Preface

How is the level of government spending or the average tax rate related to the type of government? How much of the differences in economic conditions among nations are attributable to the differences in the basic structure of their governments? How much are these fiscal decisions and economic outcomes dependent on the progressivity of the tax structure, the voting rule in a democracy, or the fiscal horizon of the government?

Only a few economists have even addressed these conditions. Conventional public finance addresses the effects of fiscal decisions but not their causes. For the most part, the new field of public choice addresses the second-order characteristics of democratic government. Joseph Schumpeter was one of the few economists with the intellectual breadth and curiosity to address the broader choice among the several major types of political regimes, most importantly in his classic 1942 book on *Capitalism, Socialism, and Democracy*. The modern classic in this tradition is Mancur Olson's 1982 book on *The Rise and Decline of Nations*. In the end, for somewhat different reasons, both Schumpeter and Olson were pessimistic about the long-term viability of the combination of capitalism and democracy.

The analysis in these two classics, however, was developed in a literary form that is not a sufficient basis for quantitative estimates of the effects that they describe. Later, Francis Fukuyama revived the concept of "universal history" in a 1992 book, *The End of History and the Last Man*, which concludes that a market economy and liberal democracy may be the best conceivable forms of social organization. The general pessimism of Schumpeter and Olson and the refreshing optimism of Fukuyama, however, may have been a reflection of the periods in which these books were written: Schumpeter during a period

when liberal democracies were threatened by both Nazism and Stalinism, Olson following the US defeat in Vietnam and the “stagflation” of the late 1970s, Fukuyama following the dramatic collapse of communism beginning in 1989. A more objective evaluation of the several major types of political regimes may require a more formal analysis that is less influenced by the prevailing intellectual mood of a specific period of history.

This book addresses the “Schumpeterian” questions about the effects of different types of political regimes with the simplest possible tools of modern economic analysis. The impetus for this book was an invitation to comment on a 1991 paper by Mancur Olson on “Autocracy, Democracy, and Prosperity.” This stimulating paper addressed the set of historical conditions that led to the progression from anarchy to autocracy to, more recently and selectively, democracy. The focus of Olson’s paper was to understand why some autocracies were broadly popular and why the general population often wished the autocrat a long life and a peaceful succession. On first reading the Olson paper, I thought that autocratic, democratic, and optimal governments could each be analyzed by a simple model. As it turned out, this proved to be more complex than I expected. This book is the result of that analytic exploration, the tree that I nurtured from a seed that Olson planted.

Since that time, Olson and I pursued these issues separately but with an occasional friendly conversation. An Olson paper on “Dictatorship, Democracy, and Development” was published in 1993, and a more formal analysis (with Martin McGuire) of “The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force” was published in 1996. Olson had nearly completed an accessible book on these issues before his untimely death in early 1998, a book published in 2000 as *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships*. In my review of this book, I wrote that “Mancur Olson was a friend, we shared a similar research agenda, and we argued about many, mostly little, issues. I will miss his important insights, his humor, and his humanity”.¹

My own work on these issues developed in a somewhat different way. My objective has been to develop formal models of the major types of political regimes and to use these models to estimate the quantitative effects of the structure of these regimes on their fiscal choices and economic outcomes. Another important influence on my model of democratic government with transfer payments was a 1981 article on “A Rational Theory of the Size of Government” by Alan Meltzer and Scott Richard. My 1997 article on “Autocratic, Democratic, and Optimal Government” summarized my models of these types of regimes and my first round of quantitative results. The models presented in this book are the same as in my 1997 article, but the quantitative results are based on later estimates of the parameters of these models. In addition, this book explores a variety of related issues not addressed in my 1997 article – such as the effects of varying the parameters of the democratic model, a constitutional approach to taxes and transfers, policies that affect the size of the population, and the role of culture and institutions.

I am especially grateful to the Cato Institute and its sponsors for the time and support to write this book, to Martin McGuire for early advice and encouragement, and to several bright young people at Cato who proved resourceful in finding or retrieving source material.

This book will not be the last word on these issues. I encourage other scholars to refine both my models and the parameters of these models and to broaden these models to evaluate the many second-order characteristics of the major types of political regimes. Our liberty and prosperity continue to be dependent on a better and broader understanding of the issues addressed in this book.

William A. Niskanen
Washington, DC

NOTE

1. Niskanen, William A. 2000. ‘Review: Power and Prosperity.’ *Cato Journal*, 20(1), 137–140.