A NEW REVIEW OF: OLSON'S 'THE RISE AND DECLINE OF NATIONS: ECONOMIC GROWTH, STAGFLATION, AND SOCIAL RIGIDITIES

Wazeer Murtala
Researcher of International Relations and Defense Studies
Antwerpen - Belgium
wazeerr@gmail.com

Abstract

This short review re-explores the work of Mançur Olson. It takes a critical look at it by looking at key aspects of the study on the issues of guild practices and monopoly. It suggests that the overall idea that was explored by the author is not very different from Ibn Khaldun's theory of decadence (asabiyyah and the seeds of decadence).

Keywords: Mançur Olson, Ibn Khaldun, Guild, Monopoly, rise and fall of nations

Summary of Olson's Text

In a systemic way, the author looks at how nations have been affected by the internal dynamics of the society or how nations may rise and decline as economic giants due to intra-state interest competitions among the various local actors. His work tries to fill the void left by other authors that preceded him in their accounts of economic growth or more classically in their accounts of the rise and decline of nations. He sees the explanations by other economists on how nations grow, experience stagflation, and decline as 'tracing the water in the river to the streams and lakes from which it comes, but without explaining the rain' by not giving accounts of the various retardants of growth especially, the influence of powerful local groups and how they shape their various societies. While the use of historical methods to explain the rise and fall of states, empires and kingdoms may not be new as evident in various classical works, Olson's adoption of economic and social contests among local groups and how they shape the economic outcomes, policies and indeed resource allocations within a country to explain stagflation and slow growth in countries with long standing democracies and stability is innovative. It offers another explanatory yardstick for understanding growth and decadence through a gradual process. This analytical guideline has helped to explain the so-called mysterious 'British Disease' – the slow-down of the British economy and redundancy - on one hand and the miraculous growth of post war Japan and Germany on the other hand.

To answer some of the pressing questions, Olson looks at how distributional coalitions as an inherent socio-political fabric of many societies affect economic growth. This, he sees as mostly problematic in top-heavy societies where top firms and families are more likely to hold sway especially in unstable societies thereby creating exacerbated unequal income opportunities. The same logic applies to stable countries with long established social and class forces that dominate the economy in favor of the elites.

He borrows from the logic of his early work in '*The Logic of Collective Action.'* to explain how distributional coalitions are established through various incentives (positive, negative, or social). The central implication, according to him is that it is impossible for any country to achieve symmetrical organization of all groups with a common interest and at the same time achieve optimal outcomes.

Consequently, limited special interest groups or narrow interest groups will lead to less efficiency, reduced aggregate income and eventually political division that will haunt the state. On the other hand, encompassing self-interest groups or distributional coalitions, with their different incentives will take re-distributional measures that may not lead to political division and help to sustain growth. The difference between narrow self-interest organizations and encompassing self-interest organizations can be inferred from why countries like Finland and Denmark with long standing distributional coalitions have been continuously growing while Britain with its narrow self-interest distributional coalition groups has seen retarded growth despite its long stable society and insulation from total invasions.

In essence, these micro-political and intra-state coalitions will have effects on stable societies and eventually affect their economic growth due to engineered coalitions and competitions for the limited wealth of the nation.

Empirically, the author uses the different development and economic recovery speed in Post War Japan and Germany in a juxtaposition to Britain to drive home his point. Post War Germany and Japan developed quickly because multiple interest groups or distributional coalitions have been destroyed or replaced by encompassing organizations that spurred growth without trying to aggregate the wealth of the nation to a single group at the expense of others. The research done by Franz Lehner (Lehner, 1983) supports the consistency of the theory by Olson when he applied it to Switzerland, but how enough is this theory when we subject it to historical and cultural details from other parts of the world? This would be the subject of discussion under the next subheadings.

Empirical Evidence

First, in a qualitative way, the author judiciously uses a series of hand-picked historical evidence about cartelistic and guild practices across medieval Europe to support his position. He sees the validity of his theory through the prevalence of guild and their similar patterns throughout all major centers of civilizations and across epochs in Asia, Arabia and beyond.

Quantitatively, he used the enormous data available in the United States for its economic performance to understand the phenomenon.[1] He used the difference in growth between the Confederate and Union states in the United States of America from the year 1965. The comparison shows that the confederate states, like Germany and Japan, after losing the war and breaking from the pre-war distributional coalitions have in fact done better than the union states who still have extant distributional organizations. "The exponential growth rate for the ex-Confederate states is 9.37 percent for income from labor and proprietorships (LPI), and 9.55 percent for private nonfarm income (PN), whereas the corresponding figures are 8.12 percent and 8.19 percent for the thirty-seven states that were not in the Confederacy." (P 101)

At the wider inter-state level, Olson down-plays the explanation that the adoption of common market was responsible for the growth of the BENELUX states as well as France and Germany. Citing data derived from quantitative methodology, he shows that in fact, the common market only added 2% to the European Economic Community's manufacturing consumption. As a result, it would not be enough to attribute the economic growth experienced by the states in the common market and customs union to their new common market, but to the presence and absence as well as the nature of the competing distributional coalitions in their various societies.

Critical Views on Monopoly, Innovation and Growth

Olson is very critical of distributional coalitions and their potential danger to national growth at the expense of collective development. His dim view on how distributional coalitions haunt the nation is apparent when he avers that in medieval Europe:

> *The great merchants involved in larger-scale trade, often over longer distances, were among the first groups to organize or collude on a national scale. They were often extremely successful; as Adam Smith pointed out, the influence of the "merchants" gave the great governments of Europe the policy of "mercantilism," which favored influential merchants and their allies at the expense of the rest of the nation. (Emphases mines)*

In converse, we can establish that guilds as a form of distributional coalitions were also partly responsible for development in major European states such as Spain, Portugal, and Britain during their voyages of discovery because through monopoly and lobby, they created an incentive for small groups to come together for certain benefits which might not have been possible if there was no benefit for them as actors. Without monopoly, it would have been difficult to motivate the merchants to work towards the eventual development that Europe used in leading the world. The provision of insurance and social benefit was not only to their members, but they also stimulated growth by

[1] He gave a re-interpretation of the data from the Regional Economic Information System Branch. Bureau of Economic Analysis, U.S. Department of Commerce.

contributing to the state's coffer financially. In today's world, this could be likened to the payment of taxes even though how much taxes should have been paid to the states coffer or how much was indeed paid for collective benefit would require separate research. In medieval England, guilds were recorded to have received royal charters to confer peculiar access to their group in exchange for contributing to the state (Foxell 2018). In other views, monopoly can also be seen as an incentive for development and as a solution to the public good dilemma. Mancur Olson barely acknowledged the instrumental roles of coalition groups in the emergence of Britain as a global economic force. Historically, these groups, that he portrayed as eventually leading to a slowness in the growth and further expansion of Britain were pivotal in the country's rise. For example, the rise of the British Indian Company arguably followed the characteristics of a typical distributional coalition. Private investors and aristocrats who may be seen in Olson's parlance as lobby groups kick-started what was to become a precursor to the eventual colonization of India and other parts of the world. In its glorious days, the contribution of the company to the British economy is said to be around 40 billion pounds (Robins 2012). The Royal Niger Company owned by a group of British merchants was also pivotal in opening trade routes and establishing British imperial foothold for economic and political domination in Nigeria and indeed, West Africa (Dike 1956).

His argument that distributional coalitions slow down a society's capacity to adopt new technologies is partly true, but it also almost robs them of their contributions to innovations during the medieval period. Olson holds that:

> *Although they provided insurance and social benefits for their members, the guilds were, above all, distributional coalitions that used monopoly power and often political power to serve their interests. As Implications 4 and 7 predicted, they also reduced economic efficiency and delayed technological innovation.*

How much of the delay these guilds have caused to potential technological innovation cannot be verified or quantified. The question is, could there have been a huge difference in technological breakthrough during the period under his review if there were no guilds? Despite this observation, there was diffusion of ideas and innovative capability in medieval Europe that led to successes in many ways. The many voyages of discovery that saw European merchants have access to foreign markets in West Africa, Asia and eventually the New World could not have been possible without the innovations of the period which came largely from guild members as well as non-guild or cartel members. Despite the potential opposition that would have reduced innovation according to Olson, certain brilliant minds like Johannes Gutenberg were able to use their creativity. The innovation of the printing press (Briggs and Burke 2010) was significant enough in helping with access to large readership. Johannes Gutenberg was born into a patrician family which, although was usually less curtailed by the activities of the guilds, was seen as an adversary to them. He needed no guild membership to exhibit his genius. In the Ottoman empire, while there were guilds in various crafts such as *akhism*[2] and *esnaf (*guild or corporation*)* (Faroqhi 2006) and yet, various military innovations were recorded which in turn spurn their outward expansions and conquests - these groups were instrumental to the successes of the empire. How much of these innovations would have been curtailed by cartelization and the guild system that Olson referred to would never be ascertained. What we can be sure of however is that despite his position that they curtailed economic efficiency and innovative capability, it would be fair to concede that there were many creative innovations at the same time even during the peak periods of the guild system in Europe and elsewhere. Across other areas, technological innovation can be traced to at least two factors; the first is the social need and usefulness and the other factor maybe access to materials and conducive environments.

In our contemporary period, we can still identify various modern guilds in the form of unions or other forms of distributional coalitions that focus on the interests of their group members. However, we have also witnessed great innovations alongside these entities. The proliferation of disruptive technologies that challenge conventional distributional coalitions, lobby groups and economic sectors is instructive here. The innovative and creative industries in the information technology shows just how despite the challenges by traditional markets, individual creativity cannot be curtailed. This seems ironic when we look at how peer-to-peer platforms account for billions of dollars today across the world. We can cite many examples in in this regard such as Steve Job's Apple, Bill Gate's Microsoft and Mark Zuckerberg's Facebook as entities that have developed almost in contrast with what would have been expected in societies where distributional coalitions are supposed to hold back innovations due to monopoly (Foxell 2018). The curtailing of innovative capacity appears to be particularly less relevant in today's system compared to his historical observations when he wrote the book or in his continuous reference to medieval cities of Europe and their guild system.

Conclusion: Ibn Khaldun's Seed of Decadence, and Elitism

It is intriguing that the examples of the patterns the author predicted seem to be valid when it's compared to different societies and across different ages in the history of mankind. This theory fits into a systemic discussion of the evolution of societies and their eventual declines that was propounded by ibn Khaldun[3] and can also be explained if we use the theory of elitism by other scholars. Olson's work goes further by looking specifically at the analysis that focuses on economic inter-relations than the previous works I have mentioned.

Looking at the theory of *a'sabiyyah* (Baali 1988) as propounded by ibn Khaldun, complexities like

[2] Akhism derived from the Arabic word 'akhi' which means brotherhood. Here it refers to brotherhood by unionism.

[3] Ibn Khladun is an Arab historian, political scientist, economist, and sociologist. His most prominent work is the fame the *Muqaddimah* or Prolegomena ("Introduction"). According to Arnold J. Toynbee, the work is the greatest of its kind in terms academic contribution.

distributional coalitions are inherent part of the growth and decline of societies. They may be responsible for growth on one hand but are also to be seen as seeds of decadence. More relevantly, the theory of *a'sabiyyah* holds that social coalition based on ethnic affinity (Sümer 2012) or other forms of coalitions (like distributional coalition) could lead to growth, but also lead to decadence in the long run. In his view, this explains the rise and fall of societies, principalities, empires, and states (Wylie 2008).

Another alternative theoretical explanation for the phenomenon of distributional coalitions is the *elite theory*. The theory posits among other things that a small section of the society, regardless of democratic sophistication are overly influential in the affairs of the state. These are usually economic elites who might have their invisible hands in the political decisions of the state at the micro levels regardless of the outcomes of the general elections (Nye 1977). Prominent political scientists who have expanded on this theory are Vilfredo Pareto, Gaetano Mosca and Robert Michels.

From the foregoing, we can suggest that in societies where narrow distributional coalitions have held sway like the extant system in the United States and in the United Kingdom, it is imperative that political scientists offer creative panacea to the British Disease. Democratic socialism, taxation of corporate entities, high insulation of politics from the whims and caprices of lobby groups and redistribution of wealth by taxing the extremely wealthy individuals may be useful in solving some of the problems that are inherent in distributional coalitions.

References

Baali, Fuad. 1988. *Society, State, and Urbanism: Ibn Khaldun's Sociological Thought*. 1st edition. Albany: SUNY Press.

Briggs, Asa, and Peter Burke. 2010. *A Social History of the Media: From Gutenberg to the Internet*. 3rd edition. Cambridge, UK ; Malden, MA: Polity.

Dike, K. Onwuka (Kenneth Onwuka). 1956. *Trade and Politics in the Niger Delta, 1830-1885: An Introduction to the Economic and Political History of Nigeria*.

Faroqhi, Suraiya. 2006. "Guildsmen and Handicraft Producers." In *The Cambridge History of Turkey: Volume 3: The Later Ottoman Empire, 1603–1839*, edited by Suraiya N. Faroqhi, 3:336–55. Cambridge History of Turkey. Cambridge: Cambridge University Press. https://doi.org/10.1017/CHOL9780521620956.016.

Foxell, Simon. 2018. *Professionalism for the Built Environment*. London: Routledge. https://doi.org/10.1201/9781315707402.

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, 203-214. New Haven, Conn: Yale University Press.

Nye, Robert A. 1977. *The Anti-Democratic Sources of Elite Theory: Pareto, Mosca, Michels*. SAGE.

Robins, Nick. 2012. *The Corporation That Changed the World*. https://www.scribd.com/book/314636502/The-Corporation-That-Changed-the-World-How-the-East-India-Company-Shaped-the-Modern-Multinational.

Sümer, Beyza. 2012. "Ibn Khaldun's Asabiyya for Social Cohesion" 11 (41): 15.

Wylie, Diana. 2008. "Decadence? The Khaldunian Cycle in Algeria and South Africa." *The Journal of North African Studies* 13 (3): 395–408. https://doi.org/10.1080/13629380701844730.