

161
THE AUSTRALIAN NATIONAL UNIVERSITY
Centre for Economic Policy Research

DISCUSSION PAPERS

BOUND SHELF

*PAPERS ARISING FROM THE CONFERENCE:
RECENT AUSTRALIAN ECONOMIC GROWTH*

AUSTRALIAN ECONOMIC GROWTH
THE ROLE OF SPECIAL INTEREST GROUPS AND
POLITICAL FACTORS

John Quiggin

DISCUSSION PAPER NO. 161

August 1987

G
GHC8
•A973
no. 161

G.P.O. Box 4, Canberra 2601, Australia

CENTRE FOR ECONOMIC POLICY RESEARCH

DISCUSSION PAPERS

The Centre for Economic Policy Research was established in 1980 as one of a number of University initiatives. It was given a mandate to foster policy oriented studies of the Australian economy. The Centre works closely with other economic research groups - both within the Australian National University and in other Australian universities.

The Discussion Papers of the Centre are intended to make available to a wider audience a series of economic research studies. These studies will have been either commissioned (for instance in conjunction with conferences held under the auspices of the Centre) or undertaken by research staff of, and visitors to, the Centre.

The Centre will also publish as Discussion Papers studies of relevance to economic policy which have been undertaken by individual academics attached to other research groups within the University - or where the Centre is able to act as a focal point for such research.

The Centre does not have any views on policy; individual authors do.

Lists of available Discussion Papers, and copies of the papers (which are free of charge) may be obtained from:

The Publications Officer
Centre for Economic Policy Research
Research School of Social Sciences
Australian National University
PO Box 4, CANBERRA ACT 2601. AUSTRALIA
Tel: (062) 492247

<i>Executive Director:</i>	Professor R.G. Gregory
<i>Deputy Director</i>	Dr B.J. Chapman
<i>Publications Officer:</i>	Mrs Catherine Baird

**AUSTRALIAN ECONOMIC GROWTH
THE ROLE OF SPECIAL INTEREST GROUPS AND
POLITICAL FACTORS***

**John Quiggin
University of Sydney**

**DISCUSSION PAPER NO. 161
August 1987**

ISBN: 0 949293 76 8

ISSN: 0725 430X

* Paper presented to the Conference: Recent Australian Economic Growth, held in honour of Professor F.H. Gruen, Australian National University, 24-26 November 1986.



TABLE OF CONTENTS

Summary	i
Introduction	1
The Neoclassical Theory of Politics - An Outline	3
Interest Groups and Tariff Protection	6
The Rise and Decline of Nations	15
Interest Groups - An Alternative Model	19
The Tax Summit	24
Concluding Comments	27
References	28
Discussant's Comment	30
List of Discussion Papers Arising from the Conference	
Recent Australian Economic Growth	34

SUMMARY

Interest groups, and political factors more generally, have played an increasingly important role in recent discussions of the factors determining relative and absolute economic growth in Australia and other countries. A number of economists have attempted to explain political outcomes solely by the relative strength of the interest groups involved. Indeed, Olson (1982) claims that such a grand topic as "The Rise and Decline of Nations", can be explained primarily by the nature and extent of interest group activity. Olson's thesis has been applied to Australia to yield the conclusion that the pervasive activities of interest groups have generated poor economic performance. In more extreme presentations, it is suggested that Australians will end up as the "poor white trash of Asia" unless drastic action is taken.

The paper by Nguyen and Dowrick (CEPR Discussion Paper No. 160) indicates that Australia's economic performance is not, in fact, particularly poor, which obviously casts doubt on any purported explanation of poor performance. It is suggested that the predictive and explanatory power of the interest-group model has been grossly overstated by many of its proponents. The most important defect in the economic discussion of the role of interest groups has been in the simplistic and inadequate treatment of the relationship between governments and interest groups. The problem is analysed on the basic premise that governments and interest groups both have economic objectives and limited power to alter economic outcomes. The approach will be applied to an issue widely viewed as an example of failure in the policy process - the tax reform debate of 1985.

THE ROLE OF SPECIAL INTEREST GROUPS AND POLITICAL FACTORS

John Quiggin

University of Sydney

Introduction

Interest groups, and political factors more generally, have played an increasingly important role in recent discussions of the factors determining relative and absolute economic growth in Australia and other countries. As part of this process, economists have made increasingly bold claims as to their ability to explain and predict political processes using models centred on the notion of interest groups and the use of a very simple model of human behaviour, which may be termed 'egoistic rationality'. Analyses based on the assumption of egoistic rationality have been applied to a wide range of problems in social science areas, with varying levels of perceived success.

One area where perceived success has been very great has been 'public choice theory' or the 'neoclassical theory of politics'. The predominant tendency in public choice theory is based firmly on the postulate of egoistic rationality and effectively reduces politics to an amoral system of trade between interest groups, mediated by politicians. Writers in this tendency attempt to explain political outcomes by the relative strength of the interest groups involved, which in turn is determined by factors affecting the cost of organising such groups.

Recently, a bold and speculative extension of this analysis has been developed by Olson (1982). Olson claims that such a grand topic as 'The Rise and Decline of Nations', can be explained primarily by the nature and extent of interest group activity. Olson's thesis has been applied to Australia to yield the conclusion that the pervasive activities of interest groups have generated poor economic performance. In more extreme presentations, it is

suggested that we will end up as the "white trash of Asia" unless drastic action is taken. This prospective decline was the subject of a recent Australian Institute of Political Science seminar the proceedings of which are presented in Scutt (1985). The majority of participants, including economists such as Hughes (1985) and Porter (1985), endorsed the general thesis, though most avoided the emotive (not to say racist) term "white trash".

In this paper, it is suggested that the predictive and explanatory power of the neoclassical interest-group model has been grossly overstated by many of its proponents. Tariff policies, the major area of empirical application for these theories will be examined in some detail. It will be argued that neither the initial adoption of tariffs, nor the pattern of assistance, have been satisfactorily explained by the neoclassical approach. The main Australian study of this kind is that of Anderson (1980). Although Anderson argues that his results support the interest-group approach, I believe that they are more consistent with the hypothesis that tariff policies are in fact motivated by their proclaimed objective of protecting jobs (whether or not they are an efficient instrument for achieving this objective). There will also be a brief examination of Olson's more wide-ranging thesis on relative economic performance.

The most important defect in the economic discussion of the role of interest groups has been in the proposed model of the relationship between governments and interest groups. In much of the discussion, government is implicitly assumed to be all-powerful and interest groups exert pressure through lobbying, political donations etc. to secure the policies they desire. In my view, the lobbying efforts of interest groups are much less important than the independent power they represent. Governments at both State and Federal levels are forced to make concessions to certain interest groups, not because of the political or monetary assistance they can provide or withhold but because they have it in their power to promote or frustrate the achievement of the government's objectives. The evidence for this claim, and its implications for the policy process will be discussed. The approach will be applied to an

issue widely viewed as an example of failure in the policy process - the tax reform debate of 1985.

The Neoclassical Theory of Politics - An Outline

Although the economic literature on pressure groups is vast, it is possible to give a summary of the predominant tendencies. In large measure, this literature may be regarded as an elaboration of a fairly old piece of economic folk-wisdom, which states that a political measure which yields concentrated benefits to a few people while dispersing costs across the general population is likely to be adopted even if its net economic benefits are negative. The argument was formalised in Olson's (1965) work 'The Logic of Collective Action'. On its simplest interpretation, this claim suggests that government activities will benefit cohesive interest groups at the expense of weakly organised ones and that concentration, both geographical and industrial, is likely to be a crucial determinant of political success.

The central role of egoistic rationality in neoclassical public choice analysis is stressed by Mueller (1979, p.1) who introduces his survey of public choice theory by stating 'The basic behavioural postulate of public choice, as for economics, is that man is an egoistic, rational, utility maximiser.' The rigorous application of this postulate in models of political systems leads to a number of striking predictions. A brief summary will be presented here.

The most notable of these predictions are with respect to voters. The first prediction yielded by the neoclassical analysis is that they should not vote at all. The expected private benefits of voting are negative because the chance of exercising a decisive vote (i.e. the chance of a tied election) is tiny compared to any realistic estimate of the private costs and benefits of different possible outcomes, (Downs 1957, p.265-7). However, given that individuals do vote, they will not make well-informed choices. The low probability of exercising a

decisive vote means that the individual will be 'rationally ignorant' concerning political issues (Downs, *op. cit.*, p.259). The rational ignorance argument effectively relegates voters to a very minor role in most neoclassical analyses of political processes.

Interest, or 'lobby', groups play a central role in most presentations of neoclassical theory. The analysis generally follows that of Olson (1965). Interest groups organise to seek redistribution of rents towards their members through government intervention. However, all such groups must face the free-rider problem. Individuals will seek to benefit from the activities of lobbyists, while minimising their own contributions. Thus, the successful lobbies will be those which represent concentrated and easily organised interests. This analysis formalises the well-known claim that the political process tends to favour policies with concentrated gainers and dispersed losers.

The neoclassical approach 'assumes unabashedly that politicians are normal - that they are motivated by self-interest as much as any consumer or business person' (Anderson, 1980 p32). This means that they have no principled commitment to policies or ideologies. Policies are simply the stock-in-trade of political entrepreneurs. Politicians may advance their interests in a number of ways. They may simply be motivated by the attractions of political office, and its perquisites. Alternatively, they may act as 'agenda setters', exploiting intransitivities arising from voting procedures, to extract rent from competing interest groups.

By contrast, political parties play a relatively small role in neoclassical theory. It is clear that traditional views of political parties as 'associations of like-minded people' have no role to play in such an approach. In addition, there is the relatively limited role of parties in the political system of the United States, which is a major exporter of public choice theory. Nevertheless, parties cannot be ignored completely in analyses of Australian political

processes. Theorists such as Anderson (1980) argue that interest groups located in marginal seats will do particularly well; and marginal seats cannot be defined in the absence of political parties.

One question to which neoclassical theory gives ambiguous answers is that of whether parties and elections make a difference. Downs (1957) presents a Hotelling-style proof that the struggle for marginal votes will lead parties to adopt nearly identical policies, at least on any left-right spectrum. By contrast the view of parties as coalitions of interests suggests that changes of government should lead to wholesale reallocations of patronage.¹ Gruen (1985) undertakes an empirical examination of this issue and concludes that elections do make a difference.

Bureaucracies and bureaucrats have been modelled in a number of ways. The most popular model is that of Niskanen (1971) based on the concept of the budget-maximising bureaucrat, or, in common parlance, the 'empire-builder'. In Niskanen's model the policy advice offered by bureaucrats is determined by their desire to maximise the resources under their control. This model certainly has some correspondence to reality, but it is by no means an adequate general analysis. Observation of major policy-making sections of the bureaucracy such as the Treasury, IAC, DEIR etc, suggest that each has a distinctive policy 'line', which is largely independent of, and in some cases antithetical to, any desire to maximise the power and scope of the institution. An obvious case is the debate over stimulatory fiscal policies. Although an expanded role for fiscal policy would presumably benefit Treasury, the 'Treasury line' has always opposed stimulus. By contrast, DEIR has advocated stimulus with varying degrees of force at different times, although its presumed desire for expansion would seem to be served by higher levels of unemployment. Niskanen's model, like much

¹ This process does take place to a significant extent in the United States.

of neoclassical public choice theory, is plausible enough at first sight, but does not, stand up to close empirical scrutiny.

In essence the problem is summed up by Mueller (1979, p.7), who observes that 'public choice models seem but a naive caricature of political behaviour' to political analysts not already committed to the postulate of egoistic rationality² Like other caricatures, these models present certain recognisable features, exaggerated out of all proportion. This works very well in a methodological framework based on 'storytelling', but not in one based on empirical testing. I have examined the empirical evidence in general in Quiggin (1986) and have argued that it is inconsistent with the neoclassical model. This conclusion has been criticised, however, by Brennan and Pincus (1986). In the present paper, I will be concerned specifically with Australian economic policy.

Interest Groups & Tariff Protection

One particularly important area of application for the neoclassical theory has been the tariff and other forms of protection. This area is of some importance for the development of public choice theory. Well before public choice theory existed in a formal sense, it was part of economic folklore that tariffs persisted because the gains went to a small and concentrated group while the costs were thinly spread across the community.

This explanation faces the difficulty that it gives a very poor account of the process by which tariffs were introduced. In Australia, for example, tariffs were the major issue of political debate in the years before, and immediately after Federation. The major political parties defined themselves as Free Traders and Protectionists. It is very difficult to tell a story of small concentrated groups of gainers here.

² It should be noted that Mueller is concerned to defend public choice models against this charge.

The process by which the Protectionists gained their victory is also of interest. The nascent Labor party initially operated in the manner of modern "single issue groups", trading support between the major parties on the protection issue in return for concessions on issues such as union rights. As Labor became stronger, this position ceased to be viable. The protection issue was finally resolved by the "New Protection" policy which drew an explicit nexus between protection and intervention to support real wages through the Arbitration Commission. Following the resolution of the protection issue, the protectionists and free-traders merged to form the first of a succession of anti-Labor parties. While most neoclassical economists deplore both sides of the New Protection deal and many have blamed it for Australia's decline in relative per capita GNP, it is very difficult to represent it as the result of the actions of concentrated special interests. On the contrary, New Protection was a compromise between political parties representing broad social groups. The difficulty of explaining the shift from free trade to protection, as opposed to variations in protection rates is recognised by the more sophisticated public choice theorist such as Pincus (1977). However, the crude and simplistic versions of the model have had much more impact on the economics profession and the public debate at large than more careful analyses.

The importance of concentrated interests in public choice theory is undoubted. Virtually all theoretical discussions follow Olson (1965) in according concentration pride of place among the factors which determine the strength of interest groups. Moreover, it is one variable which is common to nearly all empirical analyses of the tariff. This empirical work is remarkable, both for the regularity with which this central prediction has been invalidated, and for the enthusiasm with which success has been claimed for the neoclassical approach.

In studies of Australia (Anderson 1980), Canada (Caves 1976) and the United States (MacPherson, 1972, Finger et al., 1982) industry concentration has been found to be negatively, and significantly, related to success in obtaining assistance. However, because

very few of these studies cited have drawn attention to the failure of this key prediction, the impression is widespread that this is an area where neoclassical theory has been highly successful.

Some exceptions to this pattern are the study of the 1824 US tariff by Pincus (1975) and the recent work of Lavergne (1983) and Dougan (1984). Unlike the other writers cited above, Pincus takes some account of the impact of the general debate between free-traders and protectionists, and notes that "it was a disadvantage for an import duty to be identified as too local or narrow an interest". Lavergne (1983) undertakes an extensive econometric study comparing the interest group approach with one based on more general political considerations, and concludes in favour of the latter. Dougan (1984) criticises the econometric approach of previous studies, rejects the hypothesis that industry concentration is a major determinant of protection, and provides some public choice-theoretic grounds for this.

The study of the Australian tariff by Anderson (1980) is of particular interest. In order to permit an assessment of the neoclassical model it will be compared to a 'naive' model, based on the assumption that the tariff's actual purpose is the same as its ostensible one - namely to create and preserve jobs.

Anderson presents a fairly standard discussion of the neoclassical theory of politics with reference to tariff determination. However, a significant innovation in his work is the delineation of two sets of factors 'those affecting the incentives for vested interest groups to demand assistance, and those affecting the government's incentives to supply assistance'. In general, the 'demand' factors are those which relate most closely to the neoclassical theory including factors such as concentrated lobbying power, while the 'supply' side reflects the likely electoral popularity of assistance and is therefore most closely aligned with the naive

theory. This procedure enables us to compare the performance of the two theories, although Anderson's classification is dubious in a number of cases.

Anderson considers 14 factors which might be expected to affect protection levels, but of these only 11 are sufficiently quantifiable to be included in the estimation procedure by which he seeks to explain the effective rate of assistance (ERA) for manufacturing industries at the four-digit ASIC level of industry classification. These are:

LI	labour share of value added
VASO	value-added share of output
DNOE	change in the number of employees
AWPE	average wage per employee
IMP	share of imports in domestic sales
NOF	number of firms in the industry
SO4	share of output for four largest firms
TOPF	turnover per firm
TC	natural protection provided by raw materials transport costs (dummy)
NOE	number of employees in the industry
EXP	share of production exported

The 'naive' approach would clearly predict that protection should be higher for labour-intensive, low-wage industries and especially those in which the number of employees is already declining. This will be true whether the model of Stolper and Samuelson (1941), in which protection benefits factors of production, or of Mussa (1974), in which protection benefits industries, is preferred. These effects would be captured mainly by the terms in LI, AWPE and DNOE. However, given the pattern of Australia's trade it would also be likely that import-competing industries would be more heavily assisted than exports or the

resource and timber processing activities covered by the dummy variable TC. This pattern would be accentuated if the government followed a 'Keynesian' policy based on insulating the economy from external shocks (Keynes 1936, Appendix 2). With respect to the 'concentration' variable SO4, it may be noted that the existence of significant monopoly power would reduce the demand sensitivity of output and employment levels and weaken the 'naive' case for protection. The remaining variables NOE, NOF, VASO and TOPF do not have any obvious relationship to employment levels, (except insofar as NOF and TOPF are proxies for SO4).

On the basis of the neoclassical analysis outlined above, one would expect the strongest prediction of the neoclassical theory to be a positive relationship between industry concentration (SO4) and assistance levels. A negative relationship between assistance levels and the number of firms in the industry (NOF) would be a somewhat weaker prediction along the same lines, as would a positive correlation with firm size (TOPF).

Anderson puts forward the first two of these suggestions, but argues for a negative sign on TOPF on the grounds that 'if industries with small firms are, because of greater specialisation, less adaptable than those with large firms, one might expect a greater demand for assistance from the former'. This argument does not seem very appealing. The largest firms in Australia, such as BHP and GM-H, are scarcely noted for the flexibility of their product mix. At the other end of the scale, family firms in agriculture have displayed a substantial ability to adapt to changing conditions and there is no obvious reason to suppose that the same is not true in manufacturing.

Anderson also argues that the demand for protection will be positively correlated with labour-intensity LI and negatively with value-added share of output, VASO. This is because (assuming labour is more supply-elastic than capital) a given effective rate of protection will

yield higher benefits to a labour-intensive industry, while a given nominal rate of protection will yield a higher effective rate for an industry with low VASO. Since these larger gains imply larger losses elsewhere in the community, Anderson's argument requires that other participants in the tariff-setting process be subject to illusion about the effects of their actions.³ This is somewhat plausible in the case of VASO, when the distinction between nominal and effective rates of protection may not be appreciated. However, it is more difficult to concede in the case of LI. It would seem more likely that the effective transfer to the industry, rather than the rate of protection which achieves it, should dominate the lobbying process. Thus, one would suppose that among industries with equal 'lobbying power' the correlation between effective protection rates and labour intensity would be negative rather than positive.⁴ Moreover it could be argued that the lobbying power of a labour-intensive industry will be less than that of a capital-intensive industry since a greater part of the benefits of protection are diffused among workers of large, and less confined to the protected industry.

Finally, Anderson suggests that declining industries (those with high DNOE) with low values of AWPE will have a greater demand for assistance because of the costs they are likely to bear in terms of unemployment and loss of sector-specific capital and skills. This is in accord with the 'naive' analysis presented above. It is not, however, clear how an interest group analysis yields the prediction relating to AWPE. The fact that the impact of reduced earnings on the welfare of low-paid employees is greater than that of a similar reduction for highly paid employees does not have any obvious impact on willingness-to-pay for lobbying services. If it did, then interest group activity would presumably have a

³ This point has been noted independently by Lavergne (1983).

⁴ In terms of Anderson's supply and demand framework, the point may be made as follows. An increase in the size of transfer per point of effective assistance, simultaneously increases the demand for and the cost of assistance. Anderson has included the demand factor but not the offsetting supply factor.

net egalitarian impact which should be welcomed on equity grounds. Anderson's argument on DNOE seems more firmly based. It should be noted, however, that the argument implies the existence of real social losses in not protecting declining industries

On the supply side Anderson argues mainly from the assumed irrationality of voters. The 'nationalism or xenophobia' of voters and the supposed visibility of subsidies relative to tariffs is used to account for a bias in favour of import-competing industries and against exporters and naturally protected processors of raw materials. This yields a positive sign for IMP and negative signs for EXP and TC.

Similarly, he argues that assistance may be 'rationalised' to the public as a social welfare measure' for declining industries with a large number of employees (NOE) and low average wages (AWPE). It is difficult to disagree with this argument except to question the use of the term 'rationalised'. Since Anderson is arguing that the tariff exists mainly to redistribute income, surely a redistribution which meets with social approval (i.e. increases the value of the social welfare function) may be appropriately described as 'a social welfare measure'.

In any case, the important thing to note about Anderson's 'supply side' is that it represents the assumed desirability of assistance in the eyes of voters. Whether the voters' desires are supposed to be rational or irrational makes only a minor difference to the assessment of the way in which the political system operates. If interest groups are predominant, the wishes of voters (rational or otherwise) will be of little importance, and 'demand' rather than 'supply' variables will be the important ones.

Anderson's supply-demand schema is thus quite useful in a comparison of the 'naive' and 'interest group' models. By contrast, other writers such as Caves (1976) have presented 'interest group' models in which variables affecting the strength of the 'industry's claim in

equity for protection' are lumped in indiscriminately with 'concentration' and other variables affecting the ability to form a lobby. This discussion of 'equity' considerations is totally inconsistent with the amoral picture of politics and politicians presented so 'unabashedly' by the neoclassical theorists.

The predictions of the different theories may now be put forward in Table 1. The 'naive' model predictions are fairly similar to those of Anderson's supply-side. In view of the discussion above relating to Anderson's demand side analysis, the coefficients expected for a pure interest group model will differ from Anderson's demand side predictions. These are presented for comparative purposes, along with the results of Anderson's regression.

TABLE 1
Predicted and Actual Determinants of Effective Rates of Assistance

Independent Variable	Model			
	'Naive'	'Interest group'	'Anderson demand side'	'Observed'
SO4	-	+	+	-
LI	+	0	+	+
VASO	0	0	-	-
DNOE	+	+	+	+
AWPE	-	0	-	-
IMP	+	0	+	-
NOF	0	-	-	-
TC	-	0	0	-
EXP	-	0	0	-
TOPF	-	+	-	-

The most important difference here relates to the 'concentration' variable SO4. In theoretical presentations of the neoclassical analysis the existence of a concentrated group of large gainers plays a dominant role in the explanation of intervention. On the other hand, the 'naive' model, along with Anderson's supply-side analysis, predicts that monopolistic industries will find it more difficult to obtain assistance.

The result here goes clearly against the interest-group approach. Anderson finds a significant negative correlation between SO4 and the effective assistance rate. Similar results are reported for the USA and Canada (McPherson 1972; Stigler 1974; Caves 1976). Consistent results of this kind must cast grave doubts on the viability of the 'interest groups' theory, at least with respect to the explanation of protection. The claim that concentrated industries will be in a good position, is one of the most distinctive predictions of the neoclassical theory, and one of the few that is common to all presentations of the theory.

The other predictions of the naive approach also work quite well. Its only incorrect prediction is a positive sign for IMP, which in fact yields negative, though mostly insignificant, coefficients. As Anderson points out, this may be due to factors such as the admission, at low rates of duty, of goods which are not produced at all in Australia. The only consistently significant variable for which the naive model has no explanation is VASO. As has been pointed out above, Anderson's 'demand-side' explanation is not consistent with full rationality, and the coefficient on this variable may indeed be the product of 'nominal tariff illusion'. In summary, the neoclassical model is outperformed on this test by the naive hypothesis that tariffs have been used as an instrument of employment creation and preservation.

The Rise and Decline of Nations

In the light of this discussion, we should be cautious about accepting any simple assertions about the impacts of interest groups on economic policy and performance, particularly in the case of partial analyses focused on individual policy instruments. Olson's broad-ranging thesis certainly does not fall under this heading. Olson's central argument is based on his earlier book, *The Logic of Collective Action*. To summarise drastically, his claim is that the success or failure of a nation will depend primarily on the number and type of special interest groups or 'distributional coalitions' it has accumulated. Olson lays most stress on the number or 'density' of these coalitions. Using 'free-rider' arguments from his earlier work as to the difficulty of establishing such coalitions, he argues that long periods of stability are required to accumulate them. Coalitions may be broken down either by 'shocks' such as revolution and foreign occupation (Germany, Japan after World War II, the American South after the Civil War), or by 'jurisdictional integration' (the EEC, the German Zollverein). Thus, the success of Britain in the 18th and 19th Centuries is explained by its early jurisdictional integration, while its subsequent relative decline is explained by the long period of stability it has 'enjoyed'. The decline of the North-Eastern U.S. relative to the South and West⁵ is explained in similar terms.

Of course, it is usually easy to present confirming examples for a theory of this kind - the difficulty is to deal with apparent counter-examples. Two such are Sweden, which has enjoyed strong economic growth along with very stable institutions and borders, and Ireland, which has performed rather poorly despite the complete remodeling of institutions arising from independence and partition. Olson does not discuss Ireland, but gives a very

⁵ Olson's analysis here is not in my view particularly convincing. A naive application of the model would yield the (false) prediction that the south should have performed particularly well from 1865 onwards. Olson demonstrates that the South did significantly better than the North from 1965 onwards. Even in the broad sweep of history, a lag of one century seems a bit excessive.

interesting analysis of Sweden. He argues that although Swedish interest groups (e.g. unions) are very strong, they tend to be 'encompassing'; that is, their membership is large in relation to the total population. Thus, they have an incentive to advocate policies which increase national income as a whole, as well as redistributive measures.

This explanation seems plausible, but it prompts a re-examination of the cases discussed above. Are the interest groups in West Germany and Japan few and weak, or strong and encompassing? Given the extensive disputes over such issues as the role of MITI in Japanese economic performance, it seems unwise for non-specialists to make strong claims about Japan. On the basis of descriptions of Japanese politics such as that of Stockwin (1981), however, it seems difficult to sustain the view of Japan as a society with peculiarly weak interest groups. In particular, a system which effectively amounts to one-party government with power being traded between formalised (and personality-based) factions would seem to provide an ideal operating environment for rent-seeking groups.

Stockwin (1981, p356) states : "Strongly rooted in social norms, Japanese political factions are usually more or less cohesive leader-follower (or patron-client) groups devoted to the pursuit of political advantage for their members within the larger framework of the party. The position of the faction leader is crucial to it, and his success is measured by his followers in terms of how far he is able to deliver political 'spoils'. With some left wing parties, the 'spoils' are seen partly as the triumph of some doctrinal point, but with the Liberal Democrats, ideology does not enter much into the picture"

In regard to West Germany, it may be noted that, whereas Olson (1982, p76) suggests that "with continued stability, the Germans and Japanese will accumulate more distributional coalitions which will have an adverse influence on their growth rates", Wolter (1984) and Kasper (1986) assert that this process has already taken place. The ease with which cases

can be reclassified makes the testing of any general hypothesis very difficult.

In addition to these empirical difficulties, there are some major theoretical problems. It is not true, as Olson asserts, that special interests inevitably face free-rider problems. A corporation, for example, can lobby for the award of government contracts at favourable prices. If it is successful, the benefits will be confined to its members (the shareholders, or perhaps the managers) who have provided the resources for lobbying. Even more simply, a political group can seize power and distribute the contents of the Treasury among its members. To put it more simply, interest groups are necessary only where corruption is costly. The free-rider problem arises only if interest groups are constrained by some countervailing forces in the policies they can promote. In the absence of countervailing forces, it will not take long for predatory interest groups to emerge, as has happened in many newly independent countries in Africa in the 20th Century and Latin America in the 19th. I would suggest that these countervailing forces are precisely the 'encompassing' interest groups (e.g. mass political parties, union and business peak councils) to which Olson attributes the successes of Sweden. What matters, then, is not the strength of the distributional coalitions in a country, but the type.

One version of this idea has been developed further by Schott (1984). She argues that encompassing interest groups will yield substantial benefits when they are combined with a corporatist system where the major interest groups, namely trade unions and employer associations are committed to an ideology of social partnership. Schott's analysis which suggests that strongly corporatist countries performed better during the 1970s obviously has direct relevance to the current Australian policy debate.

Olson's analysis of Australia (and New Zealand) implies an opposite viewpoint. While saying that specialised research is needed, he suggests (1982, p135) that "the theory fits

these countries like a pair of gloves". He argues that Australia's long history of stability promoted the formation of special interest groups, primarily centred on trade unions and urban manufacturing interests, which manifested themselves in tariffs and restrictions on Asian immigration, which "facilitated the cartelisation of labour". These measures in turn explain our low rate of growth in per capita income.

A number of objections may be made here. First, Olson ignores his previous claims about the virtues of jurisdictional integration, which would suggest that Federation should have been a major stimulus to growth. In fact, the major relative decline in Australia's per capita income occurred in the early decades of this century.

Second, the argument about Asian immigration is unclear. A straightforward labour cartel would presumably seek to minimise total immigration. In fact, of course Australia (unlike the United States) encouraged mass immigration for much of the twentieth century, particularly after World War II. The union movement generally demanded that immigration should be combined with policies which prevented actual cuts in real wages, but there seems to have been general acceptance that increasing population was at least as important as raising per capita incomes. Thus, it seems difficult to explain the White Australia policy as the product of a dominant labour cartel.

Alternatively, Olson could be saying that a racially mixed workforce would be more difficult to unionise. This was clearly the belief of the Labor Party when it supported the White Australia policy (though the role of straight-out racism should not be downplayed). However, the evidence is that Chinese workers in Australia were eager to form and join unions and the problem was that Europeans were unwilling to let them. Deplorable as this is, it is scarcely evidence of rational interest-group behavior.

Even more problematic is the fact that in some of our most protected industries (e.g. motor vehicles) the tariff was used to encourage multinational corporations to set up shop. A substantial part of the motivation for this would appear to have been the need to create jobs to employ newly arriving migrants and to attract new ones. Butlin, Barnard and Pincus (1982, p113) refer to the underlying basis of these policies as "the fundamental tenet of Australian faith, development to provide jobs for an expanding population". Protection of this kind cannot be explained straightforwardly in terms of pre-existing interest groups. It is both logically more satisfactory, and more in accord with the historical evidence, to suggest that Australians consciously accepted lower per capita income growth in return for higher population growth along the lines suggested by the Bridgen Report.

It is worthwhile to draw out the contrast between the Olson and Schott models in relation to the current policy debate. On Olson's view, Australia requires a radical shock to break down existing institutions such as unions and oligopolies. A corporatist analysis based on concepts of 'encompassing' groups, on the contrary, would suggest policies at least potentially achievable within the current framework. This would include encouragement of union amalgamations and a greater role for the ACTU. Clearly, these competing views may be aligned, in broad terms, with the current policy themes of the Liberal and Labor parties respectively. Gruen (1986) considers these issues in more detail.

Interest Groups - An Alternative Model

The most important defect in the economic discussion of the role of interest groups has been in the proposed model of the relationship between governments and interest groups. In much of the discussion government is implicitly assumed to be purely concerned with redistribution and essentially unfettered in the redistributions it can impose. Interest groups exert pressure to secure the policies they desire through lobbying, political donations and

other processes which either involve direct transfers to political actors or the trading of various forms of electoral support and influence . In my view, the lobbying efforts of interest groups are much less important than the independent power they represent. Governments at both state and federal levels are forced to make concessions to certain interest groups, not because of the political or monetary assistance they can provide or withhold but because they have it in their power to promote or frustrate the achievement of the government's objectives.

One of the most important and widely accepted objectives of Australian governments has been development, generally understood to include increases in population, total and per capita GDP and the exploitation of natural resources. While there has been a significant direct government involvement in Australian development policy, the achievement of public objectives has depended to a significant extent on powerful private interests.

This may be illustrated by the case of the motor vehicle industry. Both Labor and non-Labor governments before and immediately after World War II regarded the establishment of a complete vehicle production industry as highly desirable for the achievement of objectives such as economic development, immigration-based population growth and the achievement and maintenance of full employment. It was generally apparent, however, that the Australian market was too small to support more than one domestic manufacturer at economic levels of production and that there were only a few firms in the world which could establish the necessary industry.⁶ In the view of many policy-makers, most notably those in the Federal bureaucracy, only General Motors was likely to be willing and able to establish

⁶ From the neoclassical public choice perspective, these conditions presented governments with a valuable opportunity, combining a lucrative set of rents with a plausible argument as to the necessity of monopoly. The proposal, by the Lyons government, to grant a monopoly to ACI, a prominent member of the domestic business establishment and backer of the United Australia Party was certainly in line with this prediction. However, this proposal came to nothing partly because of the outbreak of World War II.

motor vehicle manufacture.

The achievement of the development objective was, therefore dependent on the provision of conditions sufficient to attract one of the major manufacturers. The government's bargaining position here was fairly weak. A more severe dilemma arose in relation to the need for a single manufacturer. Apart from considerations of monopoly power (which could, in principle, be constrained by import competition), if such a situation had emerged the incumbent firm would have had enormous political influence. This would arise not because of the absence of free-rider problems in lobbying but because the strategies adopted by the firm would be central to the course of industry development and hence to the political fortunes of governments. No adequate solution to this dilemma has been found and in practice, governments have encouraged the continued existence of an excessive number of producers.

One possible solution, adopted in a number of European countries was the establishment of a firm under partial or complete government control. As Butlin, Barnard and Pincus (1982) point out, such a public role in industry development was a distinctive characteristic of Australia during the colonial and early post-Federation period. By World War II both internal developments in Australia and external pressures, particularly from the United States, made it less likely that such a course would be adopted, although it had advocates within the bureaucracy and the ALP.

The maintenance of full employment has also been an important objective of government. During the period 1945-73, Keynesian demand management techniques appeared to give governments a substantial degree of autonomy in the achievement of this objective. Since that time, however, employment objectives have been much more difficult to achieve. Policy programs in various countries have been derailed by the actions (or inaction) of both unions

and business. Attempts to constrain wages in either money or real terms have been defeated on a number of occasions by union resistance. On the other hand, attempts to revive policies of Keynesian demand stimulus have failed because of their adverse effects on 'business confidence' reflected in depressed investment and capital flight. This has led to a more extensive and complex involvement of interest groups in policy formulation. In some cases, governments have accepted the over-riding need to placate one major interest at the expense of overt conflict with others. The alternative has been a corporatist approach involving an attempt to mediate some form of 'social partnership'. It is difficult to make a final judgement on the relative merits of these two approaches, except to say that neither has worked particularly well.

The distinction between interest groups as lobbyists and as independent centres of power has important implications, particularly in areas such as industry policy. On the standard view, the greater is the power of governments, the greater is the incentive for interest groups to seek to obtain benefits from government intervention. Moreover, competition between jurisdictions, as in the Tiebout model, is highly desirable as a means of constraining the Leviathan of government. By contrast, the alternative viewpoint would suggest that it is weak and fragmented governments which are particularly conducive to interest group activity. Since these governments cannot achieve their objectives directly they must rely on the co-operation of a wide range of interests, each of which is likely to have a price.

This is particularly apparent in the willingness of state governments to make concessions to industry groups and individual firms in order to induce them to establish plants in the relevant state. As Butlin, Barnard and Pincus (1982, p93) observe "Oligopolistic competition by State governments is deeply ingrained in Australian history, reflecting separate developmental and political ambitions of each State". In my view, the fragmentation and irrational location patterns induced by the weakness associated with the Federal system

has been far more damaging to Australia's industrial performance than has rent-seeking by organised interest groups. This has been very clear in the case of the motor vehicle industry. Attempts to rationalise the industry have almost invariably involved losses to particular states and have been resisted on that ground. For example, although British Leyland was never likely to become a viable producer in Australia, the fact that its operations were centred in NSW, while the other major operations were based in Victoria and South Australia, meant that its departure was greatly delayed.

State governments play two different roles in a federal system. At the national level they may be viewed as significant interest groups in themselves. Uncooperative states have the power to derail a wide range of federal government initiatives, and they can use their power to extract concessions on various issues. This phenomenon is most apparent in the case of an activist national government such as the Whitlam government. As both the Fraser and Hawke governments have found, however, recalcitrant states can also obstruct the process of cutting back federal expenditure by ensuring that the cuts (for which the federal government takes the blame) fall in the most sensitive areas.

At the state level, on the other hand, governments typically have very limited powers to promote the achievement of their economic objectives. These limited powers and the availability of a number of competing states mean that well-organised interests can extract substantial concessions from state governments in return for assistance in meeting 'development' and other objectives. This pattern has become more apparent as the effective power of state governments has declined. Butlin, Barnard and Pincus (1982, p139) note that, after 1945 the main role of state-level industry policy was to "compete for the location of particular establishment segments of nation-wide concerns and, indeed, for fragments of multinational business."

The differences between the standard neoclassical approach and the model suggested here may be illustrated in relation to the 1985 Tax Summit.

The Tax Summit

The central proposal at issue in the Tax Summit was 'Option C' - a package consisting of substantial reductions in marginal income tax rates, particularly in the upper and middle parts of the scale, a broad-based consumption tax (BBCT) and some increases in pensions and benefits. Although there was considerable disagreement over the likely effects of this package, the general view was that the tax component of the package would lead to increases in efficiency but would make the tax system more regressive.⁷ The social welfare measures would partially but not completely offset this regressive effect.

The Summit itself was explicitly designed as a piece of interest group politics, and in a number of respects its organisers appeared to assume a model similar to the neoclassical model outlined above. The Government sought to exploit its position as 'agenda-setter' by presenting two alternative options. Option A was a package of measures designed to broaden the base of the income tax system, including a capital gains tax and attacks on fringe benefits. Option B included a smaller BBCT with very little tax relief for low and middle income earners. It was assumed, correctly, that Option A would prove unacceptable to business and Option B to unions, and that this would as in the case of the 1983 Summit, enable the Government to achieve consensus around its preferred option.

The defeat of Option C at the tax summit was widely represented as a triumph of interest-

⁷ The Government's White Paper (Australian government, 1985) suggested that Option C would represent a Pareto-improvement (except for a tiny fraction of upper-income earners), but if this were the case there would be nothing for an interest group approach to analyse

group politics. However, the interest groups did not function in the manner predicted by the neoclassical theory. The two groups whose continued opposition to the BBCT proposal was vital were the 'social welfare lobby' and the trade union movement. The social welfare lobby is of interest because the Tax Summit provided a test of two competing explanations of the motivations of this group. Representatives of the various social welfare bodies present themselves as the defenders of the interests of their clients, the poor and underprivileged, who are largely excluded from political processes, especially under the 'corporatist' approach associated with summits. By contrast, the neoclassical approach, along with many political commentators, suggests that the welfare lobby acts as a rent-seeking agency for social welfare professionals. Option C, by combining a regressive tax package with an expansion of social welfare, provided a test of the competing hypotheses. This was a particularly good test case because the debate associated with the Summit clearly brought out the view that the introduction of BBCT was the only likely means by which Government revenue, and hence welfare expenditure, could be significantly enhanced in the foreseeable future.

On the face of it, the observed outcome represents a clear failure for the neoclassical theory. Welfare groups took the lead in publicising the regressive effects of BBCT and strongly opposed Option C at the summit.⁸ It is, however, possible to attempt an explanation along neoclassical lines. The actions of the social welfare lobby in pointing out regressive effects may be interpreted as an attempt to bid up the amount of welfare compensation, on the assumption that Option C would be adopted anyway. When insufficient compensation was forthcoming, they were locked in to a posture of opposition. Even this explanation carries the implication that public professions of altruism do constrain the activities of lobby groups

⁸ This course of action did not win the welfare groups any apologies from those who had previously castigated them as self-interested. Indeed, from the recent public debate, it would appear that the poor and unemployed are widely viewed as a pernicious interest group more dangerous than any middle-class rent-seekers. A more extensive summary of the welfare debate is given by Gruen (1982).

to a significant extent.

The decision of trade unions, and especially the AMWU, to reject Option C also presents some difficulties for the neoclassical approach. The opposition of retail unions might be expected, since Option C involved both explicit taxation of retail transactions and effective taxation of retailing services. Conversely, manufacturing unions should have supported BBCT, since it would shift the tax burden from goods to services. Their failure to do so cannot be attributed to ignorance, as the Government took care to point out the advantages to manufacturing in the course of their efforts to sell the package to the ACTU.

Of more interest in the current context is the reason why union support was essential for the adoption of the tax package. The neoclassical approach would suggest an emphasis on union contributions to ALP campaign funds. The crucial factor, however, was not the threat of an electoral campaign against the tax or the withdrawal of political support. It was the indication that the trade-union movement would not accept the wage discounting which was an integral part of the proposal. Thus, the adoption of Option C would have implied the breakdown of the Accord, which was already under stress as a result of the Government's desire for renegotiation to permit discounting for devaluation. The effectiveness of union opposition did not depend on any political influence over the government but on the unions' ability to derail the government's macroeconomic policy.

The neoclassical approach is inadequate because it represents governments solely as distributors of rents, which can therefore be influenced only by direct electoral or financial support. Once it is recognised that governments have major concerns with economic management, and that certain interest groups can directly promote or frustrate the achievement of those economic objectives a much richer picture of the interactions between governments and interests can emerge.

Concluding Comments

The course of Australian economic development has been profoundly influenced by political choices and by the interplay between governments and interest groups. The acceptance, general until fairly recently, of an objective of rapid population growth and economic development has had very important consequences. First, it implies that a single-minded concentration on per capita GDP is not a particularly appropriate basis for assessing the success or otherwise of Australian economic policy. Second, the dominance of this objective has determined the conditions of interaction between governments and powerful private interests, especially multinational firms and, to a lesser extent, trade unions. In general, it has been the weakness of governments rather than the strength which has led to the most damaging examples of policies driven by interest groups.

There are a number of possible responses which may be considered. The first is the adoption of less ambitious objectives by governments. To the extent that governments abandon attempts to achieve development and full employment objectives by their own efforts and confine themselves to 'creating a favorable environment for investment', they have less need to make deals with specific interest. The second is a corporatist approach based on the notion of consensus in which encompassing interest groups combine to promote shared objectives with government acting as both a mediator and an interest in its own right.

References

- Anderson, K. (1980), 'The political market for assistance to Australian manufacturing industries', Economic Record 56(153), 132-44.
- Australian Government (1985), Reform of the Australian taxation system, Draft White Paper, AGPS, Canberra.
- Boulding, K. (1969), 'Economics as a moral science' American Economic Review 59(1), 1-12.
- Butlin, N., Barnard, A., and Pincus, J. (1982), Government and Capitalism, George Allen and Unwin, Sydney.
- Caves, R. (1976), 'Economic models of political choice : Canada's tariff structure', Canadian Journal of Economics 9(2), 278-300.
- Dougan, W. (1984), 'Tariffs and the economic theory of regulation' Research in Law and Economics 6, 187-210.
- Downs, A. (1957), An Economic Theory of Democracy, Harper and Row, N.Y., 1957.
- Finger, J., Hall, H. and Nelson, D. (1982), 'The political economy of administered protection', American Economic Review 72(3), 452-66.
- Friedman, M. (1953), Essays in Positive Economics, University of Chicago Press, Chicago.
- Gruen, F., (1982), 'The welfare expenditure debate: Economic myths of the Left and the Right', Economic Record 58 (162), 207-23.
- Gruen, F., (1982), 'How bad is Australia's economic performance and why?', Economic Record , 62 (177), 180-93.
- Hughes, H. (1985), 'Australia and the world environment -the dynamics of international competition and wealth creation', pp 1-17 in Scutt (ed) 'Poor Nation of the Pacific : Australia's Future ?'.
- Kasper, W. (1986), 'Structural change for economic growth', Economic Affairs (June-July), 8-13.
- Keynes (1936), 'The General Theory of Employment, Interest and Money ', MacMillan, London.
- Lavergne (1983)
- McPherson, C. (1972), 'Tariff structures and political exchange', unpublished Ph.D. thesis, University of Chicago.
- Mueller, D. (1979), Public Choice, Cambridge University Press, Cambridge.
- Niskanen, W. (1971), Bureaucracy and representative Government, Aldine-Atherton.

- Mussa, M. (1974), 'Tariffs and the distribution of income: The implications of factor specificity, substitutability and intensity in the short and long run', Journal of Political Economy 82(6), 1191-1203.
- Olson, M. (1965), The Logic of Collective Action, Harvard University Press, Cambridge.
- Olson, M. (1982), The Rise and Decline of Nations, Yale University Press, New Haven.
- Porter, M. (1985), 'The labour of liberalisation', pp 37-61 in Scutt (ed) Poor Nation of the Pacific : Australia's Future ?.
- Pincus, J. (1975), 'Pressure groups and the pattern of tariffs', Journal of Political Economy, 83(4), 757-78.
- Pincus, J. (1977), Pressure groups and Politics in Antebellum Tariffs, Columbia University Press.
- Quiggin, J. (1986), 'Egoistic rationality and public choice theory: A critical review', Economic Record, forthcoming.
- Quiggin, J. and Stoeckel, A. (1982), 'Protection, income distribution and the rural sector', Economic Papers, 1(2), 56-70.
- Scutt, J (ed) (1985), Poor Nation of the Pacific : Australia's Future ?, Allen and Unwin, Sydney.
- Schott, K. (1984), Policy, Power and Order: The Persistence of Economic Problems in Capitalist States, Yale University Press, New Haven.
- Stigler, G. (1974), 'Free riders and collective action', Bell Journal of Economics and Management Science 5(2), 359-65.
- Stockwin, L. (1981), 'Comparative politics', in Drysdale, P. and Kitaoji, N. (eds), Japan and Australia: Two societies and their interaction, ANU Press, Canberra.
- Stolper, W., and Samuelson, P. (1941), 'Protection and real wages', Review of Economic Studies 9 (1), 58-73.
- Tullock, G. (1972), 'Economic imperialism' pp.317-329 in Buchanan, J. and Tollison, R. (eds) Theory of Public Choice, University of Michigan Press, Ann Arbor.
- Wolter, F. (1984), 'From miracle to economic stagnation: On the German disease', pp 95-122 in Harberger, A. (ed), World economic Growth - Case Studies of Developed and Developing Nations, Institute for Contemporary Studies, San Francisco.

DISCUSSANT'S COMMENT

F.H. Gruen

Australian National University

John Quiggin's paper represents firstly an attempt to attack the dominant neo-classical - or public choice - model of politics and of interest groups (including their supposed effects on the economy) and secondly an attempt to outline an alternative model of government-interest group interaction.

In the process Quiggin ranges beyond the more immediate effects of interest groups and of political factors on Australian economic growth. For instance he considers the plausibility of the neo-classical and of his rival model as alternative explanations of the 1985 Tax Summit and of both the initial adoption of tariff protection and of the resultant differential pattern of industry assistance.

The criticisms of the neo-classical model are partly on the grounds of inadequate predictions (i.e. voters motivated only by egoism would not bother to go to the voting booth) and partly on the grounds that while the model has some correspondence to reality (e.g. the Niskanen model of bureau and budget-maximising bureaucrats) "it is by no means an adequate general analysis".

While both these criticisms have validity, they do not in my view dispose of the public choice interest group model. Most models - in economics and elsewhere - are simplifications of reality and are therefore likely not to "tell the whole story". To single out the irrationality of voting when Anthony Downs - in his classic *Economic Theory of Democracy* produces no less than twenty-five testable propositions - is pretty one-sided criticism.

There is a detailed refutation of the application of neo-classical theory to the emergence of differential tariff assistance - criticising in particular the work of Anderson. This criticism is summarised in Table 1, which provides a contrast of the observed relationship between a variety of economic variables and effective rates of assistance on the one hand and the predictions from three possible models on the other. The three models are the interest group model, Anderson's demand side explanation and the "naive" model - that protection is introduced to save jobs. Quiggin argues that the naive model performs best. In other words a variable such as SO4 (industry concentration share of the four largest firms) is observed to be negatively related to industry assistance - as would be expected on the basis of Quiggin's naive model; but NOT on the basis of the other two models.

Quiggin devotes over three pages to Olson's *The Rise and Decline of Nations* thesis which he summarises well - but assesses too casually and, in my opinion, too superficially. I do not think a casual discussion of four or five countries and alternative reasons for their success or failure to achieve high economic growth rates represents an adequate examination of the Olson thesis. A much more solid statistical attempt to test Olson's model was conducted by Kwang Choi (in Mueller (ed) 1983) who found the "model clearly satisfactory" when judged by normal statistical tests. Needless to say there may be some better tests than Choi's which produce a different conclusion. My point is simply that Quiggin's assessment is too casual in the light of the many other assessments and evaluations of the Olson thesis which now exist.

Quiggin's alternative interest group model is not as well specified as one would like. In spite of this it seems to me to contain a number of valuable insights - insights which seem to me to be not necessarily at odds with the major Olsen thesis of institutional sclerosis.

Firstly Quiggin argues that, until recently the objectives of rapid population growth and economic development have been more important political and community objectives than higher per capita GDP.

Secondly Quiggin argues that parties stand for something - they are not *only* vote maximising organisms. At one stage he cites a paper of mine on the Federal Budget where I show that parties make a difference - Labor is more egalitarian and non-Labor governments more frugal.

I do not think that either of these are characteristics of the Australian economic/political scene necessarily contradicts the Olson - or the neo-classical theory of politics - thesis.

Nor do I understand why either the Olson thesis or the neo-classical theory of pressure groups should imply that pressure groups exert pressure either solely or mainly through lobbying, political donations etc.. I agree with Quiggin that "the lobbying efforts of interest groups are much less important than the independent power they represent" - but this does not seem to me a critical point against Olson, or against the neo-classical theory of interest groups.

The main reasons Quiggin seems to be opposed to public choice in general and the Olson thesis in particular is that he sees these models to have policy conclusions he wants to contest - i.e. "On Olson's view Australia requires a radical shock to break down existing institutions such as unions and oligopolies". He contrasts this with Schott's analysis that corporatist countries have performed better during the 1970s. But the Olson thesis does not necessarily imply that shocks are the only technique for avoiding institutional sclerosis - though many have drawn such a policy conclusion from Olson's thesis.

Quiggin asserts that "the fragmentation and irrational location patterns induced by the weakness associated with the Federal system has been far more damaging to Australia's industrial performance than has rent-seeking by organised interest groups". He then illustrates this case with the development of the British Leyland's New South Wales plant. I think the fragmentation and irrational location patterns of Australian industry have been a major negative factor for Australian economic growth. The uneconomic steel plants in Western Australia, South Australia, Victoria, the uneconomic motor vehicle assembly plants in Queensland and New South Wales, the hundreds of miles of unnecessary liquids pipelines from the Cooper Basin and the Jackson oilfield, the State preference policies - all these have been major factors damaging our economic performance. The fact that these have been major factors does not deny that narrowly based pressure groups have also sometimes raised costs very markedly (e.g. coastal shipping, Pilbara iron mining). I do not see why accepting the existence of some validity for the Olson thesis rules out Quiggin's supplementary one - a thesis which he could have developed at considerably greater length.

Finally I do agree with him that "it has been the weakness of governments... (rather than their strengths) which has led to the most damaging examples of policies driven by interest groups". It seems to me one of the important, and generally ignored, facts that most of the exceptionally good economic performers have had very strong governments, able to stand up to a lot of the damaging pressure group activities plaguing weaker governments (and economies).

1424432



A.N.U. LIBRARY

6H08
A973
no. 161

LIST OF DISCUSSION PAPERS ARISING FROM THE CONFERENCE:

RECENT AUSTRALIAN ECONOMIC GROWTH

(Held 24-26 November 1986)

These papers are available (free of charge) from The Publications Officer, Centre for Economic Policy Research Australian National University, PO Box 4, Canberra ACT 2601, Australia. A full list of available Discussion Papers is also available from the Publications Officer. (Tel: (062) 492247.

- 160 Dowrick, S. and D.T. Nguyen, **Australia's Economic Growth Performance: Measurement and International Comparison**
- 161 Quiggin, J., **Australian Economic Growth: The Role of Special Interest Groups and Political Factors**
- 162 Dixon, R., **The Role and Consequences of Structural Change in Recent Australian Economic Growth**
- 163 Carmichael, J. and N. Dews, **The Role and Consequences of Investment in Recent Australian Economic Growth**
- 164 Johnston, H.N., D.S. Harrison, M. Hardham and R. Brooker, **Consequences of Fiscal Policy in Recent Australian Economic Growth**
- 165 Freebairn, J., **Australian Economic Growth: Labour Market Issues**
- 166 Elek, A., A. Camilleri and M. Lester, **The Role of Technological Change in Australian Economic Performance**
- 167 Smith, B., **The Role of Resource Development in Australia's Economic Growth**
- 168 FitzGerald, V. and P. Urban, **Australian Economic Growth: The Causes and Consequences of Changes in the Terms of Trade and the Balance of Payments**

PUBLICATIONS ARISING FROM CONFERENCES

- Recent Australian Economic Growth.** Conference organised by the Centre for Economic Policy Research (in honour of Professor F.H. Gruen), ANU, 24-26 November 1986. Papers published as Discussion Papers Nos. 160-168. Revised and abridged papers to be published by Macmillan as a single volume, mid-1988.
- Exchange Rates and the Economy.** Centre for Economic Policy Research, Australian National University and Centre for Studies in Money, Banking and Finance, Macquarie University, Joint Conference, ANU, 15 and 16 July 1986. Revised papers and discussants comments published in *Economic Record* (Supplementary Issue), December 1986.
- Continuity and Change in Australian Economic Policy.** Conference organised by the Centre for Economic Policy Research, ANU, 25-27 June 1985. Revised papers and abridged comments of Discussants published in *Australian Economic Review*, 3rd Quarter 1985.
- Recovery From The Depression in Australia 1931-37.** Joint conference with Department of Economic History, Research School of Social Sciences, ANU, 12-14 August 1985. The Conference Papers are published in *Working Papers in Economic History* (Dept of Economic History, RISS, ANU). The edited papers are to be published as a single volume by Cambridge University Press, 1988.
- Brookings Survey of the Australian Economy Conference,** organised under the auspices of the Centre for Economic Policy Research with the Brookings Institution, Washington DC. See Discussion Papers Nos. B1-B10. Revised papers published in *The Australian Economy: A View From the North* (Eds. R.E. Caves and L. Krause), Allen & Unwin, Sydney 1984 and The Brookings Institution, Washington DC, 1984.
- Numerical Micro-Models: Issues, Applications and New Developments.** Joint conference with Faculty of Economics, ANU, August 1983. Revised papers and additional invited papers are published in *New Developments in Applied General Equilibrium Analysis* (Eds. John Piggott and John Whalley), Cambridge University Press, 1985.
- The Effects of Inflation in Australia.** Centre for Economic Policy Research Conference, December 1982. Revised papers are published in *The Effects of Inflation::Theoretical Issues and Australian Evidence* (Eds. A.R. Pagan and P.K. Trivedi), Centre for Economic Policy Research, ANU, 1983.
- Conference on the NIF-10 Model.** Joint conference with Commonwealth Department of Treasury, October 1982. Papers and Proceedings published in: *Proceedings of the Conference on the NIF-10 Model*, Canberra, AGPS, 1984.
- Understanding Labour Markets in Australia.** A technical seminar arranged by the National Institute of Labour Studies, Flinders University, the Centre for Economic Policy Research and the Bureau of Labour Market Research, May 1982. Revised papers are published in *Understanding Labour Markets in Australia* (Eds. Richard Blandy and Owen Covick), George Allen & Unwin, Sydney 1984.
- Youth Employment, Education and Training.** Joint Conference with the Academy of the Social Sciences in Australia, February 1981. The revised papers and discussion are published in: *Youth Employment, Education and Training* (Eds. C.E. Baird, R.G. Gregory and F.H. Gruen), Centre for Economic Policy Research, ANU, 1981.
- Australian Industry: Pressures (Or Opportunities?) For Change.** Joint conference with Centre for Applied Economic Research, University of New South Wales, April 1980. The papers and summary of discussion were published as CEPR Discussion Papers Nos. 1-9, 1980.