arguments and to be sure that all important points of view are incorporated.

Olson leaves out such groups except for “encompassing” groups that are so constituted that their own economic self-interest is furthered by maximizing overall welfare (McGuire and Olson, 1996). For Olson, the only hope is that such groups will come to dominate policymaking. If the governing coalition is sufficiently “encompassing”, it will not siphon off extra rents for itself, but will govern in the public interest (McGuire and Olson, 1996; RADON, 47-53). However, Olson does not have much to say about where such interest groups come from. In fact, the main point of *The Logic of Collective Action* (1965) was to argue that encompassing groups would not exist in complex societies suffering from free rider problems. Later he argues that the passage of time will help such groups to form, but this benefit is generally not outweighed by the remaining costs imposed by entrenched small groups (RADON, 41,166-167). Encompassing groups may be easier to form in small countries such as Sweden but that is not a very useful conclusion for large countries (RADON, 90-92).

One partial solution is business or labor associations that are broad enough to support policies that further economic growth and development. Thus, some associations may have “encompassing interests” even if their membership is relatively small. Richard F. Doner and Ben Ross Scheider (2000) provide some illustrative cases of business associations in developing countries that supported pro-growth policies. Like Olson, these authors stress the importance of selective incentives as organizational aids, but unlike Olson, their positive view of association activities leads them to look with favor on the government subsidies and requirements that maintain membership. Some developing countries are dominated by a few conglomerated firms, often based on interlocking family ties. These diversified business groups often have close connections with those in political power. In such countries, business associations can provide a political counterweight. For example, a study of Colombia contrasted the support given by business groups to one tainted regime at the same time as independent business associations, with more interest in

international trade, opposed that regime (Rettberg, 2001)..

Another solution builds on Robert Putnam's (1993, 2000) view that "civil society" groups are essential in promoting democratic deliberation. The groups that Putnam focuses on are local voluntary groups that bring people together for common activities without a political agenda. They provide private benefits from participation and are quite consistent with Olson's views about which groups will organize. Putnam, however, makes an additional claim that, if true, could provide a way out of Olson's dilemma. He argues that strong civil societies generate interpersonal trust that is transferable from the voluntary organizations and groups that produce it to the broader framework of democratic participation. Under this view, societies need to create opportunities for social capital to be produced through voluntary activity based on friendship, loyalty, or commitment. Putnam believes that trust created at that level will aid in the production of the generalized trust useful for the maintenance of a stable democracy.

Unfortunately, I do not believe that Putnam's argument has a strong empirical or theoretical foundation. I have made these arguments elsewhere (Rose-Ackerman, 2001a:425-431, 2001b) and will not repeat my comments here. Suffice it to say that much empirical work is not supportive, and that Putnam's work suffers from some of the same vagueness about causal mechanisms that exists in Olson's own scholarship. My criticism of Putnam should not, however, be seen as a general critique of the concept of social capital and its role in economic and political development. Rather, I would argue for a more nuanced view that does not treat social capital as an undifferentiated mass that is produced by participation in voluntary groups. Instead, one needs to understand the different kinds of interpersonal links that develop between people as a result of their personal and organizational ties. Then, one could study the way specific types of private organizations and groups influence people's interactions with the state and the market. Such research could lead to proposals for policies that might facilitate the growth of civil society and social capital under the view of democracy presented here.

One implication of this view is the importance of organizations that are explicitly political or policy-oriented. They support candidates for office or lobby for particular policies such as environmental control, consumer product safety, the prevention of drunk driving, agricultural subsidies, worker rights, oil industry tax breaks, and so on. Such groups may be grass roots membership organizations, but they are likely to need professional employees who focus on the

political process. They need to raise funds from members or large donors. These groups are a necessary part of democracy that can aid public accountability over and above the accountability provided by the ballot box.

My own hypothesis would be that policies that encourage the development of those nonprofits that interact with government can help institutionalize democracy but that nonprofits that simply build social capital through sports, recreation, and cultural activities will not, on their own, have much impact. The problem is to encourage the organization of diffuse interests and of groups committed to advancing broad goals.

Obviously, Olson's insight about the biases introduced by the costs of organizing applies here as well; my only claim is that broad, diffuse interests are sometimes represented by policy and advocacy entrepreneurs willing to take the "public good" seriously. Some people found nonprofit organizations because it is a way to reify and advance their ideas (Rose-Ackerman, 1996: 719). If one accepts this argument for nonprofits as advocates and monitors of the democratic process, then the state needs to make it easy to establish such organizations and should facilitate their fund-raising activities. All branches of government – legislature, executive, and judiciary – should permit access to organized groups.

To me, the goal should be to strengthen democratic institutions, not weaken them. Doing this requires more, not less, public participation. The biases discussed by Olson are a serious problem, and he has done us all a service to highlight them. However, if one concludes from his analysis that the state ought to be unable to respond to public demands or that private organizations should be curtailed, these implications seem unconvincing and risk tilting the state toward autocracy, capture by oligarchs, or, at least, toward unresponsiveness.

G. Olson's Dilemma

Perhaps, Olson would not disagree with my argument in favor of a more representative democracy although RADON certainly suggests a pervasive pessimism. The reason for doubt about Olson's position arises from his support for "stability" in RADON and from his later analysis of roving and stationary bandits in "Dictatorship, Democracy, and Development" (1993). A problem arises, however, if distributive coalitions are very powerful. Then, one would suspect that only a major upheaval will unseat them. But, the more widespread the upheaval, the more difficult it will be to establish a functioning state. As we saw above, Olson's own view of the post-socialist

transition is that the regime changes left some powerful, rent-seeking groups in place.

Part of the reason for dislodging entrenched groups is to expropriate their monopoly rents as a way of limiting their influence. One would have wanted Olson to explain how this could be done without undermining the stable investment expectations needed to encourage both domestic and foreign investment in physical and human capital. Instead, Olson's answer is for a state credibly to commit to free trade, perhaps through joining a multi-national institution such as the European Union. That is a reasonable suggestion, but it ignores domestic politics. To me, one ought to supplement Olson's defense of the political\economic benefits of free trade with a discussion of government structure that accepts the reality of group organization and recognizes that it can sometimes lead to positive results -- something of which Olson is extremely skeptical (RADON, 173-175). Doing that, however, would require a deeper analysis of government institutions -- the legislature's selection and operation, the professionalism and accountability of the bureaucracy, and the operation of the courts. It would also require an analysis of the creation and maintenance of individual human and property rights that leaves room for redistribution that improves fairness and equality. All these issues were of little interest to Olson once he had concluded that less is more insofar as government was concerned. He recognized that market failure can be as pervasive as government failure, but he is so sure of government failure that it dominates his perspective.

Olson failed to see that under appropriate conditions organized groups can help legitimize government instead of undermining it. In the pluralist tradition, the goal is to encourage more, not fewer, interests to organize in a context where other aspects of the political structure maintain broad-based democratic accountability. Martin McGuire and Olson (1996) come up with the idea of encompassing or super-encompassing groups to deal with this problem. These groups are fine in theory, but McGuire and Olson never explain where they come from. Even if they do exist and are better than an autocratic "stationary bandit," they might want to redistribute property to themselves before becoming advocates of a stable rule of law designed to preserve property rights and facilitate economic activity.

Was Mancur a Maoist? I am sure he would have denied it in spite of the favorable mention he gives to the Cultural Revolution and his criticism of the British class system. Nevertheless, Olson left himself open to such an imputation by failing to provide a plausible way to connect his positive view of periodic instability with his support for the rule of law.

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