

## Symposium

# Explaining the Rain: *The Rise and Decline of Nations* after 25 Years

Jac C. Heckelman\*

In the quarter century since the publication of Mancur Olson's *Rise and Decline of Nations*, a large literature has evolved testing the central hypothesis regarding Olson's thesis on institutional sclerosis. These tests have taken the form of both econometric regression analysis involving a sample of various nations and detailed narrative case studies of specific nations. Tests have appeared in both economics and political science journals as well as in collected volumes and independent books, performed primarily by authors from America and Europe. A review of over 50 separate works reveals that, on the whole, the theory of institutional sclerosis is generally but certainly not universally supported. No systematic bias in favor of or opposition to Olson is found to have arisen on the basis of methodology, publication outlet, or authorship location.

**JEL Classification:** D72, B3

## 1. Introduction

Mancur Olson's (1982) *The Rise and Decline of Nations* was hailed as an instant classic in several circles but was met with its fair share of critics. To date, there are over 1800 citations of *Rise and Decline* listed in the *Social Science Citation Index*. The citation count continues to be strong, ranging from 50 to 100 in any given year since its publication (Figure 1). As detailed by Whaples (2003), while *Rise and Decline* ranks second in citations only to Alfred Chandler's *The Visible Hand* among all books in economic history, at the same time it has received a decidedly mixed reaction from economic historians, both in initial reviews and in current retrospection. McLean (2000) asserts the common wisdom among public choice scholars that, despite being an economist, Olson was probably more revered within political science. Yet despite this (or perhaps because of it), Olson has also been attacked as just another economist wrongly applying economic theory to political science (Green and Shapiro 1994).

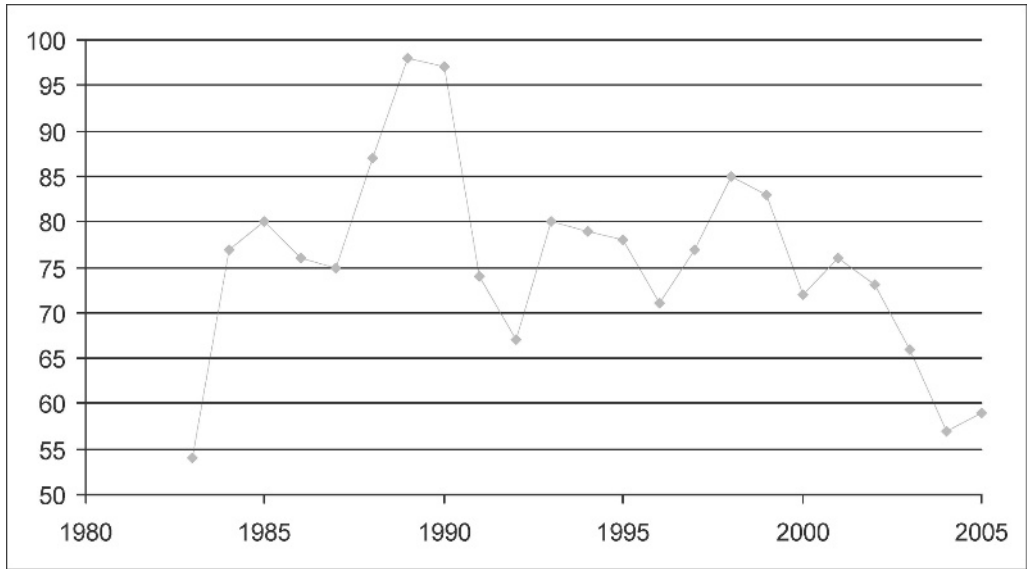
Although a wide variety of related concepts can be found throughout the book, most attention has been paid to Olson's concept of "institutional sclerosis," in which it is hypothesized that special interest groups will accumulate over time in stable societies and eventually reduce the economic efficiency of the economy in which they operate. An outline of the basic development of this theory is presented in the next section.

The main purpose of the paper, however, is to consider the body of evidence testing for institutional sclerosis. This is done in two parts: first by examining previous cross-sectional

---

\* Wake Forest University, 110 Carswell Hall, Winston-Salem, NC 27109 USA; E-mail Jac\_C\_Heckelman@mta.wfu.edu.

I thank Dennis Coates, Suzanne Gleason, Dan Hammond, Ivo Bischoff, David Mitch, and Randy Holcombe for their comments and suggestions.



**Figure 1.** Annual Citation Count to *Rise and Decline of Nations* (Source: *Social Science Citation Index*)

regressions explaining variation in growth rates and then by discussing the large-scale descriptive accounts others have made regarding the experience of various nations. As with any theory that has undergone a multitude of tests, support for institutional sclerosis is not universal. On the whole, however, it has been well received and appears to be equally supported by both cross-sectional econometric tests and descriptive case studies of individual nations. The interdisciplinary nature of Olson's work is made clear by the almost equal appearance of these tests in both economics and political science journals and by scholars on both sides of the Atlantic. No systematic bias in favor or opposition to Olson's theory is found to have arisen in any of these camps.

## 2. From *The Logic* to *Rise and Decline*

Mancur Olson's research covered a variety of topics, but he will always be most closely connected to interest group formation and their macroeconomic consequences. Olson's focus on interest groups can be traced back to his dissertation at Harvard, later published as *The Logic of Collective Action* (1965).<sup>1</sup> In *Logic*, Olson's primary concern was the provision of goods or services that provide benefits to multiple individuals, even those who do not participate in their provision. Olson argued that collective provision of such goods or services confronts the same difficulties as do cartels. Individuals will take advantage of inexcludable benefits by declining to participate in the provision of these goods and services, thereby

<sup>1</sup> *The Logic of Collective Action* is often incorrectly asserted to be Olson's first book. Olson had previously published *The Economics of the Wartime Shortage* two years earlier on a completely unrelated subject. This first book has received almost no attention, and after the success of *Logic*, Olson moved away from his earliest work in traditional economic history (Olson and Harris 1959; Olson 1962) to focus on political economy, although he often applied his theories to historical economic development (Whaples 2003).

acquiring the benefit without incurring the cost. According to Olson, individual incentives will tend to work against the formation of groups whose purpose is to provide these public goods. Olson notes that in this context, the free market would underprovide public-type goods. He emphasized, however, that the extent of this free-riding behavior would be a function of group size. Small groups would be more likely to form than would large groups because free riding is easier to monitor in smaller groups.

Larger groups are expected to have trouble attracting membership and would need to rely on a system of selective incentives. Such groups would need to also simultaneously offer special excludable private goods, such as low-cost insurance, to act as an enticing carrot, while social pressures, such as ostracism or physical harm, would represent a threatening stick. However, if a single member could obtain a benefit that would exceed the total cost, he or she may provide the good while others free ride on its nonexcludability. Olson referred to this phenomenon as “exploitation of the great by the small.” In game-theoretic terms, complete free riding is the Nash equilibrium to a prisoners’ dilemma game, but exploitation of the great by the small is akin to the equilibrium in a game of chicken, where even the exploited is better off, although in a personal second-best situation (Mueller 2003, chap. 2).

The analysis stemming from *Logic* suggests that narrow special interests will be more prevalent than larger groups, which suffer from free-riding problems. In *The Rise and Decline of Nations* (*Rise and Decline* hereafter), Olson set out to develop the macroeconomic consequences of the interests facing such groups. In particular, he argued that past research on the sources of growth were lacking since they did not answer the fundamental question as to the primary establishment of growth prospects; rather, “they trace the water in the river to the streams and lakes from which it comes, but they do not explain the rain” (Olson 1982, p. 4). Olson set out to explain the rain that created the environment for growth and the avenues in which growth was blocked by these same forces.

As developed in *Rise and Decline*, because the benefits of economic growth are widely dispersed across members of society, the likely gain to any group that advocates faster growth will be only a small share of these benefits unless the group is sufficiently encompassing of society overall. At the same time, a progrowth advocacy group will incur all the costs of its efforts. As such, economic growth can be viewed as another sort of public good. Following through from *Logic*, Olson argued that incentives work against the formation of progrowth groups. On the other hand, groups that form to advocate excludable redistribution will obtain large benefits for themselves while imposing costs on the broader society. Redistribution of this sort is akin to a negative externality that the interest group does not consider (in full). Consequently, groups that encourage redistribution are more likely to successfully form than groups that advocate growth. Moreover, since it takes time for even small groups to overcome their collective action problems, over time more special interest groups are expected to form and engage in redistributive activities. As these groups form, their impact will serve to divert scarce economic resources away from technological advances and other growth-enhancing activities that are nonexcludable toward redistributive activities. Thus, Olson predicts that economic growth will naturally decline over time in stable societies as groups continue to flourish.

These sclerotic effects are due to the formation of special interest organizations. If the interest groups or their means of influencing policy are destroyed, growth prospects would be enhanced. Instability, such as coups and revolutions, is expected to destroy the influence of these groups and their avenues for controlling social resources. Constant instability, however,

will also open up new avenues for rent seeking. Thus, *Rise and Decline* predicts that the best growth prospects should be present where there is recent social upheaval but that long-term stability is expected to follow.

### 3. Tests of the Theory of Institutional Sclerosis

In chapter 3 of *Rise and Decline*, Olson lays out nine distinct implications from his analysis.<sup>2</sup> Although he discusses all the hypotheses to some extent in the remaining four chapters, Olson pays particular attention to three of the implications:

*Implication 2: Stable societies with unchanged boundaries tend to accumulate more collusions and organizations for collective action over time.*

*Implication 4: On balance, special interest organizations and collusions reduce efficiency and aggregate income in the societies in which they operate and make political life more divisive.*

*Implication 7: Distributional coalitions slow down a society's capacity to adopt new technologies and to reallocate resources in response to changing conditions and thereby reduce the rate of economic growth.*

Only a handful of studies have directly tested Implication 2. The vast majority of the literature has instead either tested some variant of Implications 4 and 7 or combined the three implications to relate stability to economic growth, leaving the role of special interest organizations and distributional coalitions implicitly in the background.

#### *Empirical Tests Involving Regression Analysis on Economic Growth*

Olson's econometric evidence in *Rise and Decline* focuses on the various state economies of the United States, where it is shown that measures of state age are directly correlated with union membership (Implication 2), union membership is inversely correlated with the growth rate of income (Implications 4 and 7), and state age is inversely correlated with income growth (combination of Implications 2, 4, and 7). The length of a state's life is based either on the date of statehood or the end of the Civil War for the states of the Confederacy because these latter states were thought to have had their institutional structures rebuilt in the aftermath of Reconstruction. Many subsequent independent studies largely followed Olson's empirical framework.

The evidence regarding Olson's theory of institutional sclerosis is summarized in Table 1. The theory of institutional sclerosis has been most frequently tested by comparing cross-national or American state growth rates. The top portion of Table 1 includes only empirical tests that have relied on regression analysis of growth rates. Because the sclerosis literature is so vast, studies that use other dependent variables are not included in the table. Some examples of alternative sclerotic effects investigated include the level of GDP (Quiggen 1992), inflation and unemployment (Paloheimo 1984), income inequality (Chan 1989), investment (Coates and Heckelman 2003b), and degree of financial development (Rajan and Zingales 2003). Empirical tests of other implications from *Rise and Decline* are not discussed here.<sup>3</sup>

<sup>2</sup> The full listing of all nine implications are presented in Rosser's paper in this issue (Rosser 2007).

<sup>3</sup> For example, Maitland (1985) tests *Rise and Decline's* Implication 5 that "encompassing organizations have some incentive to make the society in which they operate more prosperous, and an incentive to redistribute income to their members with as little excess burden as possible, and to cease such redistribution unless the amount redistributed is substantial in relation to the social cost of the redistribution" by comparing contributions by political action committees.

**Table 1.** Empirical and Descriptive Tests of Institutional Sclerosis

Cross-Section Regressions	Sample	Sclerosis Measure(s)	Author's Conclusion
Olson (1982) <sup>cd</sup> Choi (1983) <sup>cd</sup>	U.S. states 18 OECD nations	State age/postconfederacy; unionization rate Years since consolidation of modernizing leaderships; years since consolidation following a logistic time path adjusted downward for occupation by foreign forces, indigenous totalitarian government control, defeat during major wars, and revolutions	Support Support
Whitely (1983) <sup>be</sup> Weede (1984) <sup>ae</sup>	19 OECD nations 19 OECD nations	Age of the present democratic constitution Years of uninterrupted democracy within unchanged borders	Support Support
Lange and Garrett (1985) <sup>bd</sup>	15 OECD nations	Additive index of percentage of unionization and centralization of unions into peak associations	Mixed support
Landau (1985) <sup>ad</sup>	16 OECD nations	Years since foreign occupation, independence, violent revolution, or civil war	Mixed support
Weede (1986a) <sup>be</sup> Weede (1986b) <sup>be</sup>	31 LDCs 19 OECD nations	Index of price distortions Years of uninterrupted democracy within unchanged borders	Support Support
Bernholz (1986) <sup>ae</sup> Vedder and Galloway (1986) <sup>ad</sup>	17 OECD nations U.S. states	Years of uninterrupted full democracy State age; dummy for south civil war; union membership; average level of AFDC benefits; percentage receiving AFDC benefits; change in revenue from (separately) personal individual income taxes, corporate taxes, sales taxes	Support Support
Lane and Ersson (1986) <sup>be</sup> McCallum and Blais (1987) <sup>af</sup>	24 OECD nations 17 OECD nations	Choi's (1983) index; trade union organization Choi's (1983) index; number of sectional groups; unionization rate	Support Support
Chan (1987) <sup>bd</sup>	13 Asian-Pacific nations	Scaled index of military deaths from civil war and Japanese occupation forces	Support
Goldsmith (1987) <sup>bd</sup>	77 LDCs	Normalized index of: assassinations, irregular executive transfers, armed attacks, deaths from domestic political violence	Does not support
Nardinelli, Wallace, and Warner (1987) <sup>ad</sup>	U.S. states	State age/postconfederacy	Does not support

Table 1. Continued

Cross-Section Regressions	Sample	Sclerosis Measure(s)	Author's Conclusion
Nardinelli, Wallace, and Warner (1988) <sup>ad</sup>	U.S. states	State age/postconfederacy/end of Jim Crow laws	Does not support
Wallis and Oates (1988) <sup>ad</sup>	U.S. states	State age/postconfederacy	Does not support
Gray and Lowery (1988) <sup>bd</sup>	U.S. states	State age/postconfederacy; unionization rate; number of unions relative to business organizations; number of unions relative to government size	Does not support
Garand (1992) <sup>bd</sup>	U.S. states	State age	Mixed support
Knack and Keefer (1997) <sup>ad</sup>	29 market economies	Mean number of groups per respondent	Does not support
Tang and Hedley (1998) <sup>af</sup>	8 Asian-Pacific and 12 Latin American nations	Year of last turmoil (involving 1000 battle deaths from internal war not involving border dispute, independence from colonial rule, or beginning year of consolidation of modernizing leadership); percentage of land concentration; union membership; working days lost due to industrial disputes; percentage urban	Support
Crain and Lee (1999) <sup>ad</sup>	U.S. states	Business association revenue share of income; business association revenue per capita; number of business associations; union membership	Support
Heckelman (2000) <sup>ad</sup>	42 nations	Sectional groups per capita	Mixed support
Scruggs (2001) <sup>bd</sup>	16 OECD nations	Labor organization	Support
Coates and Heckelman (2003a) <sup>cd</sup>	22 OECD nations	Sectional groups per capita; sectional groups per capita relative to size of government	Support
Knack (2003) <sup>ac</sup>	38 nations	Mean number of groups per respondent	Does not support
Koubi (2005) <sup>bd</sup>	114 nations	Severity, duration, intensity of war	Support
Kang and Meernik (2005) <sup>bd</sup>	Unspecified	Standardized index of length and per capita deaths from civil wars	Does not support
Case Studies	Focus		Author's Conclusion
Olson (1982) <sup>cd</sup>	Allied and Axis nations, India, China, South Africa		Support
Olson (1983) <sup>ad</sup>	U.S. southern states		Mixed support
Asselain and Morrison (1983) <sup>ce</sup>	France		Mixed support

Table 1. Continued

Case Studies	Focus	Author's Conclusion
Hennart (1983) <sup>cd</sup>	France	Support
Lehner (1983) <sup>ce</sup>	Switzerland	Mixed support
Olson (1984) <sup>ad</sup>	Australia	Support
Rasch and Sorensen (1986) <sup>be</sup>	Norway	Does not support
Gustafsson (1986) <sup>be</sup>	Sweden	Mixed support
Cameron (1988) <sup>be</sup>	Germany, Japan, Sweden, France, Britain	Does not support
Broadberry (1988) <sup>ae</sup>	Britain	Support
Olson (1990a) <sup>cd</sup>	Sweden	Support
Manzetti (1992) <sup>bd</sup>	Argentina	Support
Kirby (1992) <sup>ae</sup>	Britain	Support
Waldow (1993) <sup>ae</sup>	Lüneburg	Support
Milner (1994) <sup>cf</sup>	Sweden, Norway, Finland, Denmark	Support
Weyland (1996) <sup>bd</sup>	Brazil	Support
Ó Gráda and O'Rourke (1996) <sup>ce</sup>	Ireland	Mixed support
Paqué (1996) <sup>ce</sup>	Germany	Does not support
Booth, Melling, and Dartmann (1997) <sup>ae</sup>	West Germany, United Kingdom, Sweden	Does not support
Blankart (2001) <sup>ae</sup>	Prussia/Germany	Support
Hojman (2002) <sup>ae</sup>	Chile	Support
James (2003) <sup>cd</sup>	Canada	Support
van Zanden and van Riel (2004) <sup>ce</sup>	Netherlands	Mixed support
Demir (2005) <sup>bd</sup>	Turkey	Support
McAloon (2006) <sup>ag</sup>	New Zealand	Mixed support

<sup>a</sup> Economics journal.<sup>b</sup> Political science journal.<sup>c</sup> Book or collected volume.<sup>d</sup> United States.<sup>e</sup> Europe.<sup>f</sup> Canada.<sup>g</sup> New Zealand.

In cross-national tests, the number of years of stable borders and uninterrupted democracy for each country is sometimes used to proxy for the sclerotic effect (Weede 1984, 1986b; Bernholz 1986). However, this does not address Olson's theory or the spirit of Olson's tests very well, as wars or internal coups can create upheaval without changing the society's borders. Others have marked the number of years since the last domestic war (Landau 1985; Tang and Hedley 1998) or created "trauma" variables (Chan 1987; Goldsmith 1987) to measure the degree of destruction caused by wars and revolutions.

These studies are indirect in that the role of interest groups is only implicit and does not appear directly in the regression analysis. The problem may stem from Olson's own analysis, where he first presented regressions on the relationship between state age and growth, which combines Implications 2, 4, and 7, before breaking them down into direct tests of individual implications. Direct tests would relate interest groups directly to growth. Unfortunately, because of data limitations, such an approach is rarely undertaken. Olson's proxy for interest group activity among the U.S. states is union membership rates because "labor unions are the main organizations with negative effects on local growth, and their membership should also serve as a proxy measures of the strength of such other coalitions that are harmful to local growth" (p. 105). Following Olson's proxy choice, Gray and Lowery (1988) and Crain and Lee (1999) generated contrasting results for the U.S. states, while Lange and Garrett (1985) found mixed support among a small sample of OECD nations.

Gray and Lowery (1988) find only weak evidence that business interest groups harm growth among the U.S. states and conclude by generally rejecting Olson's hypothesis. However, they measure business groups relative to union size on the idea that, although unions are redistributive in nature, business groups should be progrowth. Such an interpretation is counter to Olson's view that considers business groups to be like cartels, focused more on their own gains and less on society at large. When measuring the number of business associations in isolation, Crain and Lee (1999) find support for Olson in their negative impact on state income growth.

McCallum and Blais (1987) claim support for Olson's thesis when they find measures of stability to be a significant factor for growth (which is an indirect test) among the OECD nations, even though at the same time they note that in unreported regressions, Murrell's (1984) measure of the number of sectional coalitions (which represents a more direct test) is not. Using this same proxy for interest groups, Coates and Heckelman (2003a) find that the harmful effects on growth from the presence of interest groups are nonlinear. Expanding the sample to include less developed countries (LDCs), Heckelman (2000) finds a consistent negative relationship between Murrell's interest group count and economic growth, but the effect is not significant except when using econometric methods that take into account the weakness of the proxy relationship between the observed number of groups and the unmeasurable strength of these groups. In contrast, Knack and Keefer (1997) and Knack (2003) find that increased membership in "Olson groups" does not reduce growth.

Most empirical tests of institutional sclerosis are limited to either OECD nations or the U.S. states. This is probably because Olson's own empirical analysis focused on developed democracies, which may give the false impression that sclerosis can occur only in these nations. Olson is aware that "the possibility is the theory is true or largely true for these countries [postwar developed democracies] but does not apply to other types of societies, such as the developing nations or the communist countries" (p. 147), but devotes his chapter 6 on development to dismissing this concern.

Olson makes only passing reference to Soviet-style economies in *Rise and Decline* but later applied the same logic in his “devolution” papers (Olson 1990b, 1992; Murrell and Olson 1991). The analysis in *Rise and Decline* was extended to communist societies by focusing on bureaucratic direction in the policy process. Because the state directly controlled resources, bureaucratic interests were in a strong position to seek rents and redistribute toward themselves. As these interests became more entrenched, they became more efficient at siphoning resources away from other needed areas, creating greater and greater harm for the economy overall while continuing to improve their own positions. Murrell and Olson (1991) showed that stability in centrally planned economies eventually led to economic growth rates falling below those of market economies. Faith and Short (1995) present empirical tests for Czechoslovakia and Hungary that confirm the central implications of devolution theory that over time bureaus became more autonomous and formed into distributional coalitions, thereby lowering technical efficiency.

As discussed later in this paper, Olson describes in *Rise and Decline* how his theory applies to a select group of developing nations but does so without any accompanying econometric evidence. Weede (1986a) may have been the first to run regressions for growth rates of LDCs on a measure of sclerosis.<sup>4</sup> Weede’s proxy of an index of price distortions, however, is far removed from any direct connection to Olson. Neither groups nor national stability appear in the regression, and any number of non-Olsonian factors may have contributed to the variation in price distortions. Thus, Weede’s claimed support for Olson must be qualified.

More recently, samples mixing developed and developing nations appear to be the norm. In a predominantly but not exclusively OECD-oriented sample, Knack’s (2003) proxy for interest group intensity comes from a survey of the number of sectional groups to which respondents belong. Heckelman (2000) extends the McCallum and Blais (1987) OECD-exclusive sample by adding group counts for three additional OECD nations and 22 non-OECD nations.<sup>5</sup> By far the largest sample testing for institutional sclerosis is the LDC-dominated 114-nation sample in Koubi (2005). Care should be taken, though, not to mix stable and unstable nations in the same sample. Olson (p. 167) states that “the most basic implication of the theory for unstable societies, then, is that their governments are systematically influenced” by various vested interests that can quickly organize. Thus, the proper comparison would be to relate length of stability to growth, as long as each nation was stable during the entirety of the growth period. Indeed, although Heckelman (2000) reports an inverse correlation between the number of sectional groups and growth across the full sample of countries analyzed, the relationship was found to be statistically significant only for the subset of nations not having undergone any coups or revolutions during the sample growth period.

In sum, the majority of studies conducting empirical tests generally find support for Olson’s thesis. A quarter of them do not, while the rest find mixed support. Given the variety of proxies utilized and samples considered, it would appear that a lot of econometric evidence has been generated, largely substantiating the theory of institutional sclerosis.

---

<sup>4</sup> Goldsmith (1987) relied mainly on cross-tabs to evaluate the impact of stability on growth in a larger sample of LDCs, but he also mentions that regression analysis did not support a significant relationship between changes in stability and changes in growth.

<sup>5</sup> The groups counts for these additional nations were compiled by Murrell (1984) but not included in his study.

*Descriptive Narrative Histories*

In *Rise and Decline*, Olson also presents narrative histories of the post–World War II experience for many nations that are consistent with his theory. The fastest-growing nations in the postwar period were those that suffered the most destruction within their society, including especially the eradication of their wartime and prewar governments. In these countries, namely, Germany, Japan, and Italy, newly installed democratic governments fostered stability in economic and political relationships. Nations whose governments and institutions were not altered by the war, such as the United States, Britain, Australia, and New Zealand, generated much lower growth after the war.

Olson quickly realized his original theory of institutional sclerosis was underdeveloped and, in his 1983 Southern Economic Association presidential address, makes the point that political institutions can be altered in such a fundamental fashion that upheaval can occur even without wars and coups. He stresses as examples the 1965 Voting Rights Act and the end of Jim Crow laws, which gave the southern states a fresh start, clearing out the existing sclerotic institutions and opening up avenues of influence to new parties and ideas. Olson argued that this is why the southern states were able to grow much faster in recent years than they had previously but expected their rate of growth to once again decline over time. This suggests that to properly test for sclerotic effects on the economy of a country, state, or province, it is necessary to understand the political and institutional histories of that jurisdiction.

Olson explains in *Rise and Decline* how the caste system in India and apartheid in South Africa served as institutional forms of discrimination that hampered growth prospects. These “multigenerational distributional coalitions foster inefficiency” (p. 160) by exhibiting “all the features of cartels and other special-interest organizations” (p. 157). Eliminating these systems would open up the avenues for growth by destroying their sclerotic effect.

Developing nations have received much less attention in the institutional sclerosis literature. Of all the narrative case studies listed in the bottom portion of Table 1, only a few (Manzetti 1992; Weyland 1996; Hojman 2002; Demir 2005) focus exclusively on a currently developing nation, all but one of which are part of Latin America. Each of these studies claims to support the idea of institutional sclerosis in their respective nations. By contrast, European nations have received the bulk of the attention, and the overall picture here is somewhat less clear but still generally supportive.

Case studies are eclectic by nature. The studies listed in the lower portion of Table 1 are limited to those where the discussion of institutional sclerosis received prominent attention rather than simply a brief mention.<sup>6</sup> Unlike regression analysis, which has a definitive dependent variable and specified proxies and where (for better or worse) conclusions are based primarily on the size of estimated *t*-statistics, narrative histories are broader in scope but also fuzzier to interpret. Several aspects of a theory can be considered at once, with the resulting discussion rarely coming down consistently on one side. And while most studies look for evidence of how and when interest groups form and get destroyed and whether they do exert a drag on efficiency and growth when they are in existence, a few have examined the “encompassingness” of coalitions to determine if these specific types of groups are growth enhancing. For example, the decentralized nature of Swiss representation and reliance on direct

---

<sup>6</sup> This may perhaps bias the sample of reported studies in favor of *Rise and Decline* since brief mentions are more likely to be dismissive rather than supportive.

democracy led Olson to characterize this nation as the exception that proved his rule regarding institutional sclerosis. Lehner (1983), however, presented a much more detailed account of the Swiss system and concluded that there was only partial support for Olson's conjecture.

The "case studies" in *Rise and Decline* are fairly brief, as they are meant to illuminate specific aspects of the general theory. This has been a general complaint among economic historians in particular when reviewing Olson's work (see Whaples 2003). As was also true regarding the empirics, Olson opened the door for the descriptive accounts but repeatedly acknowledged to his critics that he left the heavy lifting to others (Olson 1986, 1997). Other authors have been able to devote the space necessary to detail all the institutional nuances unique to each individual country by focusing exclusively on only one country or a small number of countries in a full-fledged case study. With rare exceptions (Olson 1983, 1984, 1990a), this was not Olson's focus, as he was more interested in showing how broadly his theory could be applied. In general, the theory of institutional sclerosis has often been used by other scholars to successfully explain experiences throughout history, but only rarely has it come out unscathed. Perhaps more important, there seem to be only isolated instances where a critic has dismissed the theory wholesale (in particular, Rasch and Sorensen 1986 [for Norway] and Paqué 1996 [for Germany]).

### *Does the Evidence Vary Systematically by Source?*

In a survey concerning public choice-related research administered to a semi-random sample of members of the American Economics Association (AEA) and the American Political Science Association (APSA), Heckelman and Whaples (2006) report that both economists and political scientists overall agree that "the size of government has grown due to the proliferation of special interests," but both tended to disagree that "economies grow faster after coups and revolutions due to the destruction of existing special interest organizations." On the former statement, economists favored the idea more strongly than political scientists, but no significant differences emerged on the latter.<sup>7</sup> Among the 34 statements contained in the questionnaire, AEA members gave the government growth explanation statement its sixth-highest level of support overall, but it was only tenth among the APSA members. The support from both groups on the economic growth statement was toward the very bottom of all the statements. Apparently, there is not widespread belief in Olson's explanation for the rain.

The simple survey evidence suggests there may be some slight difference in the views of economists and political scientists regarding the main implications of *Rise and Decline*. This could be explained by a variety of factors. To a certain extent, it is widely believed that Olson may have been more highly regarded in political science than within his own field of economics (McLean 2000; Heckelman and Coates 2003b). While Olson held the presidency of several different economics associations, APSA specifically recognized *Rise and Decline* in 1983 by giving it the Gladys W. Kammerer Award for the best political science publication in the field of U.S. national policy and in 1993 acknowledged Olson's lifetime achievements by creating the Mancur Olson award for best dissertation on political economy, presumably a direct nod to the

---

<sup>7</sup> For the survey, respondents were asked to rate their level of support on a scale from 1 (strongly disagree) to 5 (strongly agree). On the "size of government" statement, the average response from economists was 3.83 versus 3.48 from political scientists. On the "economies grow faster" statement, the averages were 2.53 for economists and 2.39 for political scientists.

**Table 2.** Summarized Evidence for Institutional Sclerosis Studies

	Total	Support	Mixed Support	Does Not Support
All combined	53	30 (57%)	12 (23%)	11 (21%)
Methodology				
Regression	28	16 (57%)	5 (18%)	7 (25%)
Case study	25	14 (56%)	7 (28%)	4 (16%)
Outlet				
Economics journal	22	12 (55%)	5 (23%)	5 (23%)
Political science journal	18	10 (56%)	3 (17%)	5 (28%)
Book or collected volume	13	8 (62%)	4 (31%)	1 (8%)
Author location				
North America <sup>a</sup>	32	19 (59%)	6 (19%)	7 (22%)
Europe <sup>b</sup>	21	11 (52%)	6 (29%)	4 (19%)

<sup>a</sup> Includes 29 from the United States and 3 from Canada.

<sup>b</sup> Includes 20 from Europe and 1 from New Zealand.

continued importance of *Logic*, which stemmed from his own dissertation. No such prizes were forthcoming from the AEA. Still, certain political scientists may have an inherent bias against Olson as an economist outsider, dismissing him, as Green and Shapiro (1994) do, as part of the rational choice approach to politics they hold in contempt.<sup>8</sup>

Less nefariously, the body of accumulated evidence may be interpreted differently by economists and political scientists. If institutional sclerosis is supported to a greater extent in studies appearing in economics journals, which political scientists are less apt to read, or vice versa, then there could be a bias in the source of information on which these scholars make their determination. Alternatively, if rank-and-file APSA members are less comfortable than typical AEA members in wading through tables of econometric evidence, they may focus more on—or have more faith in—reading the narrative case studies. If the evidence from regression analysis systematically differs from the case study approach, that could have differential influences across the disciplines as well.

Table 2 summarizes the conclusions derived from the studies listed in Table 1 and also groups them by methodology, outlet, and author location.<sup>9</sup> There is a roughly even split between the type of evidence considered for institutional sclerosis, with almost an equal number comprised of quantitative regression analysis versus the narrative case study approach. There also does not appear to be much of a publication bias in the journal outlets, with 22 studies appearing in economics journals<sup>10</sup> compared to 18 in political science journals. A smaller number have appeared in book form. Authorship, however, is dominated by scholars based at American institutions.

Authors from both American and European institutions have evenly split their publications between economics and political science journals. Of the studies produced by scholars at American institutions, almost twice as many are regression based compared to

<sup>8</sup> See also Orchard and Stretton's (1997) critical appraisal of public choice analysis.

<sup>9</sup> Another approach often used to assess an accumulated body of evidence is meta-analysis. This is normally limited to empirical studies and would ignore the vast number of case studies dedicated to Olson's theory.

<sup>10</sup> Several of these appear in *Public Choice*. Although this journal is aimed at being interdisciplinary, its methodology is that of economics, and until this past year, the editors have always been economists. The journal regularly appears on lists of economics journal rankings. The same is true for the journal *Kyklos*. For the purposes here, both are considered economics journals.

descriptive case studies, whereas the reverse is true among the European authors. Somewhat surprisingly, narrative case studies are more likely to appear in an economics journal than a political science journal, whereas econometric studies are not. Separate books or original studies within a collected volume are heavily dominated by the case study approach, with only three studies appearing in this format employing regressions as the primary means of analysis.

Importantly, the evidence on institutional sclerosis does not seem to be overly dependent on these criteria. There do not appear to be any systematic differences between the evidence found from regression-based studies versus narrative case studies, whether the author's home affiliation is from a North American or a European institution or whether the study appeared in an economics or a political science journal, but those that were printed as part of a collective volume or as an independent book tended to support the implications from *Rise and Decline* to a somewhat greater extent.<sup>11</sup> The overall support rate of 57% is almost perfectly matched in each of the categories except for the book/collected volume set of studies, which is slightly higher. Unreported regression analysis supports this conception as well. Assigning support levels as +1, 0, or -1 (for support, mixed, or does not support), dummy variables for methodology, source, or author location<sup>12</sup> were never significant in various combinations in regressions explaining support for *Rise and Decline*.<sup>13</sup> Nor does the evidence vary systematically over time, as evidenced by nonsignificance of a variable marking the year of publication. On average, the evidence in favor of institutional sclerosis is just as strong in recent years as when *Rise and Decline* was first published. So, in general, no bias in the literature has been identified. Given the general support for institutional sclerosis, which remains constant across the dimensions of methodology, outlet, authorship, and timing, it is surprising then that the survey result presented in Heckelman and Whaples (2006) on the statement that "economies grow faster after coups and revolutions due to the destruction of existing special interest organizations" does not reveal greater appreciation from *both* AEA and APSA members.

#### 4. Conclusion

In the quarter century since publication of *The Rise and Decline of Nations*, a large literature has evolved debating many of the ideas and issues initially developed in Olson's book. Overall, the bulk of the evidence from over 50 separate studies favors Olson's theory of institutional sclerosis. The overall degree of support appears to be independent of the methodological approach between econometric regression analysis on growth rates versus narrative case studies, publication in an economics or a political science journal, location of authorship from an American or European institution, or the year of publication. Assessing the

---

<sup>11</sup> The collected volumes included here were either dedicated entirely to *Rise and Decline* (Mueller 1983) or a retrospective on Olson's overall ideas (Heckelman and Coates 2003a). At the same time, several of the studies in Table 1 also appeared in special issues of a journal dedicated either to *Rise and Decline* or to Olson more generally.

<sup>12</sup> The lone New Zealand author (McAloon) was lumped in with the European group. American authors were considered separately or in conjunction with Canadian authors.

<sup>13</sup> Given that Olson's own studies might not be considered "independent" testing, a dummy for Olson was also created. While this dummy was generally significant, its presence did not alter the lack of significance for the other variables, nor did dropping the Olson studies from the sample altogether. An alternative dummy that also added former Olson colleagues and students (this includes studies by Choi 1983, Wallis and Oates 1988, Knack and Keefer 1997, Heckelman 2000, Knack 2003, Heckelman and Coates 2003b, and James 2003) was tried but was never significant.

evidence, it appears that the relevance of *Rise and Decline* remains even after 25 years of helping to explain which streams will grow with more rain and which will tend to dry up.

## References

- Asselain, J.-C., and C. Morrison. 1983. Economic growth and interest groups: The French experience. In *The political economy of growth*, edited by D. C. Mueller. New Haven, CT: Yale University Press, pp. 157–75.
- Bernholz, P. 1986. Growth of government, economic growth, and individual freedom. *Journal of Institutional and Theoretical Economics* 142:661–83.
- Blankart, C. 2001. Popitz law, Bryce's law and government centralization in Prussia and in Germany. *Journal of Public Finance and Public Choice* 19:71–81.
- Booth, A., J. Melling, and C. Dartmann. 1997. Institutions and economic growth: The politics of productivity in West Germany, Sweden, and the United Kingdom, 1945–1955. *Journal of Economic History* 57:416–44.
- Broadberry, S. N. 1988. The impact of world wars on the long run performance of the British economy. *Oxford Review of Economic Policy* 4:25–37.
- Cameron, D. 1988. Distributional coalitions and other sources of economic stagnation: On Olson's *Rise and Decline of Nations*. *International Organization* 42:561–603.
- Chan, S. 1987. Growth with equity: A test of Olson's theory for the Asian Pacific Rim countries. *Journal of Peace Research* 24:135–49.
- Chan, S. 1989. Income inequality among LDCs: A comparative analysis of alternative perspectives. *International Studies Quarterly* 33:45–65.
- Choi, K. 1983. A statistical test of Olson's model. In *The political economy of growth*, edited by D. C. Mueller. New Haven, CT: Yale University Press, pp. 57–78.
- Coates, D., and J. C. Heckelman. 2003a. Absolute and relative effects of interest groups on the economy. In *Collective choice*, edited by J. C. Heckelman and D. Coates. Berlin: Springer-Verlag, pp. 129–42.
- Coates, D., and J. C. Heckelman. 2003b. Interest groups and investment: A further test of the Olson hypothesis. *Public Choice* 117:333–40.
- Crain, W. M., and K. J. Lee. 1999. Economic growth regressions for the American states: A sensitivity analysis. *Economic Inquiry* 37:242–57.
- Demir, F. 2005. Militarization of the market and rent-seeking coalitions in Turkey. *Development and Change* 36:667–90.
- Faith, R. L., and N. C. Short. 1995. Bureaucratic tenure and economic performance in centrally planned economies. *Public Choice* 83:139–57.
- Garand, J. C. 1992. Changing patterns of relative state economic growth over time: Limitations on cross-sectional tests of Olson's thesis. *Western Political Quarterly* 45:469–83.
- Goldsmith, A. A. 1987. Does political stability hinder economic development? *Comparative Politics* 19:471–80.
- Gray, V., and D. Lowery. 1988. Interest group politics and economic growth in the U.S. states. *American Political Science Review* 82:109–31.
- Green, D. P., and I. Shapiro. 1994. *Pathologies of rational choice*. New Haven, CT: Yale University Press.
- Gustafsson, A. 1986. Rise and decline of nations: Sweden. *Scandinavian Political Studies* 9:35–50.
- Heckelman, J. C. 2000. Consistent estimates of the impact of special interest groups on economic growth. *Public Choice* 104:319–27.
- Heckelman, J. C., and D. Coates. 2003a. *Collective choice: Essays in honor of Mancur Olson*. Berlin: Springer-Verlag.
- Heckelman, J. C., and D. Coates. 2003b. On the shoulders of a giant: The legacy of Mancur Olson. In *Collective choice: Essays in honor of Mancur Olson*, edited by J. C. Heckelman and D. Coates. Berlin: Springer-Verlag, pp. 1–13.
- Heckelman, J. C., and R. Whaples. 2006. Do economists differ from political scientists on public choice? Evidence from a survey. *Korean Journal of Public Choice* 1:35–41.
- Hennart, J.-F. 1983. The political economy of comparative growth rates: The case of France. In *The political economy of growth*, edited by D. C. Mueller. New Haven, CT: Yale University Press, pp. 176–202.
- Hojman, D. E. 2002. The political economy of Chile's fast economic growth: An Olsonian interpretation. *Public Choice* 111:155–78.
- James, P. 2003. Developing the Canadian government's bargaining position on the Constitution, June–July 1980: An application of Olson's argument from *The Rise and Decline of Nations*. In *Collective choice*, edited by J. C. Heckelman and D. Coates. Berlin: Springer-Verlag, pp. 113–27.
- Kang, S., and J. Meernik. 2005. Civil war destruction and the prospects for economic growth. *Journal of Politics* 67:88–109.

- Kirby, M. W. 1992. Institutional rigidities and economic decline: Reflections on the British experience. *Economic History Review* 45:637–60.
- Knack, S. 2003. Groups, growth and trust: Cross-country evidence on the Olson and Putnam hypotheses. *Public Choice* 117:341–55.
- Knack, S., and P. Keefer. 1997. Does social capital have an economic payoff? A cross-country investigation. *Quarterly Journal of Economics* 112:1251–88.
- Koubi, V. 2005. War and economic performance. *Journal of Peace Research* 42:67–82.
- Landau, D. L. 1985. Government expenditure and economic growth in the developed countries: 1952–76. *Public Choice* 47:459–77.
- Lane, J.-E., and S. Ersson. 1986. Political institutions, public policy and economic growth. *Scandinavian Political Studies* 9:19–34.
- Lange, P., and G. Garrett. 1985. The politics of growth: Strategic interaction and economic performance in the advanced industrial democracies, 1974–1980. *Journal of Politics* 47:792–827.
- Lehner, F. 1983. Pressure politics and economic growth: Olson's theory and the Swiss experience. In *The political economy of growth*, edited by D. C. Mueller. New Haven, CT: Yale University Press, pp. 203–14.
- Maitland, I. 1985. Interest groups and economic growth rates. *Journal of Politics* 47:44–58.
- Manzetti, L. 1992. The evolution of agricultural interest groups in Argentina. *Journal of Latin American Studies* 24:585–616.
- McAloon, J. 2006. Long slow boom? Manufacturing in New Zealand, 1945–70. *Australian Economic History Review* 46:45–69.
- McCallum, B., and A. Blais. 1987. Government, special interest groups, and growth. *Public Choice* 54:3–18.
- McLean, I. 2000. The divided legacy of Mancur Olson. *British Journal of Political Science* 30:651–68.
- Milner, H. 1994. *Social democracy and rational choice: The Scandinavian experience and beyond*. New York: Routledge.
- Mueller, D. C. 1983. *The political economy of growth*. New Haven, CT: Yale University Press.
- Mueller, D. C. 2003. *Public choice III*. Cambridge: Cambridge University Press.
- Murrell, P. 1984. An examination of the factors affecting the formation of interest groups in OECD countries. *Public Choice* 43:151–71.
- Murrell, P., and M. Olson. 1991. The devolution of centrally planned economies. *Journal of Comparative Economics* 15:239–65.
- Nardinelli, C., M. S. Wallace, and J. T. Warner. 1987. Explaining differences in state growth: Catching up versus Olson. *Public Choice* 52:201–13.
- Nardinelli, C., M. S. Wallace, and J. T. Warner. 1988. State business cycles and their relationship to the national cycle: Structural and institutional determinants. *Southern Economic Journal* 54:950–60.
- Ó Gráda, C., and K. O'Rourke. 1996. Irish economic growth, 1945–88. In *Economic growth in Europe since 1945*, edited by N. Crafts and G. Toniolo. Cambridge: Cambridge University Press, pp. 388–426.
- Olson, M. 1962. The economics of strategic bombing in World War II. *The Airpower Historian* 2:121–7.
- Olson, M. 1965. *The logic of collective action*. Cambridge, MA: Harvard University Press.
- Olson, M. 1982. *The rise and decline of nations*. New Haven, CT: Yale University Press.
- Olson, M. 1983. The south will fall again: The south as leader and laggard in economic growth. *Southern Economic Journal* 49:917–32.
- Olson, M. 1984. Australia in perspective of *The Rise and Decline of Nations*. *Australian Economic Review*, Issue 67:7–17.
- Olson, M. 1986. An appreciation of the tests and criticisms. *Scandinavian Political Studies* 9:65–80.
- Olson, M. 1990a. *How bright are the northern lights? Some questions about Sweden*. Lund: Institute of Economic Research, Lund University.
- Olson, M. 1990b. The logic of collective action in Soviet-type societies. *Journal of Soviet Nationalities* 1:8–33.
- Olson, M. 1992. The hidden path to a successful economy. In *The emergence of market economies*, edited by C. Clague and G. C. Rausser. New York: Blackwell, pp. 55–75.
- Olson, M. 1997. An appreciation: Reply to Booth, Melling, and Dartmann. *Journal of Economic History* 57:445–7.
- Olson, M., and C. Harris. 1959. Free trade in “corn”: A statistical study of the prices and production of wheat in Great Britain from 1873 to 1914. *Quarterly Journal of Economics* 73:145–68.
- Orchard, L., and H. Stretton. 1997. Public choice. *Cambridge Journal of Economics* 21:409–30.
- Paloheimo, H. 1984. Distributive struggle and economic development in the 1970s in developed capitalist countries. *European Journal of Political Research* 12:171–90.
- Paqué, K.-H. 1996. Why the 1950s and not the 1920s? Olsonian and non-Olsonian interpretations of two decades of German economic history. In *Economic growth in Europe since 1945*, edited by N. Crafts and G. Toniolo. Cambridge: Cambridge University Press, pp. 95–106.
- Quiggen, J. 1992. Testing the implications of the Olson hypothesis. *Economica* 59:261–77.
- Rajan, R. G., and L. Zingales. 2003. The great reversals: The politics of financial development in the twentieth century. *Journal of Financial Economics* 69:5–50.

- Rasch, B. E., and R. J. Sorensen. 1986. Organizational behavior and economic growth: A Norwegian perspective. *Scandinavian Political Studies* 9:51–63.
- Rosser, J. B. 2007. The rise and decline of Mancur Olson's view of *The Rise and Decline of Nations*. *Southern Economic Journal* 74:4–17.
- Scruggs, L. 2001. The politics of growth revisited. *Journal of Politics* 63:120–40.
- Tang, E. W. Y., and A. R. Hedley. 1998. Distributional coalitions, state strength, and economic growth: Toward a comprehensive theory of economic development. *Public Choice* 96:295–323.
- van Zanden, L., and A. van Riel. 2004. *The strictures of inheritance: The Dutch economy in the nineteenth century*. Princeton, NJ: Princeton University Press.
- Vedder, R., and L. Galloway. 1986. Rent seeking, distributional coalitions, taxes, relative prices and growth. *Public Choice* 51:93–100.
- Waldow, K. H. 1993. The rise and decline of the saltern: Rent-seeking at its best. *Journal of European Economic History* 22:581–64.
- Wallis, J. J., and W. E. Oates. 1988. Does economic sclerosis set in with age? An empirical study of the Olson hypothesis. *Kyklos* 41:397–417.
- Weede, E. 1984. Democracy, creeping socialism, and ideological socialism in rent-seeking societies. *Public Choice* 44:349–66.
- Weede, E. 1986a. Rent seeking, military participation, and economic performance in LDCs. *Journal of Conflict Resolution* 30:291–314.
- Weede, E. 1986b. Sectoral reallocation, distributional coalitions and the welfare-state as determinants of economic-growth rates in industrialized democracies. *European Journal of Political Research* 14:501–19.
- Weyland, K. 1996. Obstacles to social reform in Brazil's new democracy. *Comparative Politics* 29:1–22.
- Whaples, R. 2003. If I had a hammer: Mancur Olson as an economic historian. In *Collective choice*, edited by J. C. Heckelman and D. Coates. Berlin: Springer-Verlag, pp. 143–61.
- Whitely, P. F. 1983. The political economy of economic growth. *European Journal of Political Research* 11:197–213.