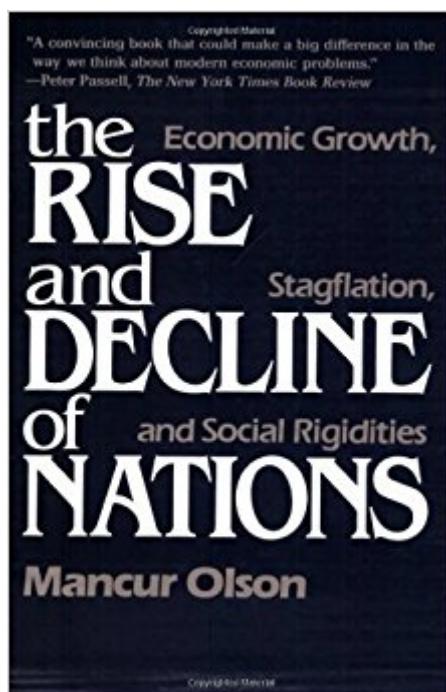


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# The Rise And Decline Of Nations: Economic Growth, Stagflation, And Social Rigidities



## Synopsis

The years since World War II have seen rapid shifts in the relative positions of different countries and regions. Leading political economist Mancur Olson offers a new and compelling theory to explain these shifts in fortune and then tests his theory against evidence from many periods of history and many parts of the world. His elegant, readable book. . . sets out to explain why economies succumb to the "British disease," the kind of stagnation and demoralization that is now sweeping Europe and North America. . . . A convincing book that could make a big difference in the way we think about modern economic problems.

Peter Passell, *The New York Times Book Review*

Schumpeter and Keynes would have hailed the insights Olson gives into the sicknesses of the modern mixed economy.

Paul A. Samuelson, *Massachusetts Institute of Technology*

"One of the really important books in social science of the past half-century."

Scott Gordon, *The Canadian Journal of Economics*

"The thesis of this brilliant book is that the longer a society enjoys political stability, the more likely it is to develop powerful special-interest lobbies that in turn make it less efficient economically."

Charles Peters, *The Washington Monthly*

"Remarkable. The fundamental ideas are simple, yet they provide insight into a wide array of social and historical issues. . . . The *Rise and Decline of Nations* promises to be a subject of productive interdisciplinary argument for years to come."

Robert O. Keohane, *Journal of Economic Literature*

"I urgently recommend it to all economists and to a great many non-economists."

Gordon Tullock, *Public Choice*

"Olson's theory is illuminating and there is no doubt that *The Rise and Decline of Nations* will exert much influence on ideas and politics for many decades to come."

Pierre Lemieux, *Reason* Co-winner of the 1983 American Political Science Association's Gladys M. Kammerer Award for the best book on U.S. national policy

## Book Information

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"[T]his elegant, readable book . . . sets out to explain why economies succumb to the 'British disease,' the kind of stagnation and demoralization that is now sweeping Europe and North America. . . . A convincing book that could make a big difference in the way we think about modern economic problems." —Peter Passell, *The New York Times Book Review* "Clearly, this is no ordinary theory. Equally clearly, it sprang from the mind of no ordinary economist." —James Lardner, *The Washington Post* "[Olson's] seminal work *The Rise and Decline of Nations*, published in 1982, helped explain how stable, affluent societies tend to get in trouble. The book turns out to be a surprisingly useful guide to the current crisis. . . . Olson's book was short but sprawling, touching on everything from the Great Depression to the caste system in India. His primary case study was Great Britain in the decades after World War II. . . . Olson's insight was that the defeated countries of World War II didn't rise in spite of crisis. . . . They rose because of it." —David Leonhardt, *New York Times* "One of the really important books in social science of the past half-century." —Scott Gordon, *The Canadian Journal of Economics* "The thesis of this brilliant book is that the longer a society enjoys political stability, the more likely it is to develop powerful special-interest lobbies that in turn make it less efficient economically." —Charles Peters, *The Washington Monthly* "Remarkable. The fundamental ideas are simple, yet they provide insight into a wide array of social and historical issues. . . . *The Rise and Decline of Nations* promises to be a subject of productive interdisciplinary argument for years to come." —Robert O. Keohane, *Journal of Economic Literature* "I urgently recommend it to all economists and to a great many non-economists." —Gordon Tullock, *Public Choice* "Olson's theory is illuminating and there is no doubt that *The Rise and Decline of Nations* will exert much influence on ideas and politics for many decades to come." —Pierre Lemieux, *Reason* "Olson has already provoked a small tempest with this book, making it must reading for all serious students of political economy, sociology, and organization theory." —Orbis "This is a useful, insightful, and easily readable book. . . . Provocative and compelling." —The Annals of the Academy of Political and Social Science "Mancur Olson has laid an important new idea on the table of the profession. I am attracted by the idea, and I think that other readers will be too." —Robert D. Tollison, *The Southern*

Economic Journal"An extraordinary achievement. While we still don't know what accounts for secular economic and social change, Mancur Olson has made a solid contribution toward our understanding of those issues." Douglass C. North, *Science*"History will tell us whether Olson has built a cathedral of ideas or a shack in the intellectual winds, but either way he provides an interesting starting point for our speculations. One doesn't need a cathedral to get religion." Lester C. Thurow, *The New York Review of Books*"There is both a challenge and a stimulant in this ambitious theory, which is not frightened of ranging widely and drawing conclusions about great matters." James Douglas, *Political Science Quarterly*"Olson's vivid descriptions, extensive data, and interpretations of the social and economic difficulties are persuasive and eloquent. He has a remarkable talent for combining sobriety of thought with formal but graceful prose. . . . Political scientists are indebted to Olson for this stimulating and ambitious effort to write a theory of political economy. In his sometimes quaint and subtle manner, he has managed once more to address the big issues and make sense of them in nontechnical language both respectable among his peers and accessible to noneconomists." William C. Mitchell, *The American Political Science Review*"Schumpeter and Keynes would have hailed the insights Olson gives into the sicknesses of the modern mixed economy." Paul A. Samuelson, *Massachusetts Institute of Technology*"Rises above the descriptive level of most books and directs our attention to the theoretical concerns in a way which gives the work a broader scope and the richness we have come to associate with the classic texts." Kristen Monroe, *Princeton University, New York University*, from citation for Kammerer prize"A prize-winning performance: Olson's social theory of economic growth and decay is far superior to existing alternatives." Aaron Wildavsky"Olson has taken the implications of his earlier work, *The Logic of Collective Action* and used them in an extraordinarily innovative and impressive way. The result, quite apart from the specific predictions about when nations decline, is an important contribution to institutional economics or equivalently, to the sociology of institutions. What makes the contribution especially important is its derivation from microeconomic foundations. The latter constitutes the most promising theoretical paradigm in the social sciences, yet little progress has been made in moving from micro to macro level. Olson's book constitutes a valuable step in that direction." James S. Coleman

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history and many parts on the world.

As a citizen of post communist country I was under constant propaganda of pure scientific economy coming from West. Much like scientific atheism but in realm of economics. Everything was about correct manipulation with numbers. Over time I was more and more convinced that main powers in our society remained same. What changed was only political environment. This book very clearly describes how much influence social groups have on economics. How hard it is to introduce some changes which go against interests of some groups, even when society as a whole would benefit. Thanks to numerous examples given in this book I can be pretty confident, that I am not a crazy person who can hear grass growing.

Olson does a stellar job "proving" his theory using accepted scientific standards. His main thesis is that stable societies, over time, will be stifled by a steady growth of groups each committed to obtaining a disproportionate amount of society's goods. This theory, composed of only nine implications, is parsimonious with wide explanatory power. It helps to explain the post-war growth of countries such as Japan and Germany, while providing a reason why the growth rates of the United States, and especially Great Britain, have been stagnated. Perhaps the most interesting chapter of the book is the last, in which Olson merges both Keynesianism and monetarism to form a new theory of macroeconomics. By using his theory, he is able to better explain involuntary unemployment than either of the more popular schools of macroeconomic theory. I was amazed at how many phenomena, such as slavery and the Indian caste system, can be at least partially explained by Olson's theory. Anyone seriously interested in knowing the way the world works will want to give this theory substantial consideration.

Like another reviewer, I am puzzled why Olsons work has not become mainstream by now. A comment on page 45 "The argument also has only a lesser applicability to any country in which constitutional and structural factors constrain the number and power of lobbying organizations, as appears to be the case in Switzerland." sent me to the internet to read the constitution of Switzerland, and provides a ray of sunshine. Perhaps we can loosen the grip of trial lawyers, labor unions, the AMA, defense contractors, multi-national corporations, etc. with a constitutional amendment. The only weakness in Olsons work is references to "growth" without reference to population increase or decrease, one of three factors (population, productivity, inflation) of growth that must be considered. But that was not an obvious issue 25 years ago when Olson wrote, and

does not subtract from the brilliance of his theory. I highly recommend this book.

Olson seeks to explain why some nations achieve high rates of economic growth while others suffer bouts of stagflation. He contends that the number and strength of "distributional coalitions," coupled with the length of economic and political stability will influence a nation's rate of economic growth. As such, Olson's hypothesis is two fold. First, Olson argues that states with lower levels of "distributional coalitions" often have higher rates of economic growth. Second, states which have experienced prolonged periods of disorder or armed conflict will have lower numbers of interest-group, or collusion organizations. Olson's explanation builds upon his early work in *The Logic of Collective Action*, which holds that "...large groups, at least if they are composed of rational individuals, will not act in their group interest" (18). Rather, the rational actor will seek to further his or her self-interest, and will subsequently free-ride when possible. Olson expands the scope of this logic to encompass not only the rationality of the individual, but the rationality of the firm in explaining *The Rise and Decline of Nations*. As the power of the firm expands, the firm seeks to maximize its own utility at the expense of a societal common good. In order to simplify a complex argument, we can think of Olson's theory in this way. An organization or firm will not expend its energy to create a benefit to society writ large, as it, and its members, will only receive a fragment of that benefit in relation to the costs incurred. On the other hand, if the same firm seeks to maximize its utility, it will seek to obtain a larger slice of the social "pie." In so doing, it may lower the benefits of society as a whole, but will significantly expand its own gain and that of its members. Meanwhile the firm will only incur a fraction of the costs such action projects on society at large. As such, Olson writes, "The great majority of special-interest organizations redistribute income rather than create it and in the ways that reduce social efficiency and output" (47). Olson argues that a society with long-term stability - free from war, and economic and political turmoil - tend to accrue more special-interest and collusion groups. This occurs because it takes time and reasonable amount of stability for such interest-groups to organize, solidify, and begin to achieve some collective benefits for their members. Once collective benefits are seen as the result of organization, a host of other interests will begin to coalesce and seek to obtain gains for themselves. What emerges is a highly pluralistic society. This leads us to the second part of Olson's hypothesis, those nations with high numbers of special-interest or collusion groups have lower levels of economic growth. Olson writes, "Distributional coalitions slow down a society's capacity to adopt new technologies and reallocate resources in response to changing conditions, and they reduce the rate of economic growth" (65). First, distributional coalitions stymie technological adoption when such innovation stands to benefit a

rival group. A present day illustration can be found in a labor unions vehement opposition to the implementation of labor saving machinery. Second, distributional coalitions will attempt to block policy initiatives that change the status quo. When policy needs to be developed to increase economic or social advancement, the special-interest groups are likely to feel a certain displacement and will act to prevent such policy. According to Olson, these actions, coupled with others, often lead to policies which promote policies which have the potential to stifle economic growth.

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