Book Review

The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities

Mancur Olson

New Haven, Conn.: Yale University Press, 1982. $14.95.

In the preface, the *Rise and Decline of Nations* promises to provide a partial explanation of, among other things, stagflation, declining rates of economic growth, the British class structure, the Indian caste system, South African apartheid, the laggard response of the American economy in the Great Depression, and the rise of Western Europe. The explanations all derive from a simple theory, applied with considerable ingenuity and dexterity. Some will find the twists and turns of the theory sufficient reward for reading the book, but the important contributions of this book are Olson's findings about the prevalence of stagnation and economic decline in the world.

The book is constructed in two parts: theory and applications. The first two chapters review the basic argument of Olson's earlier book *The Logic of Collective Action*. Groups form to undertake collective action only when it is possible for the group to provide members with benefits that exceed the costs of the collective action borne by the members. Some of these benefits must be exclusive to group members (selective incentives) or the free-rider problem will make collective action impossible.

The third chapter of the present book is a theoretical sequel to *The Logic of Collective Action*. Once formed, a group successfully organized for a narrow purpose has overcome the primary cost of further collective action. The organized group is in a strong position relative to unorganized interests. This strength can be used to pursue policies that may reduce the income of society as a whole as long as the income of group members is, on net, increased. These redistributive policies may be outside the original scope of the organization, and they have the reinforcing effect of strengthening the motive for collective action within the group.

Because of their relative strength, these "redistributional coalitions" become entrenched. The number of coalitions accumulates over time and with them grows an interlocking set of institutional arrangements designed to redistribute rather than increase income. Unions institute work rules, cartels adopt pricing policies, and professional organizations favor licensing laws that raise group income at the expense of total income. Since much of the competition over redistribution occurs in the political sector, the government comes to play a larger role in the economy. As groups grow and the political sector expands, the process of decision making becomes more unwieldy and the economy

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responds to changing conditions more slowly. The economy develops a kind of institutional sclerosis. The result is stagnation and decline.

Even these simple implications are quite appealing, and Olson's formulation of the implications is much richer, of course, than this sketch. It is not, however, the theory that makes the implications attractive; rather it is the striking congruence of the implications with the world we observe. In the second half of the book he applies the theory to four general areas: the growth of the developed democracies in the postwar period, integrated markets and barriers to trade, inequality and discrimination, and macroeconomics. In each chapter the theory is tested against a number of examples, usually involving accepted neoclassical economic explanations of how interfering with the market lowers social welfare. Olson then applies his theory of redistributional coalitions to supply the mechanism by which the market is impaired.

The applications cover a wide range of geography and time. In a book of this size it is impossible to examine any application of Olson's theory in detail. As a result it is possible, in almost every case, to think of a more plausible explanation for the behavior in question than Olson's coalition theory, often without going to any great length to do so. On the other hand, the diversity of the applications is overwhelming, and in several instances his theory appears to be the best available explanation. Even though Olson's evidence is, taken case by case, less than compelling, there is no reason to doubt that something is operating in society to generate this persistent pattern of rise and decline.

The empirical insight that stagnation and decline are persistent features of economic life, even in a period of history characterized by unprecedented economic growth, is the fundamental contribution of this book. In testing the theory Olson assembles a collection of institutional arrangements that have grown to restrict economic freedom. Olson has a manifest faith in the effectiveness of the market at allocating resources and in the theory the growth of redistributional coalitions is predicted on individual maximization. Given his starting point, he makes a convincing case that economic theory should explain these apparently inefficient patterns of social organization. There is some reason to question, however, whether Olson's theory identifies the ultimate source of economic decline.

The theory suffers from two defects: the role of government and the role of time. A central lesson of *Logic* was that the tacit or explicit use of the government's coercive power is usually required to create the selective intragroup incentives necessary for the formation of groups with more than a few members. Government sanctions are of paramount importance to Olson's three favorite examples of collective action: unions, cartels, and professional organizations. Yet Olson provides no theory of government behavior to tell us when or why the government will aid in the formation of these groups or break them up (via, e.g., the Wagner and Sherman Acts). Until we know how governments operate, we cannot conclude that increasing the number of interest groups leads to a larger role of government and not much can be said about the rate of formation and disintegration of groups over time.

The tests of the theory all depend on time. Groups do not form or disband instantaneously, but is it the case that the number of groups grow continuously over time? No serious consideration is given to the question of an equilibrium number of groups or amount of redistribution. As interest groups proliferate and larger numbers of people belong to some organization, it presumably becomes more difficult for any new group to organize or for an organized group to redistribute income away from nonmembers. Such factors would tend to limit the influence of already organized groups and slow the growth of new groups. It is also not clear that some groups (such as professional organizations, whose primary purpose may be to disseminate accurate information rapidly among members) may not shorten the time necessary to make economic decisions, thereby alleviating economic sclerosis. Other groups, such as corporations, are explicitly organized to allow the group leadership to make decisions for the group's members.

Since the implications of the theory revolve around these notions about time, it is not clear exactly what is being tested in the last chapters of the book. One cannot conclude that the ubiquitous and ever-growing presence of redistributional coalitions causes the decline of nations. Rather, the conclusion is that there are some as yet unidentified forces at work in any economy that lead to stagnation and decline. Olson has clearly pointed to the effects of these forces; for that, his book deserves a careful reading. It remains to be seen whether or not he has also correctly identified the source of the *Rise and Decline of Nations*.

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