Mancur Olson’s *The Rise and Decline of Nations* depicts a process by which peaceful prosperity leads to the formation of “distributional coalitions” that enrich themselves by increasing “the complexity of regulation, the role of government, and the complexity of understandings.” These changes then “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.” Peaceful prosperity leads to the emergence of interest groups, which use the tools of government for their own ends. Ultimately, their efforts stifle economic dynamism and destroy the prosperity that brought them into being. This progression can be called an “Olson Cycle,” and we should worry about being caught in its turns.

The book’s message has grown increasingly important, because America (and most of the wealthy world) has evolved in exactly the manner that Olson predicted. Interest groups, such as homeowners who block new construction and retirees who oppose any cost-saving reform of Medicare, have become ever more entrenched. Regulations that protect insiders, such as occupational licensing requirements for interior decorators and florists, have proliferated. New business formation plummeted between the 1980s and the 2010s.¹ The American economy has grown much less since 1980 than it did before that date.²

I first read *The Rise and Decline of Nations* in 1993, after receiving a kind letter from Olson in response to a paper that I co-wrote finding that industrial clusters with many small firms grew much more quickly than clusters dominated by a few large enterprises.³ After reading his book I agreed that our evidence supported Olson’s view that large, orga-
nized entities often manage to stifle competition, which ultimately harms growth. But I failed to grasp the larger importance of his work.

I had no argument with the core elements in Olson’s logic. He was surely right that “stable societies with unchanged boundaries tend to accumulate more collusions and organizations for collective action over time.” These interest groups are often harmful: “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.” While I accepted that this process might be occurring, I was skeptical of Olson’s view that “the accumulation of distributional coalitions” actually determines the fate of nations.

His ideas just didn’t seem all that relevant in post-Reagan America. Olson may have accurately described the United Kingdom during its strife-strewn Winter of Discontent (1978–79), but it felt like Morning in America. Under Carter and Alfred Kahn we had rolled back the regulation of transportation. Reagan then required that all new federal regulation go through cost-benefit analysis. Tax rates had been cut.

Our economy seemed to be enormously flexible as it shifted from manufacturing to services. In the ten years following January 1981, total service employment exploded by 28 percent, adding nineteen million new jobs.4 As Olson’s faultless logic didn’t seem applicable to the United States, it didn’t challenge my broad faith in the economic orthodoxy that growth is largely driven by technological change and the accumulation of factors such as human and physical capital.

Thirty years later Olson seems prescient, and I seem naive. I returned to Olson after studying the land use regulations that limit the growth of America’s most productive regions, including Silicon Valley, ensuring that property values in these places are exorbitant. The prosperous homeowners who lobby against every new development and enact ever tougher rules seemed a perfect example of Olson’s “distributional coalitions.” As the 2000s turned into the 2010s, America appeared to be responding sluggishly to major shocks, such as the Great Recession and the flood of Chinese imports, the latter referred to as the “China Shock” by Autor, Dorn, and Hanson.5 Our public sector seems similarly sclerotic, as twenty-five years of public school reform has done little to improve the plight of poor, urban children.

If you share any part of my view that America often seems to coddle insiders and ignore outsiders, then you should keep on reading. Olson foresaw that outcome. Even if The Rise and Decline of Nations offers no
quick fixes for the problem, it provides a particularly clear-eyed analysis. Surely that’s the right place to start.

THE RISE OF MANCUR OLSON

Mancur Olson’s life provides a perfect example of how mid-twentieth-century America enabled outsiders to rise into the upper reaches of the establishment. Olson was born in 1932 in Grand Forks, North Dakota, a remote rural town with fewer than twenty thousand inhabitants. Olson’s parents were Norwegian immigrant farmers. Upward mobility during these years was enabled by public investments in educational institutions such as the University of North Dakota in Grand Forks and North Dakota Agricultural College, where Olson received his bachelor’s degree.

Olson’s academic excellence and bubbling enthusiasm for ideas propelled him out of obscurity in North Dakota. He was awarded a Rhodes Scholarship to study at Oxford. He received his PhD in economics from Harvard in 1963 and joined Princeton as an assistant professor. Within four years he was the deputy assistant secretary of the U.S. Department of Health, Education, and Welfare. By that time he had also published his first masterwork: *The Logic of Collective Action.*

That book, a true intellectual behemoth, has influenced political science, economics, and sociology. Economics is the study of systems and shows how the interaction of individuals often produces results that are radically different from the objectives of those individuals. Adam Smith used the metaphor of an “invisible hand” to describe how people in markets, “in spite of their natural selfishness and rapacity . . . without intending it, without knowing it, advance the interests of the society, and afford means to the multiplication of the species.” In his book *Microeconomic and Macrobehavior,* Thomas Schelling, who was Olson’s adviser, explained how groups can often produce less than the sum of their parts. Individuals who desire integration but prefer not to be a minority in their own communities can adjust their locations in ways that produce completely segregated cities.

Olson’s *The Logic of Collective Action* focused on the gap between private incentives and collective behavior. He began by noting that “it is often taken for granted, at least where economic objectives are involved, that groups of individuals with common interests usually attempt to further those interests.” Karl Marx is a particularly prominent promulgator of the view that social classes, like the bourgeoisie, coherently advance
their collective interests. Yet Olson grasped that this assumption was fundamentally flawed because free riding undermines collective efforts to promote class interests.

Individual capitalists often put their own interests ahead of the interests of their industry or the larger interests of capitalism. Nineteenth-century scholars of monopoly and competition, such as Bertrand and Cournot, recognized that individual firms inevitably cut prices below monopoly levels to grab a larger market share. Olson brought this observation into the political realm: “Just as it was not rational for a particular producer to restrict his output in order that there might be a higher price for the product of his industry, so it would not be rational for him to sacrifice his time and money to a lobbying organization to obtain government assistance for the industry.”

That observation then led Olson to focus on the conditions under which groups could effectively advance their interests. Smaller groups can be stronger than large groups because their coordination costs are lower, and their free rider problems are more manageable. Organizations can successfully represent larger groups only if they have the power to restrict their benefits to their members. Unions succeed this way in “closed shop” firms, which agree to hire union members only. Effective lobbying entities often thrive because of their ability to sell by-products of their political activities, such as social connections or access to commerce with their members.

In the eighteen years between The Logic of Collective Action and The Rise and Decline of Nations, Olson moved to the University of Maryland and became a major figure among those “public choice” economists who thought about why governments did what they did. Political scientists generally viewed Olson more positively than they did other members of this group, such as James Buchanan and Gordon Tullock, perhaps because Olson seemed less dogmatic. (His sunny enthusiasm also helped.) Economists were somewhat less interested in The Logic of Collective Action because its focus on political outcomes made it less central to their (and my) field.

The Rise and Decline of Nations, however, brought Olson’s attention back to the heart of economics. In this book Olson wasn’t simply explaining why some industries lobbied more effectively than others. He was demonstrating why some economies thrived, and some declined. His book illustrated why the American West was booming while New York
City faced bankruptcy, and why postwar Germany grew rich while postwar Britain stagnated. He saw political forces looming large in the economic fate of nations, and he brought together a complete theory about how economics influences politics, and then how politics reciprocally influences economics.

THE OLSON CYCLE

What I will call an “Olson Cycle” begins with a blank slate, occurring perhaps after a war or revolution has eviscerated most preexisting interest groups. Germany after World War II, or Japan at the end of the warring sixteenth century, might fit these circumstances. If the initial political system contains the right sort of government—strong enough to protect life and property, but not so mighty that the whims of the sovereign can easily stifle trade and individual initiative—growth begins.

Growing wealth then encourages political entrepreneurs to organize small, coherent interest groups and seek power. Businesses lobby the government for protective regulation. Workers create guilds and labor unions. Public sector employees form political machines to protect their perquisites.

The essential ingredient leading to the success of these groups is that their benefits flow to a concentrated set of members while their costs are imposed on society at large. Those costs are spread sufficiently wide to preclude sufficient public anger to stifle these efforts or create a backlash-based countermovement. Individuals who don’t benefit from one of the existing groups will find their political capital better directed by forming their own narrow interest group instead of fighting the existing interest groups.

So far, economic growth and stability have begotten a political outcome, a proliferation of interest groups. Though they start weak, they strengthen as their concentrated benefits rise. Now the Olson Cycle returns to economics. All of these groups create so many barriers to change that society inhibits entrepreneurship. Almost every new effort tramples on the toes of an established interest. The economy is no longer able to adapt to changing conditions.

Olson illustrated his ideas by focusing on Edo-period Japan, Britain in the 1970s, and the differing fortunes of places within the United States. He even presented state-level regressions compatible with his theory.
that early success leads to sclerosis and, ultimately, failure. America’s regional evolutions supported his hypothesis in 1982, and they are almost incomprehensible in 2022 without his hypothesis.

THE OLSON CYCLE AND AMERICAN DECLINE

Writing in *The Rise and Decline of Nations*, Olson understood that America’s older regions, such as the Northeast and the Midwest, were highly regulated and often dominated by established groups, including big businesses and unions. Newer regions, such as the West, were more open. Following the logic of the Olson Cycle, these newer regions should grow more quickly than the older regions. Olson showed that the years since statehood were negatively associated with income growth and positively associated with union membership. The level of urbanization in 1880, another proxy for long-ago development, was also associated with sluggish growth after 1965.

Olson also noted the faster growth of the South. The South is technically old, but Olson argued that the interest groups of the South were torn apart by the Civil War and then, in the twentieth century, “the old pattern of coalitions in the South was eventually emasculated by the New Deal and postwar federal policies, by cosmopolitan influences due to better communication and transportation, by increased black resistance, by adaptation to new technologies and methods of production, and perhaps by still other factors.” Consequently, after 1965 the South was stymied neither by “emasculated” cotton planters nor by nonexistent labor unions. Hence, the region grew mightily.

Economists have since debated the relative importance of regulation relative to January temperature, industrial shocks, and mean reversion, but there is certainly some truth to Olson’s views. Holmes documented dramatic growth discontinuities at state borders, which can only reflect the importance of public choices such as right-to-work laws. In 1982 Olson may not have thought much about land use regulation, but subsequent work has shown that the growth of the Sunbelt (particularly since 1980) partially reflects the ease of building in America’s less regulated southern and western states.

But while the Northeast and Midwest seemed like unfortunate losers due to the Olson Cycle in 1982, the country on net seemed fine. Perhaps New York City had become dysfunctional during the 1970s, but anyone could just move to Dallas or even Los Angeles. The country as a
whole had plenty of scope for growth because there were newer regions that hadn’t yet been afflicted by change-restricting regulation.

Yet since 1982, shocks with a different regional pattern have occurred that make the Olson Cycle a national concern. The shocks of the 1970s, such as oil price hikes and the “Japan Shock” from competition with a new manufacturing superpower, disproportionately struck America’s old, highly regulated regions, as we might expect. The natural cure was to relocate to the newer, lightly regulated regions, and relocation was easy because few regulations restricted building in the booming areas.

But after 1982 America’s more regulated places enjoyed a positive shock, and America’s less regulated areas got hit by a negative shock. The positive shock was the rise of the information economy. That shock favored the more educated, urbanized, and regulated parts of America, including San Francisco, New York, and Boston. The negative shock was the influx, and ultimately the tidal wave, of exports from China. That shock disproportionately hit the less regulated, less educated areas, precisely because those lower-cost regions had attracted industries, such as clothing and textiles, that fled the northern states before 1990.

The Olson Cycle didn’t predict those two shocks, but they are also perfectly compatible with its operation. There are other forces, such as technological change, that buffet local economies. Moreover, one part of the information technology revolution can be understood as showing the Olson Cycle in action. Since the mid-1990s innovators such as those who created Google and Facebook have operated in cyberspace, which is a new region without the regulations that bind entrepreneurs operating in the physical world. According to this view, the Olson Cycle predicted a decline in the importance of the old, physical world and a rise in the importance of the new, virtual world.

The natural response to these two shocks would be for Americans to move from the places negatively hit by the China Shock to areas that were positively hit by the Information Shock. Yet this movement is impeded because the land use regulations of the older, more educated regions make low-cost construction impossible. Groups of existing homeowners have created strong “distributional coalitions” that block new construction.

As of 2022, America is best seen as split into three regions rather than two. The Olson split between newer and older states remains in the American heartland, but the coasts are now set apart. Austin, Glaeser, and Summers show that the epicenter of American economic dysfunction
is the eastern heartland, defined as noncoastal states that were formed before 1840. The western heartland continues to expand, just as in Olson’s day. A third region comprises the coasts; despite its encrustations it provides opportunities for its fortunate knowledge-oriented workers, especially those in cyberspace.

As the Olson Cycle turns, American dynamism continues to fade. Changing jobs or states is limited by the increasing need to acquire a state-specific occupation license. As new business formation falters, America feels more like a zero-sum economy, one in which warring camps scramble to grab enough public power to protect their own interests at far greater cost to those of others. The young see the public benefits reaped by the old and want something similar for themselves. Even their affluent members lobby for relief from student debt. New interest groups emerge with each new election, groups that channel public resources to themselves. One side favors tax cuts unaccompanied by spending cuts, and the other argues for spending increases without commensurate increases in revenues. Olson foresaw the future that is now upon us.

NOTES

8. Ibid.