# BOOKS

## Does Great Prosperity Take Little Rebellions?

**The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities**
*By Mancur Olson*
*New Haven and London: Yale University Press. 1982. 273 pp. $14.95*

Reviewed by Pierre Lemieux

How could it possibly happen that an auto worker who is willing to work to buy food cannot find a job, while there is a food-plant worker who wants a car in exchange for his production but has just been laid off? How can there be involuntary unemployment? *This* is the puzzling question.

Similarly, how can we explain underdevelopment? For, as economist Mancur Olson writes, "An economy with free markets and no government or cartel intervention...grows rapidly without special effort or encouragement"—witness Korea, Taiwan, Hong Kong, and Singapore, or all Western countries two centuries ago.

A University of Maryland professor, Mancur Olson is the well-known author of another seminal book, *The Logic of Collective Action* (1966), which provided the theoretical basis for his current analysis of the rise and decline of nations. Olson argues that individuals with a common interest will not voluntarily act collectively to further this interest unless each individual has a rational incentive to participate in such collective action. Whether the group action aims to lower taxes or repeal a tariff or set cartel prices, each individual will reason that the impact of his own participation will be negligible, while on the other hand he will automatically share in the benefits obtained by others who would bear the costs of participation.

The logic of collective action leads to more collective organization among small and homogeneous groups—for example, producers—than among large and diverse groups—for example, consumers. In a small coalition, the individuals' participation matters and the benefits are shared among fewer individuals. In addition, a relatively small and homogeneous group can more easily provide its members with private goods (such as group insurance) as incentives.

Since not all groups face comparable incentives to engage in collective action, it follows that "there will be no countries that attain symmetrical organization of all groups with a common interest and thereby attain optimal outcomes through competitive bargaining." This is Olson's first basic theorem. Moreover, it takes time and a stable environment for all the conditions and entrepreneurship necessary for collective action to be organized. Whence the second theorem: "Stable societies with unchanged boundaries tend to accumulate more collusions and organizations for collective action over time."

**Mancur Olson**

These special-interest organizations are really *distributional* coalitions, contends Olson. Their incentives are such that they are "overwhelmingly oriented to struggles over the distribution of income and wealth rather than to the production of additional output." The reason is that the social cost of their actions is diffuse over the whole society, while benefits are concentrated among members.

Two hundred thousand textile producers and workers in, say, a nation of 20 million (roughly the Canadian case) will collectively pay only 1 percent of the social cost of protectionist measures, while they will get all the benefits. It will therefore be in their interest to further protectionism *even if its social cost is as much as 100 times larger than its social benefits.*

Distributional coalitions achieve their purpose by obtaining legal and regulatory privileges from government, cartelizing wages and prices, and restricting competition. They thus increase the role of government, reduce the mobility of factors of production, slow down society's adaptation to change, and create rigidities in wages and prices. The third Olson theorem follows: distributional coalitions reduce efficiency, economic growth, and aggregate income, and they exacerbate economic contractions.

Consider the central problem of wage fixing by trade unions and, especially, the enforced wage fixing they obtain from government through minimum-wage laws. Like apprenticeship rules, minimum-wage rates are a device used by laborers' coalitions to keep out competition from the unemployed or underemployed. In this way, for example, white trade unions have successfully excluded competing black labor from supervisory jobs in South Africa.

As John Maynard Keynes saw, unemployment in a recession is basically caused by sticky wages that prevent the unemployed from bidding down wages. Instead of prices, quantities must adjust: real income drops, and employment takes the slack. But what Keynesians do not understand is that the more effective distributional coalitions are, the more severe the business cycle. Moreover, if inflation has become expected and has been built in through coalition-controlled wages and prices, these may continue to rise until employment has fallen even more, resulting in the modern phenomenon of stagflation.

Economist Phillip Cagan has shown that the tendency for prices to fall during a recession has declined over time. During the great US recession of the 19th century, in 1839-43, prices dropped 42 percent, compared to only 33 percent in 1929-33. The Great Depression of the 20th century, further exacerbated by protectionism and government price fixing, was the first business contraction to generate widespread unemployment. In 1839-43, real consumption actually increased by 16 percent, while it dropped by 19 percent in 1929-33.

Because of increasing rigidities caused by sprawling distributional coalitions, "as time goes on, a stable society suffers more unemployment and a greater loss of output for any given reduction in ag-

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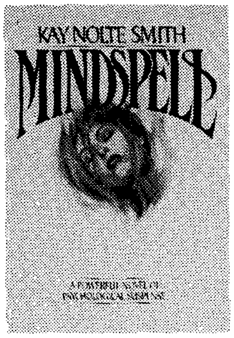


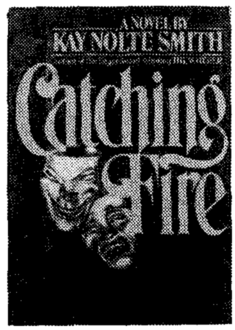



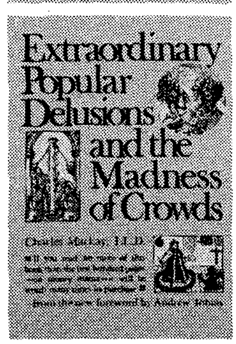


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**LAISSEZ FAIRE BOOKS,** DEPT. R38, 206 MERCER STREET, N.Y., N.Y. 10012 gregate demand." Nations, then, rise and decline with the absence or growth of distributional coalitions. The guild system had to be abolished for the commercial and then the industrial revolution to take place. Countries like France or Germany whose distributional coalitions were broken by revolutions or foreign occupations have grown more rapidly than stable and coalition-riddled countries like Britain, Australia, and, to a lesser extent, contemporary America.

A first policy implication drawn by Olson is that "there should be freer trade and fewer impediments to the free movement of factors of production and of firms," for "the tariff is the mother of all manner of combinations and collusions." A second major policy implication is, as we now suspect, that "the best macroeconomic policy is a good microeconomic policy. There is no substitute for a more open and competitive environment."

Olson's theory is illuminating and there is no doubt that *The Rise and Decline of Nations* will exert much influence on ideas and politics for many decades to come. Already, it is receiving wide attention among economists and policymakers.

Yet Olson's theory has some problems. Its concept of distributional coalitions, which seems to include all kinds of associations, is too encompassing. Actually, not all associations nor special-interest organizations are "distributional" coalitions. Some aim at protecting individual rights, not at redistributing income. Others, like charitable organizations, do redistribute income, but in a purely voluntary manner. Olson's theory and its implications for economic growth apply only to *coerced* redistribution of *economic advantages.*

If this is true, Olson is wrong when he writes that "there can also be cartelistic action without government connivance" and when he prescribes that government should break free-market cartels just as it must repeal coercive privileges granted to trade unions. The economic efficiency of free-market cartels or restrictive trade practices is demonstrated by their voluntary clientele. In contrast to trade unions, they are not distributional coalitions, because they do not require the state's coercive powers to redistribute economic advantages.

With this modification, Olson's theory can be fully reconciled with one of Nobel Laureate Friedrich Hayek's fundamental insights. Distributional coalitions and economic decline (as well as political tyranny) are a *normal outcome* of political institutions that *have no built-in constraints* against government's power to grant privileges to particular groups.

How can we break up our tight network of government-enforced distributional coalitions? Olson confides that the best formula for economic growth is past instability combined with expected stability in the future. Here, we part company with Hayek, but perhaps this is just where we should. Somewhat reluctantly, Olson quotes Thomas Jefferson's famous aphorism: "I hold it that a little rebellion now and then is a good thing."

*Pierre Lemieux is an economic adviser to the Quebec Chamber of Commerce. His book on contemporary liberal and libertarian theory was just published by the University Press of France.*

## Would Vouchers Destroy Educational Freedom?

**High School Achievement: Public, Catholic and Private Schools Compared**
*By James S. Coleman, Thomas Hoffer, and Sally Kilgore*
*New York: Basic Books. 1982.*
*289 pp. $20.75*

Reviewed by Samuel L. Blumenfeld

James S. Coleman, the well-known social scientist at the University of Chicago's National Opinion Research Center, has been the center of controversy since 1966 when the first Coleman Report, *Equality of Educational Opportunity*, was issued. That report led to the disastrous national policy of forced busing in an attempt to achieve racial balance in the public schools. A new report, *Public and Private Schools*, now released in book form as *High School Achievement*, may lead to an even greater disaster: the destruction of private education as we now know it.

Not that Coleman is in favor of the results that have been or may be the consequences of implementing his findings. In the case of the first report, Coleman and his colleagues found that per-pupil school expenditures, compensatory education programs, or bigger libraries showed less relation to a student's achievement than did peer environment. It was found that blacks got better test scores in schools where the higher proportion of students were white.

This oversimplified peer-effect idea became the justification for forced busing. The 1967 *Report of the U.S. Commission on Civil Rights* cited the Coleman Report as its primary source in deprecating the role of compensatory education for "disadvantaged" children and advocating in its place a national "racial-balancing law" for the schools.

It is quite possible that Coleman's report would not have had the devastating impact it had on American public schools if the Civil Rights Commission had not been waiting in the wings to use it. But, after all, the study had been done under a grant from the US Office of Education. It was supposed to help the policy planners formulate policy. And that is what it did.

Similar dangers lurk in the background of the present report, which has already been widely debated and discussed among social scientists and educators since its initial release in April 1981. Coleman and his colleagues studied public schools, Catholic schools, and other private schools and found, much to no one's amazement, that private schools do a better job of teaching students than do public schools.

The report presented some other interesting findings: that 26.1 percent of the secondary schools in the United States are private and that only 9.1 percent of the students in grades 9 through 12 attend private schools; that 29.5 percent of the private schools are Catholic, but that 66.5 percent of all private school students attend them.

On the matter of enrollment by race, 12.2 percent of the students in public high schools are black; 5.5 percent are black in Catholic schools; and 4.1 percent are black in other private schools. Thus, in proportion to whites, there are half as many blacks in private schools as in public schools. But the real surprise is in distribution. Over half of the black students in the private sector attend schools that are less than 20 percent black, but only a fifth of the public schools' black students attend such schools. About 45 percent of the black students in the public sector attend predominantly black schools, compared to 17 percent in the private sector. Thus, there is actually a higher degree of true racial integration in the private sector than in the public.

Also, contrary to common belief, the degree of economic segregation is *lower* in the private sector as a whole than in the public. Well-to-do white children attend suburban public high schools with few blacks, whereas black children in