1 On the Shoulders of a Giant: The Legacy of Mancur Olson

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Mancur Olson Jr is probably the only economist to have published two sole-authored books considered seminal in the field of public choice (see Stretton and Orchard's (Stretton and Orchard 1994) overview of the field, chapter 2). Olson's dissertation was published as *The Logic of Collective Action* (Olson 1965), and quickly forced economists and political scientists to rethink their views on group formation and productive capabilities. The publication of *The Rise and Decline of Nations* (Olson 1982), which has subsequently been translated into 11 languages, spawned a series of symposia published in *The Political Economy of Growth* (Mueller 1983) and special issues of *International Studies Quarterly* and *Scandinavian Political Studies*. In between and after, Olson wrote many important papers extending the analysis in these books. Olson is the only scholar to have a separate chapter devoted exclusively to his work and the work it directly spawned, in both the standard graduate text *Public Choice II* (Mueller 1989) and the most recent handbook on public choice scholarship, *The Elgar Companion to Public Choice* (Shughart and Razzolini 2001).

Olson's work was built upon previous scholarship across various disciplines, including that by economists, political scientists, political theorists, sociologists, historians, and others, and made a concerted effort to appeal to a wide range of disciplines, atypical of most academic economists who read and write primarily within their own sub-discipline. Olson was quick to give credit where due for his inspirations, as he was fond of mimicking Isaac Newton by stating he "stood on the shoulders of giants" (*The Rise and Decline of Nations*, p. ix).

Olson's success in reaching across the social sciences is reflected especially in his appeal within political science being even greater than within his own field of economics. *The Rise and Decline of Nations* won the Gladys M. Kammerer award from the American Political Science Association for the best political science publication in the field of U.S. national policy, and as noted above, led to special journal issues in political science. In addition, "Rapid Growth as a Destabilizing Force" (Olson 1963b) was one of the most widely-cited articles ever published in the *Journal of Economic History* but most citations were by historians, rather than economic historians.

The papers in this volume are written by former students, including two former undergraduates, colleagues, and coauthors of Olson on issues related to Olson's interests. Each author, with the following noted exceptions, has a past affiliation with the University of Maryland. In particular, Richard Zeckhauser and coauthors have no direct connection to the University of Maryland, but Zeckhauser did coauthor what would become Olson's most cited and influential journal article (Olson and Zeckhauser 1966) when both were early in their careers. Likewise, David Colander coauthored a paper with Olson on collective action which appeared in Colander's (1984) edited volume. The remaining chapters are all authored by scholars who were either faculty or students at the University of Maryland, some of whom also have coauthored papers with Olson. Although he did not direct many dissertations, Olson's presence at the university for over 30 years left its imprint on many graduate students who attended his classes and seminars, or simply had the opportunity to discuss their own work with him. His ability to reach outside of economics is reflected in the fact that many of the students who graduated through the Government and Politics department consider themselves to be Olsonian students. Indeed, almost half the former students contributing to this volume received their degrees from the Government and Politics department. In addition, many economics students were supported as research assistants through Olson's Center of Institutional Reform and the Informal Sector (IRIS), established in 1990. Many of the faculty at University of Maryland also contributed to Olson's IRIS projects and the center regularly supported outside scholars, including one of the contributors to this volume, Kenneth Koford, and sponsored symposia on the importance of 'good governance' for development prospects. The essays in this volume represent a tribute to a man who at the time of his death in 1998 was still actively pushing the boundaries of economic knowledge in the area of collective choice.

The rest of this introductory chapter provides background on Olson's work and on the essays in this volume. Specifically, the next section outlines the development of Olson's theories concerning the causes and consequences of collective action. Following that, Olson's place within the contrasting schools of thought in collective choice is discussed. Finally, the chapter ends with a summary of the essays collected in this volume with an emphasis on placing them within the context of Olson's research.

1.1 Olsonian Thought

This section details the development of Olson's work in the area of collective action. First we outline his original theory on group formation and related empirical applications. Next we address the importance of collective action to economic growth, and the positive role for government in addressing potential market failures. Our discussion is organized around a major book for each theme.

1.1.1 The Logic of Collective Action

Olson's concern was the provision of goods or services that provide benefits to multiple individuals, even those who do not participate in their provision. Building upon the inherent instability of cartel behavior, Olson argued that group provision of such goods or services confronts the same difficulties as do cartels. Individuals can benefit without incurring costs of provision, or by cheating on the cartel agreement, and will, therefore, opt not to participate. Individual incentives will, in other words, work against the formation of groups whose purpose is to provide these public goods. Olson notes that in this context the free market would under-provide for public-type goods. He emphasized, however, that the extent of this free riding behavior would be a function of group size, so small groups would be more likely to form than would large groups.

Large (in Olson's terms, "latent") groups would have trouble attracting membership, and would need to rely on a system of selective incentives. Special excludable private goods, such as low cost insurance, would be an enticing carrot, while social pressures, such as ostracism or physical harm, would be a threatening stick. However, if a single member (or small group) could obtain a benefit which would exceed the total cost, they may provide the good while others free ride on its nonexcludability. Olson referred to this phenomenon as "exploitation of the great by the small" (*The Logic of Collective Action*, p.3, p. 29). 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.

Although much of Olson's theory is not directly testable, such as the motivation for group formation, the exploitation theory is. Olson first presented support for the theory in the context of international alliances where it was shown that those with the most to gain from NATO bear more than a proportional share of the costs (Olson and Zeckhauser 1966). This is where the theory has received the most attention. Subsequent analysis revealed the results were specific to the sample time period and typically did not hold for other alliances (Cornes and Sandler 1986). Most recently, the exploitation theory was used to explain free riding by small banks on large bank lobbying efforts to convince the Federal Reserve to set low reserve requirements after it was given control of the reserve ratios in 1935 (Heckelman and Wood 1999). The chapter by Parson, Zeckhauser and Coglianese highlights collective action issues in providing information.

1.1.2 Institutional Sclerosis

Olson's earlier analysis suggests narrow special interests will be more powerful than larger (latent) groups which suffer more from free riding problems. The macroeconomic consequences of interest groups are developed in several places (Olson 1982; 1983a; 1983b). 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. At the same time, this pro-growth advocacy group would incur all of the costs of its efforts. The upshot is that the incentives work against the formation of pro-growth 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. Consequently, groups that encourage redistribution are more likely to form than groups advocating growth. Moreover, since it takes time for even small groups to overcome their collective action problems, over time more groups are expected to form. As these groups form, more scarce economic resources are diverted away from technological advances and other growth enhancing activities that are non-excludable, toward redistributive activities. Thus, Olson predicts economic growth will decline over time.

These sclerotic effects are due to the formation of special interest organizations (SIOs). If the SIOs are destroyed, growth prospects are enhanced. Instability, such as coups and revolutions, destroy the influence of the SIOs and their avenues for controlling social resources. Constant upheaval, although beneficial in preventing sclerosis from settling in, is also harmful, as economic agents lose faith in the existing institutions and will be unwilling to sign long-term contracts requiring a *quid pro quo*. Economies of scale and other economic efficiencies will then be absent. Thus, the best growth prospects should be present where there was recent upheaval, but long-term stability is expected to follow.

In *The Rise and Decline of Nations* (1982), Olson presents narrative histories of the post WWII experience for many nations that are consistent with his theory. The fastest growing nations in the post-war period were those that suffered the most destruction within their society, including especially the eradication of their wartime and pre-war governments. In these countries, Germany, Japan, and Italy, newly installed democratic governments fostered stability in economic and political relationships. Those nations whose governments and institutions were not altered by the war, such as US, Britain, Australia and New Zealand, generated much lower growth after the war. Olson's econometric evidence focuses on the various state economies of the US, where it is shown that a measure of state lifetime is inversely correlated with state income per capita. 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. He also presents evidence that SIOs are more prevalent in older and more stable states, where SIOs are proxied by the percentage of the labor force holding union membership in the state.

Olson (1990) later extended the analysis to Communist societies by focusing on bureaucratic direction in the policy process. As 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.

The theory of institutional sclerosis has been most frequently tested by comparing cross-national growth rates. Typically, the number of years of stable borders for each country is used to proxy for the sclerotic effect (Choi 1983; Landau 1985; Nardinelli, Wallace and Warner 1987). 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, as evidenced by Olson's usage of the Civil War to restart the southern states' SIO formation clock. Others have created "trauma" variables to measure the degree of destruction caused by wars and revolutions (Chan 1987). Olson (1983b) 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, each of 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. Thus, 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. The chapter by Patrick James represents a case in point by detailing sclerotic forces at work during constitutional reform in Canada. Our chapter relates the number of interest groups in a country directly to the rate of income growth in that country, providing one of the few direct tests of Olson's hypothesis that interest groups are harmful to economic growth.

1.1.3 Market Augmenting Government

The importance of expected long-term stability for economic growth is true for all societies and forms of government. An autocratic government can be viewed as an encompassing interest, since the autocrat is the ultimate receiver of any wealth creation (Olson 1991, 1993). A long term planning horizon will limit coercive takings through taxation and theft, each of which reduces wealth-generating incentives. In addition, the autocrat will use his own resources (or those obtained through trade) to provide public goods as long as the wealth increases that result provide sufficient tax revenues to cover the costs of the public goods. In other words, the autocrat will provide public services to his subjects as long as doing it increases his own wealth. If, however, the autocrat does not expect to retain his power for very long or plans to move on elsewhere (what Olson refers to as "roving bandits"), then he will not be around to benefit from public service provision, including enforcement of contracts, and he has every incentive to plunder the local economy to maximize his immediate wealth. That such behavior lowers wealth in the long run is of no consequence to this type of autocrat. Consequently, only the stable autocrat with a long planning horizon will maximize long run wealth opportunities for the society, and thus himself. Thus, the importance of good governance is not limited to democratic societies, although the stationary autocrat is the least favored form of stable society.

"Super-encompassing interests" are majorities and ruling interests that obtain a sufficiently large fraction of the social income that it is not in their interest to actively redistribute wealth toward themselves at all (McGuire and Olson 1996). Olson argues that *by definition* a majority that earns income from the market is more encompassing than an autocrat. Therefore, it follows that majorities and oligarchies will provide more public goods than any autocrat.

The notion of good governance is further developed in Olson's posthumous publication *Power and Prosperity* (Olson 2000), where the term "market-augmenting government" is coined to capture the idea that complex markets are needed for growth but are unable to properly develop without impartial governmental enforcement of property rights and contracts, and the absence of predation. Governments function best when they are encompassing but, as developed in *The Rise and Decline of Nations*, tend to focus on special-interest groups at the expense of general welfare. Thus, Olson's policy prescription is for institutions to ensure that authoritative control is given to encompassing rather than narrow interests. This builds upon his earlier theme that less developed nations suffer from poor institutional control, rather than simply a lack of factor endowment or technology (Olson 1996).

Simple markets that involve immediate exchange of goods or services, and from which both parties benefit instantly, will develop spontaneously. However, without proper governmental assistance, complex markets will not emerge. Public goods, for instance, will be lacking due to free-riding in large group settings (Olson 1965). Insurance and futures markets that require outside enforcement will also fail in the absence of government assistance, since credibility is absent (Olson and Kahkonen 2000). While there remain concerns that SIOs will capture the power of strong central government to redistribute, thereby distorting the proper incentives to enhance production, good governance that assists in the enforcement of long-term contracts and the provision of public goods is important for growth.

On net, the power of government can be good or bad, and which it is makes a crucial difference for economic growth (Olson, Sarna and Swamy 2000). Second and third world nations do not suffer simply from low potential, but rather they produce well below what they could due to bad governance in the form of socially gratuitous taking, missing markets, and other poorly designed economic policies (Olson and Kahkonen 2000). The chapter by Christopher Clague develops this theme for a variety of nations.

1.2 Public Choice Schools of Thought

Economists working within the Public Choice paradigm are generally classified according to one of two schools of thought. The first, following the path set forth by the pioneering work of James Buchanan and Gordon Tullock, focuses on the normative aspects of political choice and typically argues government regulations and restrictions on individual transactions hinder the efficiency of free markets. In their view, constitutional provisions are needed to properly limit the potential for a runaway Leviathan government. Buchanan gives Olson credit for first using the phrase "Virginia School" to contrast this line of inquiry from the "Chicago School" represented by Nobel Laureates George Stigler, Gary Becker, and Ronald Coase (Buchanan 1999). The Chicago School tradition focuses on equilibrium outcomes, both economic and political. Although government policies may distort the allocative mechanisms, a form of Pareto efficiency is achieved in the sense that no changes are possible that will not harm at least some individuals. In the Chicago view, rational individuals already would have adopted any institutional change that would improve the welfare of all.

While there is much in the way of overlap between these schools of thought, especially skepticism concerning the idea that public policy is about improving the general welfare, important distinctions remain. Indeed, the two schools share the notion that most political policy is designed to redistribute income. They disagree, however, on how efficient such redistribution is. It is not always clear, of course, whether any given piece of scholarly work fits into one school or another. Placing an entire body of research into a school is even more difficult, and Olson's work is a case in point. While many consider Olson to be part of the Virginia School (Jankowski 2001; Mitchell 2001), Dennis Mueller, Olson's long-time colleague, does not agree (Mueller 1993). However, Mueller does not indicate into which school he would place Olson. Others trace the Chicago views on the role of interest groups to Olson (Alston, Thrainn and North 1996; Moe 1997) and consider Olsonian assumptions to be Chicagoan in the extreme (Stretton and Orchard 1994). Schmid (1996) considers Olson distinct enough to refer to a "Maryland School". We believe this is the first usage of the term, and it appears apt to recognize Olson separately, as well as the large body of work that has followed in his tradition.

Olson's research certainly has aspects of both Virginia and Chicago. An issue that runs throughout his work is the importance of rent-seeking, primarily associated with Gordon Tullock of the Virginia School. At this point, however, the notion of applying rent seeking to the political process is a fundamental postulate to all public choice analysis, and is well accepted within the Chicago School line of research as well. In addition, Olson does not seem to rely as heavily on equilibrium outcomes, separating himself from the Chicagoans. His policy implications, however, are clearly at odds with the Libertarian perspective of the Virginians (Olson 1986). Consider *The Logic of Collective Action* (Olson 1965) and Buchanan's (1965) treatise on club goods. Both understood the potential problem of nonexcludable and nonrival goods. Buchanan argued that for some goods the nonrivalness would expire after a relatively small number of individuals jointly consumed the good, but that individuals' benefits from the good were far too small to make provision economical. Consequently, clubs would form expanding membership until the benefits of spreading out the cost were balanced by the costs of sharing the good with an additional consumer. There is really no discussion of the circumstances under which the club will form, but the implication is that some public goods can be efficiently provided without governmental involvement. Olson, however, stressed those circumstances under which the group would or would not form. Specifically, the production of some goods would require a large group, but no individual would have the incentive to join. Thus, if these public goods are to be provided, government is necessary. Further development on the contrast between Olson and Buchanan is undertaken in the chapter by Keith Dougherty.

Olson often tried to dissociate himself from the Virginia Libertarian attitude that strong governments are necessarily harmful. Believing the term Public Choice had become too closely associated with this perspective, he eschewed it in favor of what he felt was the more neutral terminology "Collective Choice". The Virginia School, similar to the Austrians, also places much less emphasis on econometric analysis, whereas Chicago is rich in empirical analysis. Olson is not an econometrician, and much of his own empirical analysis is fairly basic, but he understood its important role in economic analysis, and always highlighted empirically testable hypotheses and especially encouraged others to further develop this avenue of his work.

Unlike either of the other schools, Olson does not put his faith in the infallibility of free markets. Olson sees a positive role for government to produce public goods, limit externalities, and reduce uncertainty. In fact, much of Olson's analysis is an argument about transaction costs, in line with Ronald Coase and Douglas North. Government can either increase or decrease transactions costs. Successful economies are those where good governance is the rule, keeping transactions costs low, while the poorer economies suffer from poor institutions that hinder efficient markets and make inefficient markets worse, raising transactions costs.

Another important distinction between Public Choice scholarship at the Universities of Chicago and Virginia, compared to the University of Maryland, is that both economists and political scientists at the University of Maryland actively participated in the outgrowth of research in Public Choice. In the Economics department, graduate study in the Public Choice program was led by Olson, Dennis Mueller, and Peter Coughlin, each of whom brought a different area of expertise to the program. Mueller's approach was solidly in the Virginia camp, focusing on normative constitutional political economy, but he also created the classic graduate text *Public Choice* (1979, 1989) and the recent *Perspectives on Public Choice: A Handbook* (1999) which surveys the entire field covering both Virginia and Chicago school approaches, and of course Olson's influence, as well as the rational choice political science inspired Rochester School, following from the work of William Riker. Coughlin's emphasis was on social choice theory, formalizing and extending mathematical spatial voting models in the Downsian tradition. Olson taught not only in the Public Choice field sequence but occasionally in the Macroeconomic Theory courses, exposing a greater number of graduate students to his line of inquiry. The Collective Choice Center (CCC) was developed because of the overlapping interests of the economics and political science faculty. Recently, the Olson Memorial Lecture Series was established as part of the CCC to highlight continuing research in the Olsonian tradition. That the Collective Choice Center is headed up by a political scientist and housed in the Department of Government and Politics is further evidence of Olson's broad influence outside of economics. While many of the faculty in both Economics and Government and Politics contributed to the development of Public Choice at the University of Maryland, as Distinguished University Professor and past president of Public Choice Society, Southern Economic Association, and Eastern Economic Association, Mancur Olson was at the forefront, spreading his ideas the farthest, and is the member most closely associated with and most influential within Public Choice scholarship.

1.3 The Contributions in This Volume

As developed earlier in this chapter, Olson's work in collective action can be split into three periods of analysis. Likewise, the contributions to this volume are sorted into sections organized around these three periods with each section containing four chapters. The three sections are, in order, Collective Action, Institutional Sclerosis, and Market Augmenting Government. The various chapters also represent the diverse style of Mancur's methodology. Olson is typically associated with purely descriptive analysis (see the chapter by Robert Whaples) and several of the chapters follow this tone, but he also occasionally incorporated basic and straightforward regression analysis to test his theories (Olson 1982, 1983a), a framework utilized in the chapters by Charles Enis, Dennis Coates and Jac Heckelman, and Phil Keefer and Steven Knack. A few of Olson's coauthored papers were also quite technical in nature (Olson and Zeckhauser 1966, McGuire and Olson 1996, Dixit and Olson 2000). The previously unpublished chapter by Olson and Jack included in this volume, and the new contribution from Marek Kaminski, are written in this vein.

Opening the Collective Choice section is the contribution by Keith Dougherty entitled "Precursors of Mancur Olson". Dougherty reviews the major theories concerning public goods and free-riding behavior that had been developed prior to Olson's *Logic of Collective Action.* He concludes that Olson's most original contributions were in his specific claims as to how groups behave, including his discussion of selective incentives, equilibrium predictions, and the application of collective action to a wide variety of settings.

Another prediction from Olson's model in the *Logic of Collective Action* entails 'exploitation of the great by the small' where those with the most to gain bear a disproportionate share of the burden. In contrast, Warr's (1983) neutrality theory predicts the provision of a public good is unaffected by the distribution of income, and thus a redistribution of income leaves each person with exactly the same amount of public and private goods as before the redistribution. Bryan Jack and Mancur Olson have revisited this issue in "Warr Neutrality and the Natural Egalitarianism of Voluntary Public Goods Provision".[1] In their chapter, they first compare the testable implications of the neutrality theory with observed reality and then develop a more general graphical analysis of voluntary public goods contributions that allows them to consider all possible income distributions. They conclude that voluntary contributions to public goods have a strong tendency toward natural egalitarianism by which they mean an equalizing of the distribution of real welfare.

[1] This chapter represents an older working paper that was to be updated by Bryan Jack specifically for this volume, before his death as a passenger on board American Flight 77 from Dulles on September 11, 2001. We have decided to include the paper with minimal editing in deference to both Jack and Olson. We have corrected typographical errors, added some section headings, and reworded two sentences that described the Nash equilibrium.

A particular type of public good in many instances is the provision of information. In "Collective Silence and Individual Voice: The Logic of Information Games," Edward Parson, Richard Zeckhauser, and Cary Coglianese address the circumstances under which society's interests in information revelation or lack of revelation are best satisfied. Although the framework differs from Olson's analysis in that targets are deciding to provide or conceal information rather than make monetary contributions, and their interest in revealing information depends on how they expect the regulator to utilize the information, the targets still face a form of prisoners' dilemma that generally leads to under-provision of the public good.

Concentrating on political developments in Poland, Marek Kaminski describes "The Collective Action Problems of Political Consolidation: Evidence from Poland". The discussion centers on efforts of the many small rightist parties to work together. At issue was the division of the seats in parliament among the individual parties should the coalition win electoral support. Solving the collective action problem was especially important for these groups because their fragmentation contributed to the return to power of post-communists, weak cabinets and parliaments, and the slowing of institutional reforms. Kaminski documents the problems and provides a simple game-theoretic model to explain the observable outcome.

The four chapters in the section on Institutional Sclerosis each attempts to assess or extend the idea of institutional sclerosis first advanced in *Rise and Decline of Nations*. Olson's theory of institutional sclerosis is based on the notion of special interests attracting resource use to engage in redistribution toward themselves and stifling innovation, typically through government regulation. Charles Enis applies Olson's macroeconomic theory to a microeconomic setting in "An Empirical Analysis of Institutional Sclerosis and Managerial Incentives: The Case of Motor Carrier Deregulation". Enis argues that under regulation, managers had little control over rates, routes, and freight they could haul, leaving little left for them to do in attempting to maximize profits. Deregulation allowed for greater flexibility on the parts of managers and, consistent with self-sorting theories of labor economics, carriers that offer incentive compensation plans should attract managers with greater expertise. In the context of motor carriers, deregulation serves as the "upheaval" that in Olson's theory would destroy those growth-retarding institutions that have developed over time and whose destruction will free the industry for greater profitability and efficiency. As it turns out, improved efficiency after deregulation did not translate into greater profitability. Enis' conclusion is that a sclerotic effect of the former regulatory environment was to dissuade the best managers from seeking employment in the trucking industry to begin with.

In "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*," Patrick James extends Olson's analysis in a new direction and to a new country. From Olson's famous set of seven implications in *Rise and Decline*, James develops hypotheses and corollaries with respect to the nature of the politics of constitutional reform in Canada. Evidence is gleaned from the newly released minutes of the Constitutional reform meetings in June and July 1980, to corroborate his specific hypotheses and corollaries.

An alternative to detailed case studies employs cross-national empirical regression analysis to explain variation in national growth rates. In "Absolute and Relative Effects of Interest Groups on the Economy," Dennis Coates and Jac Heckelman follow this vein of the literature by testing for the impact of interest groups among the OECD nations, using the absolute number of interest groups per capita, and the number of interest groups relative to the size of the national government. This chapter extends the empirical literature on institutional sclerosis in two ways. First, the government size variable is recast as properly measuring government rent creation, in line with recent neo-classical institutional growth models. Second, it is argued the marginal sclerotic effect of an additional group is expected to decline as the number of existing groups rises, and that the effects will diminish over time. Empirical evidence supports these notions and reveals a greater absolute effect from the number of groups per capita than a relative effect of the number of groups compared to the size of government.

Much of Olson's work showed his interest in how political and economic forces interacted to influence historical long-run economic growth patterns. Robert Whaples' chapter on "If I had a Hammer: Mancur Olson as an Economic Historian" examines Olson's contributions to economic history, summarizing and examining his historical findings and arguments, but its main focus is on the reception of Olsonian thought by economic historians in their writings, including reviews of Olson's work, textbooks, reference works, journal articles, monographs, and survey responses. It appears that Olson had a mixed reception among economic historians. Reviews of *The Rise and Decline of Nations* appearing in economic history journals, for example, were often critical, but the book has been assigned to students by many economic historians, and generated a great deal of research designed to test the central hypotheses in a variety of settings, and economic historians have applied his theories to explain developments in Latin America and Africa.

Except in the rare cases where interest groups are encompassing, Olson has argued interest group lobbying would make public policy less efficient. He has also argued that government may, under certain circumstances, be able to augment or facilitate the working of markets to the advantage of the society. The chapters in the Market Augmenting Government section each contribute to our understanding of how government can help the market.

The ability of government to enhance the workings of the market will be related to the "encompassingness" of special interest organizations. Interest groups are likely to be particularly non-encompassing in societies where policy preferences are more polarized. One important policy application is in the honoring of debt commitments. In more polarized societies, building a consensus on how various groups will share economic sacrifices to manage and repay sovereign debt should be slower and more difficult, resulting in a greater likelihood of defaulting on foreign debt payments. Philip Keefer and Steven Knack examine the generality of this result in two important ways in "Social Polarization, Political Institutions and Country Creditworthiness". First, they argue that the effects of polarization will vary with the degree of political competition. For example, they suggest that a highly polarized country with little political competition will be more likely to be a high-risk borrower than an equally polarized country where politicians must reach across groups for electoral support. However, they also suggest that the flexibility to address financial problems will be lower where political competition and polarization are high than where polarization and political competition are both low. Second, they are able to include a much larger set of nations than in the existing literature by using an index of sovereign default risk based on surveys of international bankers. The evidence supports their hypothesis that the effects of polarization and political competition are highly intertwined.

Christopher Clague applies many of Olson's ideas concerning collective action, encompassing interests, devolution of power, and stationary banditry to "Corruption and Economic Development". In developing a taxonomy of public-sector corruption, Clague shows there is a wide gap between the kinds of conduct and practices that arouse moral outrage, and those that seriously impede economic and social development. Examples abound to distinguish between civil service construction, reform, and decay; grand corruption in developmental autocracies; corruption in laissez-faire environments; corrupt dealings with an entrepreneurial minority; dirigisme and corruption in postwar Europe and the Third World; and corruption and government performance.

John Wallis stands Olson's hypothesis of institutional sclerosis on its head while contributing to Olson's hypothesis that good governance is beneficial to economic growth and development in his chapter, "The Public Promotion of Private Interest (Groups)". From his analysis of state constitutions, Wallis suggests that the early 19th century promotion of the formation of private groups by American state governments contributed to the rapid growth of that era.

Finally, in "Macroeconomic Policy and Collective Action," David Colander, Kenneth Koford and Jeffrey Miller consider an overall framework for macroeconomics that integrates Olson's coordination failure of collective action into the core macroeconomic models. They argue that macroeconomic policy should focus on the fundamental principle of internalizing macroeconomic externalities, just as is done for microeconomic policy, and that this means that encompassing interests must find ways of inducing special interests to act in the best interests of the entire economy rather than in their own particular best interests. They suggest that the current approach to fiscal and monetary policy should be replaced with methods of internalizing inflation and aggregate demand externalities. Using incentive based approaches relies upon the microeconomic foundations of the macroeconomy and follows from Olson's (1982, p.233) early insight that "the best macroeconomic policy is a good microeconomic policy".

Olson's stature as an academic and the generosity he showed throughout his life is made clear in the multitude of "In memoriam" tributes that appeared in *Southern Economic Journal, Eastern Economic Journal, Public Choice, Journal of Public Choice and Public Finance, Economic Journal* and *The Economist.* This volume represents another form of tribute through a collection of new essays devoted to Olson's work on collective action, and is long overdue. Mancur surely deserved such a retrospective while he was still with us.

This volume would not have been possible without the efforts of each of the contributors, for which we are grateful. Only their devotion to the concept of hon-

oring Mancur can explain their willingness to put up with, in some cases, repeated requests for revisions, and the extra work associated with inclusion in this volume. We also thank Alison Olson and Barbara Rachko for permission to include the previously unpublished chapter by Mancur Olson and Bryan Jack. Finally, at Springer-Verlag Martina Bihn showed enthusiasm for this project from the start and was patient with us in delivering the manuscript, and Markus Richter provided additional technical support for some of the formatting issues.