

# Review Essay

## The Politics of Economic Growth

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The influence of narrow, well-organized groups over political life has plagued the theory and practice of democracy from the Greek *polis* to the America of the 1980's. In *The Rise and Decline of Nations*,<sup>1</sup> Mancur Olson, a distinguished economist at the University of Maryland, has imaginatively used the analytical tools of economics and political science to dissect the causes, character and consequences of that influence today.

The Founding Fathers were schooled in the tumultuous history of democratic politics in the classical world. In that world, formation of cabals and cynical manipulation of mobs were common preludes to tyranny; threats to individual liberty and private property were ubiquitous. On the eve of the American Revolution, Adam Smith had warned that merchants frequently conspired against the public interest, often by enlisting state power to cement their cartels.<sup>2</sup> Madison's apprehension of "faction" lay at the heart of his design for a large, commercial republic, as revealed in *Federalist #10*.<sup>3</sup> In the post-Civil War period, Populists agitated against political domination by commercial and financial interests.<sup>4</sup> Early in this century, the Progressives decried the tightening grip of industrial and political elites over the machinery of government. This theme also animated much of the early New Deal, when President Franklin D. Roosevelt thundered against the "economic royalists" on Wall Street who opposed his measures. Roosevelt's critique reverberated far into the 1960's and 1970's, when reformers like Ralph Nader and Common Cause denounced the political influence of well-financed

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1. M. OLSON, *THE RISE AND DECLINE OF NATIONS: ECONOMIC GROWTH, STAGFLATION, AND SOCIAL RIGIDITIES* (1982), *New Haven: Yale University Press*, Pp. xi, 237 [hereinafter cited as *NATIONS*].

2. A. SMITH, *THE WEALTH OF NATIONS* 159-181 (A. Cannan ed. 1976).

3. *THE FEDERALIST NO. 10* (J. Madison).

4. L. GOODWYN, *DEMOCRATIC PROMISE: THE POPULIST MOVEMENT IN AMERICA* (1976).

political action committees, trade associations, single-issue constituencies, and special-interest groups. Even as I write, Presidential candidate Walter Mondale is being attacked, with apparent effect, for being unduly loyal to such groups.

Criticism of the role of influential groups in American politics has come to dominate academic writing on the subject as well. It was not always thus. Early work by political scientists of the "pluralist" school, most notably Arthur Bentley and David Truman, took a decidedly benign view of group action.<sup>5</sup> They emphasized the open, unimpeded processes of group formation, the variety and multiplicity of groups in politics, and the socially desirable equilibria to which groups' complex interactions naturally led. To the pluralists, group political activity was functional, not pathological. It possessed a cybernetic logic, in which excesses were self-limiting and self-correcting.

The next generation of pluralist political scientists, perhaps best exemplified by Robert Dahl and Edward Banfield, studied group politics at the more microscopic level of the city.<sup>6</sup> Their work, while empirically richer and normatively more demanding than the Bentley-Truman genre, reached similarly optimistic conclusions.<sup>7</sup> A relentlessly organizational politics, they found, was firmly consistent with a coherent conception of the public interest. This conception was not simply a tautological or functionalist celebration of whatever policy outcomes the clash of private interests happened to generate, but a sophisticated, defensible approximation of a democratic ideal.

This happy pluralism, however, proved ephemeral. Indeed, even as those works were being written, new developments in national politics and in the academy were subverting their optimistic vision. By the late 1960's, the civil rights struggle, urban riots, the "war on poverty," and anti-war protest suggested to many that in the group politics game, the deck was stacked against certain interests.<sup>8</sup> A spate of books seeking to discredit pluralist theory appeared.<sup>9</sup> The most influential of these was almost certainly Theodore Lowi's *The End of Liberalism*. There, Lowi argued passionately that pluralism had degenerated into a lawless, unaccountable parody of democratic government. "Interest group

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5. A. BENTLEY, *THE PROCESS OF GOVERNMENT* (1949); D. TRUMAN, *THE GOVERNMENTAL PROCESS* (1951).

6. B. DAHL, *WHO GOVERNS?* (1961); E. BANFIELD, *POLITICAL INFLUENCES* (1964).

7. In Dahl's more recent work, however, he has begun to reach more pessimistic conclusions.

8. The political effectiveness of these efforts, of course, might have implied a somewhat different view. See, e.g., J. SKOLNICK *THE POLITICS OF PROTEST* (1969).

9. See, e.g., G. MCCONNELL, *PRIVATE POWER AND AMERICAN DEMOCRACY* (1966); H. KARIEL, *THE DECLINE OF AMERICAN PLURALISM* (1961).

liberalism", as Lowi called it, had been forged into an effective instrument of exploitation by which narrow interest groups had managed to seize the structures of discretionary, bureaucratic power.<sup>10</sup> They used this power self-consciously and self-interestedly to extract regressive subsidies, destroy competition, and consolidate their influence over a supine, complaisant administrative apparatus.

More than a decade before Lowi's book appeared, economists had also begun to criticize the pluralist vision of politics, but from another direction. In a seminal book published in 1957, Anthony Downs applied the rationality assumptions of microeconomic theory to the political behavior of individual voters and elected officials.<sup>11</sup> Downs later extended that analysis to the behavior of appointed bureaucrats.<sup>12</sup> Other economists, employing similar theoretical premises, developed optimizing models of regulatory, legislative, and even judicial action.<sup>13</sup> These models invariably predicted that well-organized groups would exert a disproportionate influence over official decisions, leading to inefficient, inequitable public policies. To these analysts, political decision processes were easily captured and readily distorted. Political allocations, they maintained, were almost always inferior to those of the market.

Perhaps the most interesting and fruitful effort to build upon this economic approach to politics was Mancur Olson's book, *The Logic of Collective Action*, published in 1965. There, Olson was primarily concerned with internal organizational behavior, not political behavior,<sup>14</sup> but he sought to account for an apparent paradox in organizational life that was of great political significance. The paradox is that although many individuals may have some interest in common, and although they may recognize and wish to act upon it, they will *not*—if they are rational—act in their common interest. Each individual, knowing where her self-interest lies and also knowing that her fellows' self-interests correspond to hers, will nevertheless fail to organize to achieve those common interests. Indeed, each will behave in this way despite the fact, presumably appar-

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10. T. LOWI, *THE END OF LIBERALISM: IDEOLOGY, POLICY AND THE CRISIS OF PUBLIC AUTHORITY* (1969).

11. A. DOWNS, *AN ECONOMIC THEORY OF DEMOCRACY* (1957).

12. A. DOWNS, *INSIDE BUREAUCRACY* (1967).

13. *See, e.g.*, G. STIGLER, *THE ORGANIZATION OF INDUSTRY* (1968); W. RIKER, *THE THEORY OF POLITICAL COALITIONS* (1962).

14. M. OLSON, *THE LOGIC OF COLLECTIVE ACTION* (1965). [hereinafter referred to as LOGIC]. The term "internal" is perhaps infelicitous in this context. Olson, like most modern organization theorists, views the organization not as a self-contained, discrete entity but as a looser structure of linkages and interactions between individuals, resources and goals.

ent to all, that each knows that this failure to act collectively may eliminate any hope of achieving the common goal.

Olson derived an explanation for this paradox from the economic theory of public goods. A public good is one that, once supplied to any individual, cannot feasibly be withheld from others. Once a public good is produced, the marginal cost of supplying an additional unit of it is usually very low (often zero) but the marginal cost of withholding it from others would be extremely high. Clean air, national defense, and law are common examples. Because public goods cannot be individually appropriated, voluntary market choices cannot assure their supply. Without some form of coercion or coordination, rational individuals will not contribute to the production of a public good. By waiting for others to contribute, each can hope to enjoy its benefits without sharing in the costs necessary to produce it. Moreover, each will recognize that her own contribution would neither significantly increase the probability that the good would be produced nor significantly affect the similar calculations of other rational individuals. Public goods, in short, fall victim to a massive "free rider" effect.

The important insight in *The Logic of Collective Action* was that most organizations are public goods in this fundamental sense. Accordingly, Olson's rational individual will neither join nor support organizations in the absence of some technique that can overcome the free rider effect. But since organizations in fact abound, how could Olson account for their existence? The answer lies in the notion of "selective incentives"—that is, incentives that an organization can extend to or withhold from individuals depending upon whether or not they contribute to the organization's support.<sup>15</sup> An organization's selective incentives may take many forms: legally-sanctioned coercion, such as a labor union's closed shop agreement; the threat of extra-legal sanctions against those who fail to join; or positive inducements, such as charter flights, group insurance, or patronage restricted to members. The social status or opportunity to rub shoulders that membership in a prestigious organization provides may also constitute an important selective incentive; if membership creates feelings of intense solidarity, that too may suffice to induce individuals' support.<sup>16</sup> Finally, if the organization is sufficiently small that an individual member can expect to appropriate a share of the organizational product that exceeds the costs to her of helping to produce it, she

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15. It should be noted that this idea was not original to Olson, but had been developed earlier by a number of organization theorists, notably Chester Barnard, in *THE FUNCTIONS OF THE EXECUTIVE* (1938) and Wilson & Clark, *Incentive Systems: A Theory of Organization*, VI ADMIN. SCI. QTRLY 129 (1961); J.Q. WILSON, *POLITICAL ORGANIZATIONS* (1973).

16. Olson emphasizes that this is likely only in small groups. LOGIC at 63.

will also have an incentive to join.<sup>17</sup>

For most organizations, however, and especially for large ones, Olson's paradox remains. Selective inducements sufficient to eliminate the free rider effect are often unavailable to them. Moreover, information about organizations is itself a public good, thus reinforcing the paradox. Such information is usually inadequate in amount, especially when it relates to complex political issues, and the rational citizen may have no incentive to inform herself about organizations and public affairs. This civic ignorance renders the formation and maintenance of large organizations designed to influence public policy even more problematic.

I have paused to describe the theory developed in Olson's earlier book because that theory constitutes the intellectual core of *The Rise and Decline of Nations*. In this review essay, I shall discuss the latter work in three sections. The first summarizes the main points of Olson's book; the second criticizes its theory in a number of respects; and the third explores some of the theory's implications for law and public policy.

## I

The structure of *The Rise and Decline of Nations* is straightforward. After summarizing the theory of collective action developed in his earlier book, Olson derives implications from it in the form of nine propositions.<sup>18</sup> Some propositions are causal statements that assert the exist-

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17. The amount of the organizational, product, however, apparently will be sub-optimal. See Appendix, LOGIC at 171.

18. The propositions are as follows:

1. There will be no countries that attain symmetrical organization of all groups with a common interest and thereby attain optimal outcomes through comprehensive bargaining.
2. Stable societies with unchanged boundaries tend to accumulate more collusions and organizations for collective action over time.
3. Members of "small" groups have disproportionate organizational power for collective action, and this disproportion diminishes but does not disappear over time in stable societies.
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.
5. 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.
6. Distributional coalitions make decisions more slowly than the individuals and firms of which they are comprised, tend to have crowded agendas and bargaining tables, and more often fix prices than quantities.
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.
8. Distributional coalitions, once big enough to succeed, are exclusive, and seek to limit the diversity of incomes and values of their membership.

ence of relationships between one or more social, organizational and economic variables. Implication #7, for example, holds that "Distributional coalitions<sup>19</sup> 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." Others simply describe a set of non-causal relationships between variables; for example, implication #8 holds that "Distributional coalitions, once big enough to succeed, are exclusive, and seek to limit the diversity of incomes and values of their membership." Most of the implications are quite plausible on their face, but only one seems self-evidently true (#1). Another—that "members of small groups have disproportionate organizational power for collective action"—struck this reader as controversial, if not counter-intuitive.<sup>20</sup>

The nine implications, taken together, comprise the essential theory of the book. Because it (as Olson proudly notes) is "certainly a simple" theory,<sup>21</sup> its main tenets (always subject, of course, to the condition that other things remain equal) can be briefly stated. Small, homogeneous distributional coalitions, Olson argues, are inimical to economic growth. These coalitions tend to advocate policies that will enable their members to obtain a larger share of the existing social product rather than support policies that will increase the quantity of that product. They therefore support policies that are socially inefficient, such as protective tariffs, rent control laws, and crop price supports so long as they can hope to appropriate a disproportionate share of the benefits for their members while externalizing the costs of those inefficient policies to non-members. But these coalitions will not support socially efficient policies if (as is usually the case) the costs they must incur to achieve those efficiencies exceed the benefits they can appropriate for their members. Larger organizations, in contrast, have a greater stake in more efficient policies. Because their membership constitutes a significant proportion

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9. The accumulation of distributional coalitions increases the complexity of regulation, the role of government, and the complexity of understandings, and changes the direction of social evolution.

NATIONS at 74.

19. This is Olson's term for special interest groups. He defines it to include those organizations that seek to increase the distribution of income and wealth enjoyed by their members. NATIONS at 44.

20. Although Olson's theory implies that small groups possess certain distinct political advantages that larger groups do not, it is also true that larger groups, especially if well distributed geographically, may translate their greater numbers into political influence. Cohesiveness and numerosity may often be inversely related, but that does not mean that each is not independently a valuable resource in democratic politics, especially in a legislature. For a similar point, see R. Posner, *Theories of Economic Regulation*, 5 BELL J. ECON. & MGT. SCI. 335-58 (1974).

21. NATIONS at 235.

of the entire population, such organizations<sup>22</sup> can capture a large share of the efficiency benefits, and that share may well exceed the costs to them of producing the more efficient policy.<sup>23</sup>

Olson also relates organizational behavior—and, ultimately, economic efficiency—to freedom of resource movement. He reasons that a stable society, and one that restricts the geographic and economic scope of the market in which its members buy and sell, will engender and sustain more distributional coalitions over time than a less stable one or one with open economic borders. Distributional coalitions, Olson maintains, also increase the role of government, the complexity of regulations, and the elaborateness of customs and understandings.<sup>24</sup> Most important, they reduce the society's economic growth rate because of their indifference to efficiency and their preoccupation with wealth redistribution.

Olson offers several corollaries as well. Although stable environments nurture distributional coalitions that retard economic growth, he contends, instability may equally impede growth; thus, upheavals in which the prospects for long-term stability are favorable are the situations most conducive to growth. Even more important for understanding the political dynamics of welfare state liberalism is his notion that the alleviation of poverty is itself a public good, subject to the same paradoxical organizational logic applicable to other public goods. Individual productive capacities, Olson suggests, are distributed more equally in the population than is the capacity to organize effective distributional coalitions. For this reason, progressive redistributive initiatives by government will often go awry, subverted by the power of existing, more effective coalitions. Finally, and importantly, Olson notes that the ability of a laissez-faire policy to promote economic growth is a variable, not a constant; its value simply cannot be accurately appraised apart from the organizational context in which it operates.

Having laid out his theory, Olson devotes the bulk of the book to testing it against a dazzling, extraordinarily eclectic array of empirical evidence. His theory purports to explain patterns of economic growth among different regions in the United States, among the so-called “gang of four” (Korea, Taiwan, Hong Kong, and Singapore), and in Germany, Japan, Britain, Holland, and France. Olson also applies it to explain the nature of the British class structure, the Indian caste system, the

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22. These “encompassing” organizations, as Olson calls them, create some difficulty for his theory. See *infra* at 369 *et. seq.*

23. NATIONS at 47-48.

24. One suspects that by this last phrase, Olson means to refer to the opacity or inaccessibility of social meanings and communications.

evolution of apartheid in South Africa, urban decay, governance patterns in the Third World, stagflation, business cycles, sticky wages and prices, and unemployment.<sup>25</sup>

Before evaluating Olson's claim, I should mention two remarkable features of his argument. One is related to expository style, the other to methodology. Through painstaking effort, Olson has managed to elaborate and defend a sophisticated theory of national economic growth without once resorting to professional jargon, mathematical formulae or other technical apparatus. His intended audience, to all appearances, is the serious reader without any special technical training, and that reader will find the argument perfectly accessible.<sup>26</sup> The clarity and simplicity of Olson's presentation are singular achievements in so intellectually ambitious a book.

Even more striking is Olson's scrupulous, even fastidious, attention to methodology and to the accurate statement and restatement of his claims. He frequently reminds the reader that his theory is incomplete, that the kind of theory that he has developed cannot be verified experimentally or rigorously, and that this strengthens the theorist's obligation to avoid grandiose, insupportable scientific claims. For one who believes that he has grasped an important truth, he is as candid about the limitations of his approach as can reasonably be expected. He clearly articulates what he means by a good theory, what constitutes probative evidence, and how his hypotheses might be refuted. He distinguishes between weak and strong supporting evidence and calls the reader's attention to data that cast some doubt upon his conclusions. Again and again, he reminds us that his theory is not offered as a monocausal explanation of differential economic growth rates but is intended only to emphasize one important and neglected factor contributing to those differences.

Punctiliously respectful of the analysts upon whose work he has drawn, Olson is also extremely charitable to others, like the monetarists and equilibrium theorists, whose approaches he considers but ultimately rejects. His macroeconomic policy prescriptions are modest and (with one exception)<sup>27</sup> non-controversial; Olson assures us, however, that this circumspection has less to do with the putative policy relevance of his theory than with his intention to address such questions at length in another book.<sup>28</sup> In short, *The Rise and Decline of Nations* combines auda-

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25. Although Olson's theory does not explain the National League's persistent domination of the All-Star game, one suspects that the omission is simply an oversight.

26. For the initiated, Olson provides a technical bibliography and explanatory notes.

27. The exception is his proposal for a tax-based income policy, see *NATIONS* at 234.

28. *Id.* at 233.

cious, imaginative yet parsimonious theory-building with a deep intellectual integrity. If it accomplished no more than that, it would constitute an impressive piece of work.

In fact, *The Rise and Decline of Nations* accomplishes a great deal more. It tackles a problem of awesome complexity and profound significance—the economic performance of democratic societies in the recent past and in the future. In an admirable but all too rare example of professional self-criticism, it deploys careful economic analysis to appraise the disappointing efforts by economists to explain this phenomenon. It isolates an important ingredient of the problem and illuminates it by resourcefully integrating theory and evidence. And it advances hypotheses that will surely facilitate and stimulate both criticism of Olson's own work and efforts by others to extend and refine it.

## II

Ambitious, broad-ranging theories about large social phenomena inevitably invite disappointment and disagreement. Creative, useful theory-building in social science demands radical simplification; realities must be stripped of their complexity. Finding the appropriate level of factual detail is one of the theorist's most difficult challenges. It is almost always possible to say of such theories, therefore, that they overgeneralize, overlooking important contextual details that render their hypotheses contingently, rather than universally, true. Olson's theory is no exception. For all of its valuable insights and creative use of evidence, it presents many difficulties of this kind. Some of these may prove tractable to subsequent refinement, but many, I strongly suspect, inhere in the limited power of social science methods when applied to phenomena as stupefyingly diverse and complex as national economies. In saying this, however, I do not in any way mean to dim the lustre of Olson's effort and achievement. On the contrary, the skill with which he has pressed against and even expanded those methodological and intellectual limits deserves enthusiastic praise. *The Rise and Decline of Nations* represents social science theory-building at its very best.

A critique of Olson's theory might well begin by noting the weakness and ambiguity with which he specifies its principal variables. The idea of a "distributional coalition," the conceptual centerpiece of Olson's schema and the subject of no less than four pages of definitional discussion,<sup>29</sup> raises some troublesome questions at the outset. For Olson, the defining characteristic of such an organization is a purpose to redistrib-

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29. *Id.* at 43-47.

ute "income and wealth" rather than to increase efficiency and output.<sup>30</sup> One wonders whether environmental, civil liberties, and other "public interest" groups would qualify under this definition. Their activities, after all, significantly affect the distribution of income and wealth; indeed, they may affect economic growth in precisely the ways that most concern Olson. Nevertheless, that is not their essential goal—unless, of course, income and wealth are defined tautologically to include anything that anyone values. This particular ambiguity actually reflects a larger problem with Olson's theory, one that afflicted *The Logic of Collective Action* as well. I refer to its inability to explain widespread voluntary support for large "public interest" groups, such as the American Civil Liberties Union and the Moral Majority, that do not distribute significant selective incentives.

Olson does not ignore this problem but neither does he give it the attention that it deserves. He seeks to resolve it (in a textual footnote) by acknowledging the existence of altruistic motives for organizational support. Olson distinguishes between "rational" and "participatory" (or "Kantian") altruists. The first type includes individuals whose preferences take account of the effect of the organization's collective goals on the welfare of others. Like rational non-altruists, he maintains, they will not contribute to organizations, for they too will yield to the free rider effect. Participatory altruists, however, are a different breed. According to Olson, they derive personal benefit "not from observably better outcomes for others, but rather from [their] own sacrifices for them."<sup>31</sup> Such a motive does not implicate the free rider effect and actually demands personal contribution to the organization for its satisfaction. Thus, contributions from participatory altruists will be forthcoming, Olson concedes, "even in the largest groups."

This concession naturally leads one to ask two further questions: how common is participatory altruism, and how much organizational behavior can be explained by it? Olson's response to these questions—that this "is presumably not the usual form of altruism"—is decidedly inadequate. It is especially so if one speculates that much participatory altruism is animated not by the pleasures of self-sacrifice that Olson mentions but by the somewhat different pleasures of participation in a large, collective effort. Common observation of organizational life, as well as the intuitions of classical political theorists, suggest that the impulse to participate in civic affairs is an important element of what it means to be a human, social being. Participation is an intrinsic, not merely an instru-

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30. *Id.* at 44.

31. *Id.* at 20.

mental, value, especially in a liberal society in which voluntarism helps to legitimate activity. And although we do not, and probably cannot, know what proportions of altruistic behavior are “rational” (that is, purely other-regarding), participatory and self-sacrificing, much less what proportion of organizational behavior can be explained by each, one can say with some confidence that participation is a very common motive in American organizations.

Olson’s exclusive preoccupation with rationality (even as enlarged to include “rational altruism”) reveals both a strength and a weakness of economics as a professional discipline. The rationality assumption makes it possible for Olson to construct a theory that appears to be rigorous and testable. This move, however, demands that the theory relegate non-rational motives to the margins and interstices of organizational life. It also demands that we imagine, however implausible it may be, that the same kind of motivation fuels organizations as disparate as Common Cause, the Iron and Steel Institute, the Republican Party, and the World Council of Churches.<sup>32</sup>

If Olson’s notion of “distributional coalition” rests upon questionable motivational assumptions, other key concepts are problematic in other respects. “Stability” and “encompassing organizations,” for example, play important roles in the theory, yet definitions—even tentative, working definitions—are neither provided nor self-evident. In discussing how stability affects economic growth in less developed countries, Olson apparently has in mind some notion of political consensus and continuity.<sup>33</sup> Elsewhere, however, he uses it to suggest a set of more general conditions conducive to organizational development, without ever specifying what those conditions might be.<sup>34</sup> The difference in these meanings may be significant when it comes to testing his theory empirically. The period of the 1960’s, for example, was manifestly a period of political instability in the United States, yet it was also a seed-time for distributional coalitions such as community action organizations, welfare rights groups, and environmental and consumer associations.

The idea of “encompassing organizations,” so central to the theory, is also vague. Although Olson emphasizes the different, more socially responsive incentives that such organizations face by reason of their broad

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32. Olson’s main interest, of course, is in organizations that influence national economic growth. Significantly, however, the scope of his organizational theory is not so limited, nor does he suggest how such a limitation could be defined and applied empirically.

33. *NATIONS* at 165.

34. *Id.* at 40.

membership,<sup>35</sup> he provides no criterion (other than “membership constituting a substantial portion of the societ[y]”)<sup>36</sup> that might enable us to know an encompassing organization when we see one. The problem is not that Olson fails to furnish neat, well-defined categories; the subject simply does not admit of that. Rather, the problem is that the category itself turns out to be amorphous. Because organizational size is a very important variable in his theory—the idea of encompassing organizations is the basis for one of its major implications (#5)—this is a crucial defect. Thus, Olson, after citing the efficiency-seeking incentives of encompassing organizations, concedes that they may also possess more monopoly power, which of course is the power to impose social inefficiencies.<sup>37</sup> He goes on to observe that such organizations are often paralyzed by internal conflicts of interest and therefore are unable “to have any great influence on public policy, or even coherent and specific policies.”<sup>38</sup> My point is not that all organizations and political structures are equally capable of taking the broad view.<sup>39</sup> It is that Olson’s theory is internally inconsistent in important respects and cannot predict the circumstances under which organizations will behave in the efficiency-enhancing way that he describes and wishes to encourage.

A second set of difficulties, related to the first, once again involves Olson’s crucial independent variable, the distributional coalition. The problem here is his failure to clarify the precise aspect of such coalitions upon which the theory relies. Is it the *formation* of coalitions? Their *activities*, once formed? Or the *consequences* of those activities? If it is the latter, as I suspect, then the theory fails because it tells us little about what those consequences will be, or even about their general character or tendency. Suppose, for example, that the theory predicts (as it does) that a small, relatively homogeneous group of auto manufacturers will organize to seek tariff protection from low-cost imports. Can the theory help us to predict the circumstances under which that effort will in fact be successful? Is it not possible, perhaps even probable, that such a distributional coalition will precipitate at least an equal and opposite counterforce in the form of organizing efforts by importers of foreign-made autos and by exporters and others with a stake in free trade, thereby neutralizing the domestic automakers? Empirical study and casual observation both suggest that this political dialectic often oc-

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35. See *supra* at 365.

36. NATIONS at 47.

37. *Id.* at 49.

38. *Id.* at 50.

39. On the contrary, I have argued elsewhere in favor of constitutional reforms that would tend to redress the existing imbalance in favor of localistic politics. See Schuck, “Industrial Policy’s Obstacles,” N.Y. Times, September 6, 1983 at A23.

curs.<sup>40</sup> Olson might respond that the resulting political synthesis—the ultimate policy comprise—*might* still be more inefficient than if such distributional coalitions could not organize effective political power. But if the theory is indeterminate on this point, if it cannot tell us when or even whether such a response will occur (and it is difficult to see how it can), then how useful are Olson's propositions about the organizational determinants of economic growth?

The theory also does not take adequate account of either the conflicts of interest *within* distributional coalitions, or of the divergence between the goals of an organization's leaders and the rank-and-file. Although Olson does recognize the existence of intra-organizational conflicts,<sup>41</sup> he fails to explore the implications of this ubiquitous phenomenon for the hypothesized relationship between coalitions and economic growth. This omission is especially striking because such conflicts are most likely to occur within precisely those organizations—the ones that Olson describes as “encompassing”—that the theory predicts are most likely to pursue socially efficient policies.<sup>42</sup> By the same token, the theory assumes (contrary to much evidence) that one can predict an organization's actions by knowing (or supposing that one knows) the (putatively monolithic) interests of its individual members.

In the short run, at least, Olson's own theory would lead one instead to expect the opposite. Precisely because organizations pursue public goods and because information about intra-organizational activities and politics (as well as about the external public goods that they seek) is a public good, organizational leaders should be expected to behave rather differently than their individual members. The former, after all, receive special *selective incentives* (that is, benefits that can be granted to some and withheld from others) merely by virtue of their organizational status and privileges, while the latter face incentives of quite another sort. It is commonplace, for example, that leaders of labor unions and other organizations are often more disposed to negotiate and compromise with competing organizations than are their less conciliatory rank-and-file.

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40. See R. BAUER, I. POOL & L. DEXTER, *AMERICAN BUSINESS AND PUBLIC POLICY: THE POLITICS OF FOREIGN TRADE* (1963) for a careful study of the politics of foreign trade policy. The controversy over the so-called “domestic content” legislation is a current example. The House has passed H.R. 1234, a proposed Fair Practices and Procedures in Automotive Products Act of 1983. The bill requires that Motor Vehicles for Sale in the United States contain a specified level of parts manufactured in the United States. 98th Cong., 2nd Session.

41. *NATIONS* at 91.

42. Olson also seems to presume that an organization that possesses an incentive to seek efficient policies will be able to discern clearly what those policies are. This is a highly dubious presumption, especially when organizations are not profit-seeking enterprises, which is commonly the case with lobbying groups, or when market imperfections provide distorted signals even to for-profit firms.

The truth of the matter is that the *ceteris paribus* condition—the fundamental assumption that gives Olson’s theory its apparent explanatory power—seldom if ever obtains in the real world. In fact, it conceals numerous sources of variation in organizational behavior and effectiveness and in the relationship of these variables to economic growth. In the realm of broad-gauged social theory, of course, it could hardly be otherwise. Unfortunately, the fact that Olson repeatedly concedes this difficulty does not diminish its weight in appraising the power of his theory.

A third class of problems has to do with Olson’s data and the possibility of alternative explanations for differential growth rates. It is difficult for this reviewer, as a non-specialist, to evaluate the unusually diverse melange of evidence that Olson has adduced to test and confirm his hypotheses. Precisely because many of these data are technical, historical and often somewhat impressionistic, however, I suspect that the specialist will often be uneasy with the way in which Olson uses them. Even as a “lay” reader, I was troubled by at least one statistical assumption—that a region’s stability and consequent rate of organizational formation will affect its rate of economic growth, but that the causality will not run the other way.<sup>43</sup> This assumption strikes me as implausible, for there is reason to believe that rapid economic growth will indeed stimulate organizational growth and activity. In part, this is because organizational participation is highly correlated with individual income and that correlation probably obtains at the national level as well. In part, it is because economic growth tends to create conditions, such as urbanization, environmental pollution, and social change, that citizens frequently seek to control or influence through collective activity. In addition, Robert Crandall’s<sup>44</sup> analysis of the strategic use of Clean Air Act regulation to influence inter-regional economic competition suggests that differential growth rates may sometimes encourage distributional coalitions to form, coalitions that may in turn affect the distribution of economic growth among regions.

Olson readily acknowledges that it is usually possible to propose alternative accounts of the phenomena that a theory such as his purports to explain, and he proceeds to consider a number of them. The most obvious alternative candidate is the “catch-up hypothesis”—the notion that much or all of the differential in growth rates may be due to the differ-

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43. NATIONS at 98.

44. R. CRANDALL, CONTROLLING INDUSTRIAL POLLUTION: THE ECONOMICS AND POLITICS OF CLEAN AIR (1983); R. CRANDALL, THE U.S. STEEL INDUSTRY IN RECURRENT CRISIS (1981).

ence in the original base levels from which growth is measured.<sup>45</sup> Olson concedes that this hypothesis is also consistent with most of the data. Yet instead of concluding that this concession could diminish the attractiveness of his own, far less parsimonious theory, he simply observes that the two theories are “compatible”. Unless I am mistaken, however, these alternative explanations, far from being compatible, are in fact direct competitors; that is, to the extent that the catch-up hypothesis accounts for the observed differences in growth rates, Olson’s theory is unnecessary.

Other alternative explanations also may readily be imagined. For example, regions and nations are endowed quite differently with human, physical or other economically-relevant resources. From this perspective, observed growth patterns and differentials may reflect the changing economic relevance over time of certain types of natural endowments and investments in human capital, rather than reflecting organizational strategies. Thus, if Japan’s growth rate now exceeds that of many resource-rich countries such as the United States or Canada, it may be because Japan has invested more heavily in the kind of educational system that generates high pay-offs in a post-industrial society. Perhaps Olson would respond that this educational strategy is really only a spurious explanation of growth rates—that is, it is only possible *because* Japanese organizations are fewer and more encompassing than American ones and therefore encourage such educational policies. In the absence of evidence, however, such a response seems unconvincing.

### III

Olson’s theory, as he emphasizes, is built upon the paradoxical logic of collective action, a logic that impels organizations to seek narrowly appropriable, socially inefficient benefits for their members in order to overcome the public goods feature of most public policies. But the theory also suggests another, and in some ways more far-reaching, paradox that Olson does not develop. It is the idea that the remarkable success of liberal democracy in America is self-destructive, bearing the sources of its own demise.

Traditional liberalism located ultimate political and moral values in the individual citizen; the ends of the state were nothing more than an aggregate of these individual ends. Liberal constitutionalism was primarily a quest for legal institutions capable of protecting the processes by which individuals formed and acted upon those purposes. A core

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45. NATIONS at 114.

constitutional value, then, was the individual's freedom to pursue her self-interest in voluntary cooperation with others. This value implied the related rights of contract and of associational activity.

Associational freedom was especially precious for several reasons. First, it was essential to the creation and maintenance of institutions that could stand between the individual and the state. These mediating institutions, including the family, religious organizations, civic associations, labor unions, and the like, could enlarge individuals' stature and capacities for self-realization, while also limiting the potentially pernicious powers of government. Second, the fundamental structures and arrangements in a liberal political and economic order were established largely through a process of group conflict and negotiation. Indeed, associational freedom was prior to contractual freedom, for freedom of contract was one of the social institutions whose very scope and meaning were determined by group-dominated political activity. This was particularly true in those domains of social life—most notably the production of externalities, the pursuit of public goods, and the creation of non-market values—in which even legally-protected contractual activity could not be counted upon to yield optimal social outcomes. Thus, associational freedom promised to help resolve some of liberalism's most profound internal dilemmas—the atomizing, deracinating, alienating tendencies of radical individualism,<sup>46</sup> and the need to translate individual preferences into credible, legitimate political outcomes.<sup>47</sup> It is no wonder, then, that Courts interpreting the Constitution have sedulously protected associational freedom<sup>48</sup> in the latter's many manifestations, and that the United States has attained the highest level of voluntary organizational activity in the world.<sup>49</sup>

The menacing paradox that Olson's theory reveals is not simply that this happy marriage of associational freedom and liberal politics is on the rocks, but that the marriage's past triumphs may well have made the current, growing breach irreconcilable. This notion reminds one of Joseph Schumpeter's argument in his classic of four decades ago, *Capital-*

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46. See, e.g., Thomas Hobbes' chilling description of the "masterless man" freed from conventional restraints, *LEVIATHAN* (1651); and Emile Durkheim's account of "anomie" in liberal society, *THE DIVISION OF LABOR IN SOCIETY* 353-373 (1933).

47. By this, I mean the operational problem of a political system in communicating among members, leaders and institutions, not the logical problem of establishing and implementing a "social welfare function" consistent with individual preferences.

48. See, e.g., *NAACP v. Button*, 371 U.S. 4156 (1963); *NAACP v. Claiborne Hardware Co.*, 458 U.S. 886 (1982).

49. G. ALMOND & S. VERBA, *THE CIVIC CULTURE: POLITICAL ATTITUDES AND DEMOCRACY IN FIVE NATIONS* (1963); G. ALMOND & S. VERBA, *THE CIVIC CULTURE REVISITED* (1980); ALEXIS DE TOCQUEVILLE, *DEMOCRACY IN AMERICA* (1945).

*ism, Socialism and Democracy*.<sup>50</sup> There, Schumpeter predicted that the same material prosperity that had been capitalism's greatest gift to liberal democracy would erode and ultimately destroy the moral and social values upon which capitalism rested, leading to its eventual downfall as an economic and ideological system. By a similar kind of perverse social logic, it would seem that one of liberal democracy's great political innovations—the constitutionally-protected and legally-encouraged freedom to form purposive organizations—may threaten to undermine the political creativity of that order, sapping its ability to respond flexibly and effectively to new challenges and circumstances. Even more ominous, this logic suggests that the processes of social sclerosis and political ossification that “special interest” group politics engender may well be cumulative, self-reinforcing and perhaps even irreversible.

I hasten to add that Olson neither carries his analysis this far nor makes this dire prediction. It is a conclusion, however, to which his own logic seems inexorably to lead. It is unfortunate, therefore, that Olson devotes only a single page, the last of his book, to this extremely troubling and profoundly important question, and that his summary treatment of it is so unsatisfying. After noting that the political activity of distributional coalitions is not the only factor that determines economic growth, he observes that ideas are sometimes decisive. In particular, Olson suggests, the melancholy implications of his own theory might, if communicated to and believed by enough people, generate “irresistible political support for policies to solve the problem that this book explains.”<sup>51</sup> In that event, which Olson concedes is “extraordinarily unlikely”, the society might manage to avert the impending disaster.

Olson's own theory, unfortunately, gives us scant reason to believe that such a rescue would in fact occur. As he admits, the special interests would organize to prevent the repeal of legislation that confers their narrow benefits;<sup>52</sup> moreover (as he fails to point out), efforts to inform and persuade citizens that the system is failing are themselves public goods that the market will under-supply, thereby augmenting the already great political advantages of the existing distributional coalitions. To these brute facts and grim logic, Olson's wistful parting rejoinder—affirming the power of ideas and hoping that a “wider awareness will greatly limit the losses from special interests”—seems like so much whistling past the graveyard.<sup>53</sup>

A more meaningful response to this dilemma—one fully consistent

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50. J. SCHUMPETER, *CAPITALISM, SOCIALISM AND DEMOCRACY* (1942).

51. *NATIONS* at 236.

52. *Id.* at 236-237.

53. Characteristically, Olson is aware of and does not seek to conceal the weakness of this

with Olson's theory—might be that at some point in the slide toward national economic decay, the costs of inefficiency would become so great that they would begin to enter the individual calculations of the self-interested distributional coalitions themselves. To put the point another way, the social inefficiencies of special-interest advantages may so reduce the size of the entire pie as to impair the ability of individual coalitions to obtain their customary slices by externalizing those inefficiencies. In that event, rational self-interest might prompt even a large but non-encompassing coalition to relinquish some of its power in order to obtain for its members their appropriable shares of the resulting increased social efficiencies, thereby improving their net positions. On a smaller scale, the recent "give-ups" agreed to by certain powerful labor unions are vivid manifestations of this possibility. Again, however, the likelihood and adequacy of this kind of response would be limited by the perverse effects of "free rider" incentives, which would encourage each coalition to resist such sacrifices in the hope that sacrifices by other coalitions would render its own unnecessary.

If associational freedom has paradoxically created political conditions that threaten America's economic and political viability, and if these conditions are unlikely to be self-correcting (except, perhaps, in the long run when, as Keynes remarked, we are all dead), what are we to do? Olson cannot help us here, for he eschews (at least until his next book) any policy implications beyond those of a purely economic sort.<sup>54</sup> If his theory and my analysis of it are correct, however, the problem is far more basic and systemic, transcending the boundaries of economic policy and going instead to the very foundations of our constitutional and political structures. If this is indeed our situation, then a more thoroughgoing set of responses to the problem of institutional inertia and political paralysis must be considered. A book review is hardly the place to canvass the possibilities, much less evaluate them. Nevertheless, a very brief discussion of a number of different avenues to reform (some of which I personally would not endorse) may be an appropriate way to conclude this essay.

One approach would attempt to discourage the initial formation of distributional coalitions and restrict particular organizational activities that significantly shape the political process and through it, the nature of our economic system. For example, statutory impediments might be created, or judicially-developed antitrust principles applied, to limit the

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position. His final sentence is: "That is what I expect, at least when I am searching for a happy ending." *Id.*

54. NATIONS at 232-234.

opportunity of potential competitors to collude in economic and political life. These techniques, however, are severely constrained by First Amendment norms protecting the right to form groups<sup>55</sup> and the right to use the legislative, administrative, and judicial processes to advance groups' political-economic agendas.<sup>56</sup> They also protect, within limits, the ability of interest groups to influence the political process through campaign contributions or publicity.<sup>57</sup> Furthermore, even valid limitations of this kind of activity are as a practical matter extremely difficult to enforce effectively. In short, the elevated constitutional status of associational freedom would make significant inhibition of organizational activity unlikely, even if that approach were thought to be wise and politically feasible.

A second approach, one that Olson's theory explicitly supports, would be to pursue a systematic strategy of what he calls "jurisdictional integration". The basic notion, borrowed from Adam Smith and James Madison, is that enlarging the domain within which economic and political interests must compete reduces the amount of influence that any small number of interests can exert.<sup>58</sup> "Extend the sphere," Madison wrote in *The Federalist, No. 10*, "and you take in a greater variety of parties and interests; you make it less probable that a majority of the whole will have a common motive to invade the rights of other citizens; or if such a common motive exists, it will be more difficult for all who feel it to discover their own strength, and to act in unison with each other."<sup>59</sup>

One difficulty with this "jurisdictional integration" strategy, of course, is that by altering the scope of conflicts and opportunity, it engenders strong, often irresistible, political opposition. Free trade is thus thwarted by strong protectionist thrusts by labor unions and corporations. Free immigration is opposed by unions and certain other interests that can appeal to nationalistic impulses as well as self-interest. Trans-

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55. See *supra* p. 373 *et. seq.*

56. *E.g.*, *Eastern Rail. Pres. Conf. V. Noerr Motor Frgt., Inc.* 365 U.S. 127 (1961); *United Mine Workers of America v. Pennington*, 381 U.S. 657 (1965).

57. *Buckley v. Valeo*, 424 U.S. 1 (1976); *First National Bank of Boston v. Bellotti*, 435 U.S. 765 (1978).

58. Smith stressed the value of a free trade system:

According to this liberal and generous system, therefore, the most advantageous method in which a landed nation can raise up artificers, manufacturers, and merchants of its own, is to grant the most perfect freedom of trade to the artificers, manufacturers and merchants of all other nations. It thereby raises the value of the surplus produce of its own land, of which the continual increase gradually establishes a fund, which in due time necessarily raises up all the artificers, manufacturers and merchants whom it has occasion for.

SMITH, *supra* note 3 at 192.

59. See *supra* note 2 at 61.

national political cooperation is hobbled by forces of a similar character.<sup>60</sup> The power of these coalitions does ebb and flow over time and there has been a pronounced long-term trend against protectionism. Nevertheless, opposition to integration is likely to remain formidable in any conceivable future. Another difficulty with such a strategy, at least insofar as jurisdictional integration requires more centralized administration of activity, is that it may place greater responsibilities upon governance and coordinating structures than centralized organs can effectively discharge.

A third approach would seek to shift the allocation of decisional initiative and power within existing jurisdictions rather than redesigning the jurisdictions or organizations themselves. It would attempt to narrow, rather than expand, the domain in which key decisions are made, thereby altering the power stakes, resources, and patterns of decision. Its essential idea is that if special interests dominate certain political structures, it might be possible to attenuate their power somewhat by remitting decisions to other processes in which those interests play a less commanding role. Deregulation of previously regulated markets, such as air travel and financial institutions, is one manifestation of this idea. Another is administrative decentralization of certain governmental functions, such as the operation of public school systems, to local community boards. Yet another is the ideal of economic democracy, in which workers would be given greater personal and group stakes in the productivity and performance of their employers, sharing power that has traditionally been reserved to management.<sup>61</sup>

The problems with these strategies center not only on the persistence of political and administrative obstacles to implementing them, but also on the sheer intellectual difficulty of specifying the circumstances under which they are likely to be successful. Occasionally, however, good theory may combine with empirical support and political skill to produce a basic change in the location of decisional initiative that Olson's theory concerning organizational resistance to reform would not have predicted. The dismantling of the Bell System and the deregulation of telecommunications are important reminders that this is not a utopian suggestion.

A fourth approach would emphasize appeals to the common interests

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60. The recent difficulties of the United Nations and the Common Market in sustaining their current levels of economic and political integration is a dramatic example of the latter.

61. Robert Reich is a prominent advocate of this approach. See, e.g., *Why Democracy Makes Economic Sense*, THE NEW REPUBLIC, December 19, 1983 at 30 (review of Olson's book). For a more extended discussion, see R. REICH, THE NEXT AMERICAN FRONTIER: DECLINE AND RISE OF THE AMERICAN ECONOMY (1983).

of the society, to the transcendent unities that bind us rather than to the fragmented allegiances that divide us. This is an important technique of political leadership in all seasons. In some circumstances, such as during war, severe economic depression, or other occasions of widely-perceived national peril, appeals for mutual sacrifices for the common good may succeed for a time in suppressing the energetic assertion of special interests. Under more normal conditions, however, such appeals almost inevitably degenerate into the sloganeering rhetoric of WIN buttons and bumper stickers. It is doubtful that any meaningful, enduring response to the pervasive problem of special interest group politics can be constructed on such an episodic basis.

A fifth approach would be to redefine the problem of organizational power by actively encouraging the emergence of more and different organizations, rather than seeking fewer of them. Public policy could seek to intervene selectively in order to influence the pluralistic process itself. In a kind of political version of genetic engineering, it could design, create and nurture innovative, countervailing organizations that might neutralize the power of existing distributional coalitions.

This approach has often been attempted during our recent history. The community action programs of the Great Society era, for example, were designed to precipitate precisely this kind of organizational growth, bringing new, relatively unrepresented interests into the political bargaining process. Other policies, such as the adoption of fee-shifting rules<sup>62</sup> and requirements of broad public participation in the administrative process,<sup>63</sup> may alter the incentives and structure of the advocacy process, thereby producing much the same effects.

Organizational development policies of this kind cannot avoid the inevitable fostering of parochial self-interest in the newly-formed groups. But such policies do have the advantage of transforming the necessity of special interest group power into the virtue of a more balanced, encompassing pluralism. They also recognize a salient political fact that is easily forgotten—that in the modern administrative state, the most powerful and least controllable special interest groups may well be public bureaucracies rather than labor unions or large corporations, and that an enhanced advocacy process can be an important technique for bringing those often self-serving public bureaucracies to heel.

The dangers of this approach, however, cannot be ignored. Political elites may simply spawn new groups in order to co-opt them for their

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62. 42 U.S.C. § 1988 (1976) (proceedings in vindication of Civil Rights—attorney's fees).

63. Sunshine Act of 1976, 5 U.S.C. § 552(b) (1976); also The Federal Advisory Committee Act of 1976, 5 U.S.C. App. § 1 *et. seq.* (1972).

own parochial purposes.<sup>64</sup> A self-conscious, governmentally-sponsored policy of organizational development may create political constituencies that all too quickly become artificial, self-interested and self-perpetuating. Perhaps most troubling, such a policy may simply elevate special interest group politics to a higher level of organizational conflict and political stalemate. This rarefied battlefield may be one on which, to paraphrase Grant Gilmore, government can no longer effectively govern but the punctilio of pluralism is meticulously observed.<sup>65</sup>

Another strategy, of course, is to do nothing, simply maintaining the *status quo*. There is much to be said for this approach. As I write, the American economy continues to grow at a rapid rate, with relatively stable prices, expanding employment, and rising productivity. Even measured over a longer period, recent economic performance has been remarkable, especially its ability during the last decade to generate new jobs in the face of an enormous influx of new, often inexperienced workers—most notably women, undocumented aliens and “baby boomers” entering the job market.<sup>66</sup> At least compared to the other Western democracies, plagued by high energy costs, declining population, and large state bureaucracies, our economic prospects appear to be excellent. During this same period of economic growth, the process of political group formation actually accelerated, as the much-bruited, much-misunderstood phenomenon of “single issue” and “special interest” politics suggests. Many Americans will regard both developments, on balance, as benign, enlarging the transformative power and responsiveness of our economic and political systems. For such people, the “if it ain’t broke, don’t fix it” principle will seem applicable to this case.

Others, however, will not be convinced by this optimistic account of contemporary American society. They will insist instead upon structural changes to prevent what they perceive as the steady sapping of America’s economic and political lifeblood. For them, more drastic interventions will seem imperative, and the approaches that I sketched earlier (or others) may be attractive. They will argue that a liberal society like ours can self-consciously shape its organizations, and hence its

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64. See e.g., P. SELZNICK, *TVA AND THE GRASS ROOTS* (1966).

65. G. GILMORE, *THE AGES OF AMERICAN LAW* 110 (1977).

66. “Total employment grew by 24 percent in the United States during [the 1970’s]. The next best performer was Japan, with a 9 percent increase. Other countries were far behind; in Germany, for example, employment actually fell. Moreover, the United States was one of only three major industrial countries—Italy and Canada having been the others—with any increase in *manufacturing* employment.” Schultze, *Industrial Policy: A Dissent*, *THE BROOKINGS REVIEW*, Fall 1983, at 5. During that decade, per capita disposable income grew at an average of 2.2 percent a year above the inflation rate; this growth rate was less than in the 1960’s (3%) but well above the rate in the 1950’s (1.2%). CLARK, *Digging A Grave*, *NATIONAL J.* Oct. 29, 1983, at 2278.

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political destiny in many ways, even in the face of the current Supreme Court's expansive understanding of the reach of the First Amendment.<sup>67</sup> They will say of the pluralistic *status quo*, as Justice Jackson said of the Constitution, that it is not a suicide pact.

Fortunately, we have not yet reached the point at which such fundamental constitutional choices must once again be made. In my view, it is highly doubtful that we ever shall. *The Rise and Decline of Nations*, then offers us a provocative analysis and a valuable warning. It does not, however, foretell an ineluctable fate.

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67. *Supra* notes 55-57.

