

POWER AND PROSPERITY. BY MANCUR OLSON. NEW YORK:
BASIC BOOKS, 2000.

Mancur Olson, who taught economics at the University of Maryland before his untimely death in 1998, is best known for his 1965 work, *The Logic of Collective Action*, which was an outgrowth of his doctoral dissertation. *Power and Prosperity*, which Olson tentatively completed before he died, examines the age-old question of why some nations are poor and others are not and offers insights into the continuing transformation of the economies of former communist states as they struggle to establish a modified capitalist order.

I must confess to not having read *Logic*, so I am at a slight disadvantage in reviewing this work, as I would like to be able to see how Olson changed in his approach to economic analysis over the last three decades. Given that, I must also say that it seems obvious that *Power and Prosperity* is basically an unfinished work, or at least I perceive that it would have received more editing and rewriting had Olson remained alive.

That having been said, let me opine that *Power and Prosperity* is both frustrating and interesting. Let me first deal with my frustrations, the first one being that the book is not easy to follow. Olson's concepts are not difficult to understand, nor is *Power and Prosperity* particularly scholarly. Unfortunately, the book is not well written and is poorly organized, which is why it strikes me as an unfinished work. Even though *Power and Prosperity* is relatively short, Olson seems to ramble on with certain subjects, especially when he writes of "roving bandits" and "stationary bandits." He covers too many subjects and does not effectively tie them together.

On the other hand, I appreciate the fact that he attempts to construct *logical* rather than mathematical arguments, as seems to be the disease that has struck most of the economics profession at the present time. It is at this point that I begin my analysis of what Olson writes.

Power and Prosperity is an attempt to examine governance in the post-communist world. Socialism collapsed in the U.S.S.R. and Eastern Europe, while China moves forward toward becoming a modern capitalist society. Yet, a decade after the hammer and sickle and the red star was hauled down from thousands of flagpoles, the dream of capitalist prosperity to replace the "workers' paradise" has not materialized.

The former Soviet Union is a good example. While some signs of prosperity abound in cities like Moscow and St. Petersburg, parts of the country are economically worse off than they were under communism. Although the socialists that populate European, Canadian, and U.S. universities declare this situation to be "proof" that

capitalism creates poverty, Olson rightly points out that much of the problem of transition has to do more with the existing institutions in that country as well as a system of perverse incentives.

But in many large state-owned enterprises, there is a surprising and often intense opposition to privatization and economic reform generally. More often than not, if any mass privatization takes place, it is only privatization [such as in Russia] that gives the firms mainly to the insiders and [especially] the existing management, and leaves the same managers in power as before. (p. 160)

Olson goes on to explain much of the Russian opposition to privatization in public-choice terms, noting the effect of interest groups on the process. While he agrees that ideology might have something to do with the opposition to placing state-owned enterprises in private hands, Olson also agrees that many of these firms have become “sclerotic” under communism and that privatization would make much of the current management worse off than before.

He backs up that assertion by citing a study by Akerlof and others (1991) which looked at production in the former East Germany and found that only about 8 percent of East German workers actually produced something “whose value in international markets covered even the variable costs of producing these products” (p. 162). Olson says that since East Germany was “one of the most prosperous of the communist economies,” things had to have been even worse in places like the former Soviet Union or Bulgaria.

An economy primarily made up of subsidized firms will drain any society and drag many people off into poverty. At the same time, the very fact that survival of these firms depends upon government largess creates a constituency that is dependent upon such handouts. It should be no surprise, then, that the communist system produced interest groups just as the “democratic” West has done.

In examining what is needed for a society to be prosperous, Olson correctly writes that having markets in and of themselves is not a prescription for ending poverty. He writes

Those who live in low-income economies know that there are shops and market days in the villages, bazaars in the town, and peddlers hawking their wares on the street. The number of shops and peddlers in a large, poor city such as Calcutta is almost uncountable. The largest number of markets that I have ever seen in one place was in far-from-prosperous Moscow in early 1992, where there were people buying and selling at almost every metro stop and street corner. (p. 173)

Following in the vein of Hernando de Soto’s *The Other Path: The Invisible Revolution in the Third World* (1989), (to which he refers), Olson writes that in many poor nations, not only is it difficult to delineate property rights, but many government interventions themselves make matters worse. He cites the difficulty many individuals have in obtaining and filing business permits, which leads many to operate in the illegal but economically necessary “informal sector.”

Societies where people wish to have prosperity must have the following, he writes:

To realize all the gains from trade, then, there has to be a legal system and political order that enforces contracts, protects property rights, carries out mortgage agreements, provides for limited liability corporations, and facilitates a lasting and widely used capital market that makes the investments and loans

more liquid than they would otherwise be. These arrangements must also be expected to last for some time. (p. 185)

He adds that prosperity is also dependent upon the availability of “a broad and secure set of individual rights” within a society, something that generally is not a characteristic of poor nations. To that, I and others who are fellow travelers of the Austrian School of economics would agree. Moreover, it is always encouraging when a mainstream economist is willing to make some of the same arguments for property rights that Austrians have made for about a century, but that have been ignored by the economics profession, for the most part.

However, such declarations hardly make this a profound work. As previously mentioned, Ludwig von Mises and Murray N. Rothbard have made far more compelling defenses of property rights and more insightful condemnations of government intervention than does Olson. Even when Olson makes a quasi-reference to the Austrians, citing the “knowledge problem,” he fails to even mention that it came from F.A. Hayek. Furthermore, he seems to create a number of historical errors when he discusses the brutal collectivization and total state ownership of the economy of the Soviet Union under Josef Stalin.

In examining Stalin’s schemes, Olson says that they were created in order to maximize production and tax revenues to the Soviet state. While it is true that industrial production increased in the U.S.S.R. during Stalin’s realm, what Olson fails to point out is that much of the large-scale capital investment that was needed to perform this production increase came from the West. Instead, he makes it sound as though Russian economic growth of this period came from the genius of Stalin himself.

While *Power and Prosperity* does include a number of logical insights into rich and poor societies, there are a number of similar works that I believe are better and easier to follow. Although I am encouraged that a mainstream economist has included some Austrian ideas (though not giving Austrians credit), in the end I must conclude that this is a clever but flawed volume.

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REFERENCES

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