

# D) RISE & DECLINE OF NATIONS

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## Chapter 1: QUESTIONS

- Why do countries rise & fall economically?

- Olson focuses on post-WWII examples

- GR, FR, JP, USA, UK

↑ ↑ ↑ ↓ ↓

- Notice how he discusses concepts immediately related to Solow on p. 4.

- end of page 5, he refers to Zollverein...

- the German railroad infrastructure built in the 18c-19th century.

- the key questions:

1 - why does involuntary unemp. occur?

2 - why are some countries ungovernable?

3 - top-heavy societies? Undue political influence by the elite?

4 - how do institutions become more exclusive in advanced economies?

- p. 10: some ad hoc explanation of the British decline in the 1970s & early 1980s.

- what's the problem with such explanations?

"non-testable" & "ad hoc post rationalization"

## COASE THEOREM

- Version 1: A clear delineation of private property rights is an essential prelude to market transactions.
- Version 2: As long as private property rights are well defined under zero transaction cost, exchange will eliminate divergence and lead to efficient use of resources or highest valued use of resources.
- Version 3: The allocation of resources is invariant to the assignment of private property rights under zero transaction cost and zero income effect.

- (16)
- p. 15: notice how he's referring to the weaknesses in macro development empirical literature. Not easy to test empirically... (w/ the rise of micro development, randomized trials research; many decades after this book was written, of course).

## Chapter 2: THE LOGIC

- Start with the Coase theorem
- p. 18: description of the classic free rider problem.
- b/c of free riding issues, contributions to public goods aren't guaranteed.
  - one needs positive + negative incentives for people to contribute.
  - or social selective incentives.
- a punchline in the middle ¶ on p. 25.
- Contrast the arguments on page 26 to Iannaccone's "club goods" argument about religion. Why are those religious rituals, rites + customs? And the more the radical the sects, the more costly such rituals?

- the last Qs on pp. 26 + 28 are important. (17)
- What do they imply?
- If the group with the "common interest" is small, contributions to the public good are more likely.
- The key example is on pp. 32, 33.
- And the main argument is that large groups in society may not effectively organize to protect their interests. But small groups or those with a lot at stake may.
- And they would organize to influence gov't action, political choices + the design of institutions.

### Chapter 3: THE IMPLICATIONS

- Summary on p. 25
- Would bargaining among special interest groups in society improve economic efficiency?
- last Q on p. 37
- Last Q on p. 39
- " p. 40
- Small groups have an organizational advantage in overcoming the free rider problems in collective action  $\Rightarrow$  3rd implication

- Example on page 43
- What does the middle ¶ on p. 47 say about institutions?
- What is Olson referring to when he makes a distinction between narrow versus encompassing special interest groups? P. 48-53 ⇒ 5th implication
- Special interest groups bargain internally + are slow ⇒ 6th implication
- In Olson's argument free-entry is important but it doesn't imply perfectly competitive markets why not? p. 59
- p. 63: the basic argument for the 7th implication.
- Distributional coalitions (or special interest groups) are inherently exclusive. They try to create benefits for members at the expense of outsiders. The benefits each member gets is negatively related to the size of the coalition ⇒ 8th implication.
- Over time, distributional coalitions exert more influence on economies. In slower-growing economies, the associated distributional changes + inefficiencies in institutional Δs create a drag on incomes. ⇒ 9th implication

(last few sentences)

## Chapter 6: INEQUALITY, DISCRIMINATION & DEV. (19)

- Historical examples abound on how distributional coalitions stymied development.
- China in the late-19th century. (the role of trade guilds)
  - here is an example of how China's state helped when gov't protected guild domain thru tariffs + taxes
- the Asian tigers had histories that hindered the growth of distributional coalitions.
- Bottom of p. 150 + p. 151: what is Olson's general view on culture as an explanation of development?
- Leading to the recent history of Japan (since the 1854 confrontation with Admiral Perry)
  - special interest groups were rampant.
- And the role of industrial policy (p. 152)
- Case of India:
  - came under foreign control by Muslim civilizations in the 16th century + in the 19th by the British.
  - Olson argues both occurred b/c of internal decay (due to the caste social system)
- But what does the caste system imply about the role of culture more generally in institutional evolution + development? Something for the reader to ponder.
  - for Olson's views, see pp. 156 - 160.
- A reference to Occam's razor on p. 161.

- the African case & the role of the mining industry in apartheid.
- Reference to Becker's theory of labor markets & discrimination on page 163.
- And consumers, who could not organize, lost of course.
- What made apartheid endure? (p. 164)
  - combined with another reference to Becker's discrimination theory.
- The discussion on unstable economies & dictatorships
  - Olson's theory implies that small special interest groups (which organize relatively quickly according to his theory) have a relative advantage in unstable economies that experienced recent upheaval. (p. 166-167)