



Interest associations and economic growth: a critique of Mancur Olson's *Rise and Decline of Nations*

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ABSTRACT

The article contradicts the thesis of Mancur Olson on the relation between interest associations and economic growth, presented in his book *The Rise and Decline of Nations*. It is based on empirical evidence from studies on interest associations and on sectoral corporatism. First, contrary to Olson's assumptions, the number of associations has not increased over time. Instead, mergers have reduced their numbers. Nor did war break up 'distributional coalitions' but strengthened them and made them more comprehensive. Second, contrary to Olson's view, more associations do not mean they have more political influence, hence greater bias in public policy. Third, interest associations are not necessarily detrimental to economic performance and growth. By contrast, we provide evidence that interest associations can make a positive contribution to economic performance. This undermines the overall argument that political stability produces more particularistic interest associations and increases institutional sclerosis, thus diminishing economic performance and growth.

KEYWORDS

Interest associations; logic of collective action; economic growth theory; market failures; comparative economic and political institutions; war and institutional development.

1 INTRODUCTION

Seventeen years have passed since Mancur Lloyd Olson wrote his second book *The Rise and Decline of Nations* (1982), which, according to 'The Economist' (7 March 1998), could have won him a Nobel Prize in economics. It won him at least a major award of the American Political Science Association. The book was the first attempt in recent history to

explain variations in economic growth rates by reference to institutions, in particular interest associations or, as Olson called them, 'distributional coalitions', which were supposed to have detrimental influences on economic change and growth. His elegant and parsimonious theory was both intellectually challenging and aesthetically pleasing, and was applied to a wide range of historical experiences. Now, following his death at age 66 (on 19 February 1998), it is still an influential work and the theory has become almost general knowledge, as attested by the obituary in *The Economist*: 'Make these points to a student of economics or politics and he or she will say, "Of course"'. But the ideas were obvious only after Mr Olson made them so' (7 March 1998).

The work has attracted a lot of criticism (e.g. Weede, 1986; Cameron, 1988; Schubert, 1992; Maddison 1995), as is to be expected for such an ambitious, grandiose and challenging undertaking. Much of the critique has, however, concentrated on the growth element in the relation between 'institutions and growth'. Thus Cameron (1988) and Maddison (1995) come up with alternative explanations for variations in growth rates. Cameron tries to find these in 'a nation's historic and evolving position in the world economy, the policy responses through which governments attempt to maintain or improve that position, and, finally, the constraints on (or, conversely, opportunities for) growth-oriented domestic economic policy that derive from that position' (1988: 603).

Much less critical attention has been paid to the precise nature, activities and consequences of interest associations in various countries. What there is refers mainly to trade unions, on which whole libraries have been written. Thus Cameron's forty-page critique of Olson restricts its discussion of interest associations mainly to workers' associations and hardly mentions cartels or trade associations, notwithstanding the fact that Olson clearly had such associations in mind in *The Rise and Decline of Nations*, as well as in his earlier book, *The Logic of Collective Action* (1965). However, since the publication of his book, many new studies of such associations have appeared. It is therefore, time for a confrontation between Olson's bold theses and the new findings of history and political science on the development and performance of interest associations. That is the aim of this article.

Reference will be made to four different studies in which we participated. The first is a cross-temporal study of the historical emergence and organizational development of Dutch business interest associations, including cartels (van Waarden, 1985b, 1987a, 1987b, 1989, 1992a). This includes a file of 1,664 national associations founded between 1880 and 1960, created on the basis of contemporary association directories. The study also includes historical case studies of the most important associations in the cotton textile, metalworking, construction, food-processing and printing industries in this period. The second study is a cross-national

study on the organizational structure and activities of 352 business interest associations in nine countries (Austria, Canada, West Germany, Italy, the Netherlands, Spain, Sweden, Switzerland and the United Kingdom), the so-called Organization of Business Interests (OBI) project (see, on the research design, Schmitter and Streeck, 1981). Again, this project includes both a quantitative dataset on these 352 associations and detailed country and sector case studies. The third project is a comparative study of the changes in the structure of business interest associations during and after the Second World War in the context of organizing the industry to serve the war effort in the various belligerent countries (reported in Grant *et al.*, 1991). The fourth and final project was a comparative study of sectoral economic performance, initiated at the University of Madison, Wisconsin (Hollingsworth *et al.*, 1994; Traxler and Unger, 1994a, 1994b).

2 THE LOGIC

Olson's argument has become widely known, but to facilitate the discussion we will summarize its essential features:

1 Interest associations are bad. They

reduce efficiency and aggregate income in the societies in which they operate . . . slow down a society's capacity to adopt new technologies and to reallocate resources in response to changing conditions . . . erect barriers to market entry . . . and make decisions more slowly than the individuals and firms of which they are comprised and tend to have crowded agendas and bargaining tables.

(Olson, 1982: 41–69)

All this reduces economic growth. Olson subscribes here to the familiar microeconomic picture of associations as 'rent-seekers' (Buchanan *et al.*, 1980). The supposedly malign functions of cartels also hold for 'any combination of individuals or firms for collusive action in the market place, whether a professional association, a labor union, a trade association or an oligopolistic collusive group' (Olson, 1982: 44).

- ### 2 The greater the number of such special interest associations, the worse.
- Olson does not explicitly say so, but it is implicit in the argument that stable societies allow associations to proliferate (see Section 3), which is why their economic growth declines. As the perverting influence of associations is partly due to the asymmetry of interests represented – small groups organize more easily than larger groups – this argument also implies that an increase in numbers increases, or at least does not decrease, the asymmetry in the system of organized interests.
- ### 3 The formation of interest associations takes time. Hence, the longer the uninterrupted development a country has experienced, the greater

their number and the slower economic growth should be. 'Stable societies with unchanged boundaries tend to accumulate *more* collusions and organizations for collective action over time' (Olson, 1982: 41, 75; 1983: 17–18). Political upheaval such as revolution, war, invasion, occupation or totalitarian government could disrupt the proliferation of such organizations. Indeed, he posits a fascinating paradox: positive political phenomena such as stable democracy and absence of war have their economic costs. The implication is that an authoritarian limitation of the freedom of association may be required to safeguard the freedom of enterprise and economic progress.

We will take up these arguments, starting with the last one and then making our way back to arguments 2 and 1. We follow this order, like peeling layers off an onion, because even if 3 does not hold, 1 and 2 can still be valid, and if 2 does not hold 1 can still be valid. Section 3 discusses the relation between time and war on the one hand and number and comprehensiveness of interest associations on the other. In Section 4 we address the question of whether greater numbers of interest associations mean more overall economic and political power for such particularistic interests. Section 5 argues that business interest associations can have beneficial economic effects. We present cases of associational self-regulation that provide solutions to well-known problems of market failure, thus enhancing an economy's capacity for structural change, international competitiveness and growth. Finally, in Section 6 we compare long-term growth rates of countries that differ in the prevalence of associational self-regulation at the sectoral level.

3 TIME, WAR AND ASSOCIATIONS

3.1 Time and numbers

Does the number of interest associations keep increasing over time, as Olson suggests? Studies on the formation of interest associations show that their numbers grew fast at first. Many newcomers did not survive long because of their 'liability of newness' (Stinchcombe, 1965), but others did, and over time the density of associations increased. As this happened, the growth rate of new associations being founded slowed down. In the meantime the disbanding rate increased, due to dissolutions, but also increasingly due to mergers and transfers, which eventually caught up with the founding rate, resulting in a more or less stable population of associations or even a decrease in their numbers.

Table 1 lists the number of new foundings of national or nationally relevant trade associations in the Netherlands, Canada and the USA. The data show an increase in the birth rate of trade associations – albeit with

strong fluctuations; we will return to that – and a certain stabilization of the number of new foundings in the post-Second World War years in the USA (between 210 and 270) and Canada (around fifty). The Dutch data go only to 1960 and do not immediately show a stabilization. However, it is important to know that the relatively high numbers of new Dutch associations in 1945–55 give a false impression. The large majority of these foundings were not new associations, but continuations of pre-war associations (dissolved by the Nazi occupation forces) and of the compulsory trade associations created by the Nazis during the war. That is, compulsory associations (not included in these data) were transformed into voluntary ones. (We will return to this in the following sections.) The difference in post-Second World War developments between Canada and the USA on the one hand and the Netherlands on the other reflects the discontinuities the latter country experienced because of the war. The real new foundings in the period 1945–55 were much lower, so that in reality the rate tapered off here as well.

Table 1 Foundings of nationally relevant voluntary trade associations in the Netherlands, Canada and the USA

<i>Period</i>	<i>Netherlands</i>	<i>Canada</i>	<i>USA</i>
1880–4	15	2	?
1885–9	11	6	?
1890–4	18	6	?
1895–9	36	11	?
1900–4	73	10	70
1905–9	99	15	76
1910–14	100	15	96
1915–19	279	49	173
1920–4	60	36	115
1925–9	76	34	108
1930–4	167	38	245
1935–9	156	37	164
1940–4	27	61	170
1945–9	249	34	229
1950–4	254	41	210
1955–9	30	33	270
1960–4	–	50	211
1965–9	–	53	218
1970–4	–	52	279
1975–9	–	39	268

Sources: for the USA: Aldrich *et al.* (1991); for Canada: Coleman (1988); for the Netherlands: van Waarden (1992a).

– = no data available

Mortality rates of trade associations are available only for the USA (Aldrich and Staber, 1988). They show a convergence of founding and dissolution rates, leading to a stabilization of the number of trade associations (cf. also Aldrich *et al.*, 1990: 32).

Trade union foundings show a similar pattern, and here there are more data on dissolutions. Visser and Waddington (1996) present data on foundings, dissolutions, mergers and the average total number of trade unions for the decades between 1892 and 1985 for Sweden, the Netherlands and Britain. This is summarized in Table 2. The data show a wavelike development of foundings and dissolutions, but the long-term trend is curvilinear. As is to be expected, the number of new foundings is high in the initial phases of unionization. After 1930 and especially 1950 the number of new union formations decreases, most strongly in Sweden, but also in Britain and the Netherlands, albeit with an increase in the 1970s. In the early years, the number of dissolutions of unions is also high, as they still suffer from the 'liability of newness'. As unions get established and accepted, as they learn from each other and an associational infrastructure develops that aids newcomers, the number of cessations decreases. However, then the number of mergers increases, as union officials look for economies of scale and scope, for securing resources and for increasing their representativeness and hence political influence and bargaining power.

This pattern at first produces an increase in the total number of unions in the three countries. However, the number peaks between 1920 and 1932. To be more precise, the highest number of unions is reached in Britain in 1920, in Sweden in 1931, and in the Netherlands in 1932. Thereafter the number of unions decreases, most drastically in Britain, where in 1985 the number of unions is only 24.7 per cent of the peak number in 1920. In Sweden it is 37.4 per cent of the peak number and in the Netherlands 68.4 per cent. Thus the size of the reduction in numbers differs between the three countries – for various reasons, such as Dutch pillarization – but the trend goes in the same direction.

The number of union members increases, however, leading to a growth in the average size of unions over the whole period: in the Netherlands from 309 workers per union in 1892–1900 to 6,169 in 1980–5, in Britain from 1,341 to 26,887; and in Sweden from 604 to 46,143 workers. These averages still understate the degree of concentration that has taken place. Of the 201 unions left in 1997 in the Netherlands, 163, or 81 per cent, had fewer than 5,000 members. Fifteen unions, affiliated to the three main peak associations, grouped 80 per cent (1.5 million) of all organized workers (CBS, 1998). These unions were indeed the result of a series of mergers, a trend which was stronger among workers' unions than among business associations, as for unions the pure number of

Table 2 Trade union foundings, dissolutions and mergers and number of unions (annual average per decade) for Sweden, the Netherlands and Britain

Period	Sweden			Netherlands			Britain		
	Foundings	Dissolutions	Mergers	Foundings	Dissolutions	Mergers	Foundings	Dissolutions	Mergers
1892-1900	45	2	3	112	3	4	603	322	166
1901-10	72	4	26	190	30	50	561	363	182
1911-20	90	4	16	281	47	116	710	228	432
1921-30	33	1	21	132	76	65	287	311	262
1931-40	45	2	62	63	43	40	148	155	107
1941-50	52	3	78	175	60	75	132	132	322
1951-60	23	2	42	86	41	52	39	80	46
1961-70	9	6	72	61	37	87	111	89	70
1971-80	2	1	36	128	16	107	235	142	141
1980-5	2	0	14	20	6	88	106	90	162
Total number for whole period	368	25	362	1201	358	640	2794	1835	1910
Overall average									
				142.2			274.1		886.5

Source: Visser and Waddington (1996).

Notes: *Foundings* includes new trade unions created out of breakaways from existing ones. *Mergers* lists the number of unions that 'disappear' due to a merger: the number of unions involved in an amalgamation, and the number of unions taken over or absorbed by others. *Total number* lists the annual average for the decade.

members represents a more important resource, and workers usually have more homogeneous interests than business firms. The problem of how to manage diversity of interests has often prevented mergers of trade associations.

As industry initially develops and differentiates itself, so does the pattern of economic interest associations. Newly emerging sectors of the economy and new social categories (e.g. civil servants and professional workers, in addition to the older categories of skilled and manual blue-collar workers) create their own trade associations and trade unions. But there seems to be a saturation point. As the associational density increases, the rate of foundings decreases while the merger rate increases, leading to a decrease in the total number of associations. Aldrich *et al.* (1991: 28–9) locate this saturation point for American trade associations at 1,400. The curvilinear relation between density and founding rates to total number of associations found by Visser and Waddington (1996) for three European countries had already been found for American trade unions by Hannan and Freeman (1988) for the period 1836 to 1985. This trend is likely to continue. Both the increasing blurring of boundaries between economic sectors due to technological change and post-Fordist production methods (Schmitter, 1990) and the merger trend are likely to reduce the number of associations and the differentiation of associational patterns even further. This is quite unlike the linear trend of more associations with the passage of time which Olson hypothesized.

3.2 War and disbanding of associations

What about the hypothesis that political and social upheaval caused by war, totalitarian government or foreign occupation ‘emasculate or abolish special-interest groups’, thus enhancing economic growth (Olson, 1982: 75; 1983: 25)? Olson sees this as an explanation for the ‘economic miracle’ in countries that suffered defeat in the Second World War, notably Japan and Germany.

European countries that experienced severe regime changes because of war were Germany, Austria and the Netherlands. In Germany and Austria this happened first with the take-over by totalitarian Nazi regimes in 1933 and 1934, and subsequently with their defeat in 1945 and occupation by foreign powers. The Netherlands experienced regime change with German occupation in 1940 and again with liberation in 1945. Such regime changes should have destroyed existing business associations. Did they?

The findings of the OBI project indicate that they did not. Table 3 shows that Germany, Austria and the Netherlands do not have significantly younger business associations. On the contrary, Germany and

Table 3 Average age of business interest associations in nine countries

	<i>Number of associations in the study</i>	<i>Average age in years in 1985*</i>
<i>Relatively old associations:</i>		
West Germany	43	67
Austria	17	64
Switzerland	53	64
<i>Medium-age associations:</i>		
United Kingdom	34	58
Sweden	33	54
<i>Relatively new associations:</i>		
Canada	49	49
The Netherlands	69	48
Italy	15	47
Spain	18	29
Total	331	55

Source: OBI project.

Note: *Calculation of age includes any direct predecessors.

Austria have on average even somewhat older associations. Many of their business associations trace their roots to before the Second World War. By contrast, countries with a stable political structure such as Sweden, Britain and Canada have relatively young business interest associations. This might be an indication of an open pluralist system of interest associations, which lends itself to foundings.

These quantitative findings are supported by qualitative data from another project coordinated by one of the authors of this article, which shows a remarkable continuity of business associations in various countries across severe breaks in their political development before, during and/or shortly after the Second World War (Grant *et al.*, 1991). In only two of the nine countries studied – Germany and the Netherlands – did the war break up existing systems of interest associations. However, this happened twice: at the start and at the end of the war. This ‘double break’ meant to some extent a return to the pre-war situation. Voluntary interest associations were re-established after the war, in part even in their pre-war pattern of differentiation. Thus in Germany separate employer and trade associations emerged again after the forced wartime merger between economic and socio-political business associations (van Waarden 1991b: 297).

3.3 War and crises as creators rather than destroyers of associations

Contrary to what Olson maintains, war does not destroy interest associations; it actually creates them. In democratic countries more *voluntary* trade associations were founded during wartime. The data presented in Table 1 show peaks in associational foundings in the periods 1915–19 (for all three countries) and 1940–4 (for Canada). Although they do not provide quantitative data, the contributions in Grant *et al.* (1991) describe an increase in foundings of trade associations during the Second World War in Sweden, the UK, Canada and the USA. Cuff (1973) studied the development of trade associations during the First World War and showed how these were created to be instruments for mobilizing the economy for the war effort. Coleman (1988) did the same for Canada, and Grant (1987) for the UK. The data of Visser and Waddington (1996; see Table 2 above) also show a peak in foundings of trade unions in Sweden and the Netherlands in the war decades 1911–20 and 1941–50, and also for Britain during the First World War and its direct aftermath.

In totalitarian Nazi Germany and the countries occupied by it, including the Netherlands, pre-existing voluntary trade associations and trade unions may have been destroyed before and during the war. However, they were replaced by an even more extensive *compulsory* corporatist system of associations for both employers and workers (Weber, 1991; Barnouw and Nekkers, 1991). When these were in turn disbanded after the defeat of the Nazis, the many new voluntary trade associations and trade unions that were created – the Dutch data show a peak in 1945–52 – were continuations of either pre-war associations or the compulsory wartime associations.

This peak in associational foundings during wartime points to different motives and initiators. Traditional interest group theory and political economy, including Olson, commonly assume that initiatives for associational foundings come from the prospective membership. That is, trade associations are assumed to be created by industry to represent their particularistic interests, to lobby the state and to seek privileges and ‘rents’. The wartime data, however, back up the hypothesis of corporatist theory, that associational founding has been aided by external support from the addressees of interest representation, notably the state. Most wartime associations were created at the instigation of the state, which needed interlocutors from industry to cooperate with and to help organize the economy for the war effort. Many trade associations were given public tasks, such as the distribution of scarce raw materials in line with the priorities of the war economy, the implementation of zoning regulations, or the provision of certificates of origin of products and export licences. Once created, such associations of course became true ‘interest

representatives', particularly when they lost their statutory tasks after the war, as many did. Only in the USA were many disbanded after the war. Elsewhere, they developed into full-fledged interest associations.

This holds not only for sectoral trade associations, but also for the general peak associations of industry. Coleman indicates that the predecessors of the main peak associations of business in Britain (CBI), Germany (BDI) and France (CNPF) 'were all created between 1916 and 1920 at the behest of governments seeking assistance in dealing with the end of the First World War. The US Chamber of Commerce was formed at the behest of President Taft in a message to Congress on 7 December 1911' (1990: 251).

More generally, crisis of all kinds generate associations rather than destroying them. The importance of crises for the emergence of interest associations has been hypothesized in the theoretical corporatist literature (Maier, 1981; Katzenstein, 1985; Lehbruch, 1986). The present data confirm this hypothesis. The data on the formation of trade associations (Table 1) show strong fluctuations, with peaks not only during the First and Second World Wars, but also during times of economic crisis and increased state intervention. Thus the American data show a peak during the National Recovery Administration (1933–5). The Dutch data show relative increases in the years 1900, 1906–7, 1915–19, 1932–5, 1938 and 1945–52. These were all periods of 'crisis' on markets, periods in which businessmen as a result of war, depression or economic boom were confronted with problems arising from extreme shortages on the markets for either labour, raw materials or final products.

The various crises were also periods of increasing state intervention in the economy, as governments tried to alleviate the problems caused by the crises. This induced business to organize. The First World War brought a hitherto unknown degree of economic regulation, including raw materials distribution, import licences, food supply and war profits. Directly after the war, labour shortage and social unrest produced some important labour laws. The economic crisis of the 1930s then brought substantial market ordering legislation.

In these periods the state sponsored interest associations. Many early Dutch employers' associations were created at the instigation of the state, which wanted countervailing powers to resist strikes and unions and to prevent wage increases; or (later) associations which could negotiate with unions and channel social conflict (van Waarden 1987b, 1992a). Furthermore, the state needed both trade unions and trade associations to help implement public policy. It needed them for information and assistance in the implementation and legitimation of its policies. During the 1930s associations were created to assist the state in its market-ordering measures. Crises and state intervention thus provided windows of opportunity for organization.

3.4 War and encompassing organizations

Olson attributes the economic success of Germany and Japan (and one might add of Austria, the Netherlands, Norway or Sweden) partly to the existence of encompassing associations of workers and business, which cannot so easily externalize the costs of their demands (Olson, 1982: 48–53, 76). However, Olson cannot logically explain the existence of such associations in these countries. They appear as a *deus ex machina* in his theory. If the formation of interest associations takes time, and if small groups are privileged when it comes to organization because of problems of collective action, how much more time is then required to form associations of large groups or peak associations? Hence if at all, one would expect encompassing associations in countries with a stable political history but not in Germany, Austria or the Netherlands, where they did actually take shape.

It turns out that war and regime change actually functioned as a catalyst for the development of encompassing associations. War may not have produced a break-up of distributional coalitions. It did, however, spawn modifications of the systems of interest associations. Wartime led frequently to a 'redesign' of associational systems. Interest associations became larger and more comprehensive. Thus the German, Austrian and Dutch trade union movements were reorganized twice. When the Nazis came to power they abolished the unions and established a compulsory and authoritarian unitary organization, the Arbeitsfront. At the end of the war this organization was dissolved by the Allied forces. A new pattern of union organization was established, which could be much more comprehensive than what existed before the Nazi period, precisely because the Nazis had destroyed the former differentiated structures (Weber, 1991; Barnouw and Nekkers, 1991). Germany's present comprehensive organization of small artisan firms in the Zentralverband des deutschen Handwerks and its affiliated chambers and guilds, though rooted in age-old guild traditions, was the creation of the Nazis in 1933 and survived post-war liberalization (Streeck, 1989). Independent pre-war trade associations, which had been forcibly integrated into the system of Nazi *Wirtschaftsgruppen*, became sectoral chapters in industry-wide associations after the war. The wartime experience also increased the centralization of interest associations in France and the Netherlands. Earlier on, the First World War had produced a similar effect. In neutral Sweden, the surrounding war and threat of state intervention forced the peak trade union LO to centralize its internal decision-making processes, an old demand of the already centralized peak employers' association SAF, which wanted an equal negotiating partner (de Geer, 1991; Flam, 1990: 26–7).

This shows up in data on the number of peak associations of workers and the share in total union membership of the largest peak association

Table 4 Concentration of the union movement: number of peak union organizations and share in total union membership of the largest peak before and after the Second World War

Country	Number of peak unions				Union	Total union membership of largest peak union (%)			
	1933	1939	1945	1985		1933	1939	1945	1985
<i>Axis/occupied countries:</i>									
Austria	3	–	1	1	BFG (1894 [†])	77	–		
					OGB (1945)		–	100	100
Germany*	8	–	4	5	ADGB (1875)	67 (1931)	–	–	
					DGB (1950)		–	–	92
Netherlands	8	8	6	7	NVV (1905)	40	–	32	
					FNV (1975)				58
France	4	3	3	6	CGT (1895)	58	89	93	32
Norway	1	1	1	3	LO (1899)	100	100	100	67
Denmark	1	1	1	5	LO (1898)	74	94	95	70
<i>Allied countries:</i>									
UK	1	1	1	1	TUC (1868)	75	77	85	89
<i>Neutral countries:</i>									
Sweden	4	5	4	4	LO (1898)	84	86	82	60
Switzerland	5	5	5	4	SGB (1880)	60	58	60	51

Source: Visser (1989).

Notes: * Data on Germany in column 1945 are for 1950, as the union organization was only re-established in that year.

[†] Founding dates are given in parentheses.

(Table 4; data from Visser, 1989). The data show a higher concentration of the union movement in comprehensive peak associations shortly after the Second World War than there was before for the Axis powers, Austria and Germany, and two of the countries they occupied, France and the Netherlands. The number of peak associations was reduced from three to one (Austria), eight to four (Germany), four to three (France) and eight to six (the Netherlands). The share in total union membership of the largest peak union increased from 77 to 100 per cent (Austria), 67 to 92 per cent (Germany), and 89 to 93 per cent (France). Only in the Netherlands did it decrease, from 40 to 32 per cent. As for the other Axis power, Italy, Visser does not provide data, but writes: 'After the defeat of fascism, the Italian trade union movement was reconstituted in a unitarian fashion (Pact of Rome of 1944) into the Confederazione Generale Italiana del Lavoro (CGIL)' (1989: 118). There was also some effect in the countries that were neutral or that did not fight the war on their own soil. In Sweden the number of peak unions decreased from five to four,

and in Britain – where there had always been just one peak union, albeit it a weak one – the TUC's share of total union membership increased from 77 to 85 per cent. Only in Norway, Denmark (both with different German occupation regimes) and Switzerland did the war have no discernible effect on union concentration. Table 4 also shows that later in the post-war years union concentration decreased again (more peak unions, lower share for the largest), as the associational pattern of unions split along political or religious lines (Italy, France) or along occupational ones, with new peak associations for white-collar workers, professionals and civil servants (Netherlands, Germany, Scandinavia).

Furthermore, several post-war comprehensive 'distributional coalitions' between the peak organizations of labour and of capital had their roots in the wartime experience. In all countries except France and Canada, the position of trade unions was strengthened. They were recognized on a permanent basis by the state and by the employers' associations as partners in consultations and negotiations. In Britain and other democratic countries this was due to their participation in wartime advisory and implementation committees. In the occupied countries it was mainly a result of close cooperation with the underground and resistance movements (see also Katzenstein, 1985: 147; Maier, 1981: 48). Several macro-level forms of concertation emerged from this. The Austrian *Sozialpartnerschaft* and the political accommodation between the fierce pre-war adversaries, the Christian Democrats and the Social Democrats, were born out of the experience of fascism, war and occupation. The Dutch bipartite Foundation of Labour, and indirectly its successor, the tripartite Social-Economic Council, were formed during informal consultations between representatives of labour and capital in the underground during the war. The presence of a common enemy brought the antagonistic parties together (e.g. Windmuller, 1970).

Sectoral trade associations were also strengthened rather than weakened by the wartime experience. Many post-war sectoral business associations in Germany emerged out of *Reichsgruppen* of the *Organization der Gewerblichen Wirtschaft*, the comprehensive and hierarchic system of compulsory organizations which the Nazis created and in which many pre-war business associations merged (Weber, 1991). Similar developments took place in France, Belgium and the Netherlands, where the German occupants had introduced a comprehensive form of state corporatism comparable to that in their own country (Rossiter, 1991; Luyten, 1991; Barnouw and Nekkens, 1991).

To sum up, in countries which experienced neither fascism, totalitarianism nor intensive occupation – Britain, Canada, the USA, Sweden, Denmark – the war did not leave any lasting imprint on the structure of interest associations. As Olson assumed, it made a greater impact on associational systems in countries like Germany, Austria, the Netherlands

and France. However, contrary to Olson's assumptions, the war did not weaken but strengthened interest associations, and actually helped create encompassing organizations. It did so because it intensified the state's need for assistance from private associations, motivating state support for interest associations in various forms.

4 DO 'MORE' ASSOCIATIONS MEAN MORE PARTICULARISM?

4.1 Numbers and political influence

As shown above, there are many data that cast doubt on Olson's theses that over time more distributional coalitions are formed and that war and crisis interrupt this process. However, his argument that the greater the number of distributional coalitions, the more harmful they are, might still be valid.

Interest associations exert their influence on the economy in large part indirectly, through their influence on public policy. Steel interests lobby for tariffs to protect them from foreign competition; the pharmaceutical industry lobbies for longer-lasting patents to limit market entry by other producers. Arguing that the more interest associations, the worse their economic effects is like saying: the greater the numbers, the greater their political influence, or the more public policy is dictated by particularistic interests.

This militates against everything political science has discovered about the influence of interest groups. In fact, beyond a certain threshold there is probably an inverse relationship between numbers and influence of interest associations. State agencies that find only one dominant interest organization in their environment are more easily influenced by it than agencies that can play off various opposing interests against each other.

Studies on the different so-called 'independent regulatory agencies' in the USA confirm this. The 'economic' independent regulatory agencies in the USA which were founded from the 1890s on, such as the Interstate Commerce Commission, the Federal Communications Commission, the Federal Aeronautics Board and the state agencies that controlled public utilities, usually regulated only one industry and found one major interest organization – a firm with a natural monopoly or a dominant trade association – in their environment. Studies of these agencies have shown that they were rather prone to 'capture' by their clientele (general studies are: Bernstein, 1955; McConnell, 1966; Mitnick, 1980; on the ICC, e.g. Hoogenboom and Hoogenboom, 1976). The 'social' regulatory agencies founded from the 1960s on, such as the Environmental Protection Agency (EPA) or the Occupational Safety and Health Administration (OSHA), were not specialized in any one industry, and hence found themselves

confronted with interests from many economic sectors. By balancing these interests and changing alliances, such regulatory agencies were able to keep a much greater autonomy than in a clientelistic environment. They did their name of 'independent regulatory agencies' more honour than the older economic ones (albeit that the term 'independent' in the name referred to a different independence, an independence from the president and its spoils policy (Shapiro, 1997)). It is indicative of this autonomy that the influence of the opposing interests of business on the one hand and the environmentalists and labour on the other varied over time with changes in the political climate. This variable influence is reflected in the title David Vogel gave to his study of the political influence of business on the social regulatory agencies, *Fluctuating Fortunes* (1989).

As the number of interest associations increases, clientelistic policy environments become transformed into pluralistic ones. In these, individual interest associations will have much more difficulty in asserting their interests. In sum, contrary to what Olson maintains, it could be that the smaller the number of associations, the greater their political influence; hence the more likely that public policy will be biased to those special interests. Where these few associations have become fairly comprehensive, the influence they exert will of course favour more general interests, leading to less 'rents' for only special interests.

4.2 Asymmetry in the political arena?

The traditional pluralist argument is that it is easier for the state to maintain its neutrality and autonomy if it is confronted with a plurality of competing interests. This argument assumes, however, a minimal degree of symmetry and balance between different interests, which is to say the least not guaranteed. Mancur Olson criticized this assumption. He presented compelling reasons why interest groups should be unequal in their capacity to organize as powerful lobbies. Small homogeneous groups are 'privileged' in this respect, because they can overcome free-rider problems more easily than large groups. Thus businessmen, who usually form small groups, should find it easier to organize than large heterogeneous groups such as those of workers, consumers or sufferers from environmental pollution. Indeed, evidence abounds that density ratios of business interest associations are much higher than those of trade unions, consumer organizations or environmental groups. Even among business interest associations, there is an inverse relation between size of the recruitment pool and the density ratio (van Waarden, 1991a). Nevertheless, some arguments can qualify Olson's assumption of an asymmetry between interests in the political arena, which in part can be derived from his own logic.

As by Olson's assumption, more associations emerge over time, the pluralistic ideal would be ever more closely approached. The more interest groups are able to form organizations, the more interest associations would find other organizations in their environment, with different, or even opposing, interests. State agencies would be better able to maintain autonomy from these different interests, reducing the influence of interest groups on public policy.

Even if one assumes that large groups in particular, such as consumers or environmentalists, are never able to organize effectively, this does not imply that business interests would not find powerful opponents in the political arena. The fiercest opponents of specific business interests are usually not consumer interests but rival business interests. Thus the steel industry may want tariffs on steel imports, but the automobile industry is very much against them. Firms dependent on domestic demand have different interests from firms which export a large percentage of their output.

Business is more heterogeneous than any other group. This structural heterogeneity is reflected in the differentiation of industry into many sectors and branches. This differentiation is an advantage for initial organization, as Olson has argued (Olson, 1965: 145; see also Moe, 1980: 197). But it produces a highly fragmented system of often competing and opposing interest associations.

As against Olson's argument that particularistic business associations would have more political power because they have a 'privileged' capacity for organization, one could argue that density ratios and other organizational resources are not the only factors determining political clout. Political influence seems, especially in pluralistic policy worlds, more dependent on other factors such as the business cycle, unemployment, political culture, the fashionable political issues of the day and, more generally, the importance of a social group for the realization of specific state goals. Furthermore, access and influence depend also on filters built into the legal, political and administrative state institutions. These differ between countries. Policy studies have shown that public administrators in Britain, Germany, Sweden and the Netherlands tend to make themselves accessible to interest groups whereas French and American civil servants tend to be much more suspicious of special interests and try to keep them at bay (Kelman, 1981; Wilson, 1986; Vogel, 1986).

To sum up: an asymmetry in the capacity to organize does not necessarily imply an asymmetry in actual political influence. It also depends on other factors. This is not meant to imply that symmetry will be the result. But as Olson assumes, a pluralistic ideal could be approached as more and more special (business) interest associations are created.

One could add another critical argument: as more interest associations enter the political arena, they are likely to join in the scramble for

access, recognition, influence, concessions, etc., thus uprooting possibly established relationships between interest associations and state agencies. Why should what Olson holds to be the case for the economic market – low or no market-entry limitations foster dynamism, flexibility, better resource allocation, etc. – not hold for the political market? Do continuous new entrants not make it a more competitive – that is, pluralistic and symmetric – market? The greater the political stability over time, the more interest groups should have been able to organize, and hence the more competitive the political market should be.

5 POSITIVE ECONOMIC EFFECTS OF INTEREST ASSOCIATIONS: CORRECTING FOR MARKET AND STATE FAILURES

Even though Olson may be mistaken in maintaining that *more* associations, created over a longer politically undisturbed time period, make for even *more* particularism in public policy, less efficiency and lower economic growth, his basic thesis that interest associations are detrimental to economic growth might still hold. However, this argument is also questionable. At the very least it is one-sided.

It is a familiar criticism that special interest associations allow for the extraction of undeserved rents and the externalization of costs, through higher prices or poorer products for consumers, and that they slow down economic decision making, reduce the pressures of competition, retard technological development, and more generally produce rigidities and inflexibilities, whether through their own action (by cartels etc.) or indirectly (by lobbying, and thus biasing or perverting public policy).

The negative view of interest associations stems partly from the assumption that they are only or mainly concerned with redistribution rather than with production. Olson sees associations as being 'overwhelmingly oriented to struggles over the distribution of income and wealth rather than to the production of additional output' (Olson, 1982: 44). The benefits they acquire for their members are necessarily costs to others. But would it not be possible for associations to represent members' interests without externalizing costs to others? Does the political world necessarily have to be zero-sum?

This view on interest associations may be true for America. Anti-trust legislation (Lindberg *et al.*, 1991), adversarialism (Marcus, 1984; Chandler, 1980) and mutual distrust between business and the state (Vogel, 1978) restrict American economic interest associations to the role of lobbying, pressuring state agencies on behalf of narrow interests. This intensifies the critical attitude in American popular culture towards 'special' interests, which in turn reinforces adversarial relations and the orientation towards redistribution. However, many European interest associations

do assist production and efficient allocation. They do so in particular through the correction of market failures.

Economic theory has accepted that intervention in the market through regulation may be necessary to correct market failures. Well-known causes of market failures and inefficiencies are information and power asymmetries, externalities, transaction costs, ruinous competition, conflict escalation, underproduction of collective goods such as vocational training, and temporal market failures resulting in long-term inefficiencies.

Market regulation is often provided by the state, because it suffers least from free-rider problems. Thanks to its monopoly over the legitimate exercise of force, and hence its monopoly over the enactment of binding legislation, it can coerce prospective free riders. However, there is not only 'market failure' but also 'state failure', as many writers on public administration and regulation have documented. There may be problems with, for example, implementation and enforcement. Policy makers cannot be sure that 'street-level bureaucrats' will implement the rules according to their intention, the familiar principal-agent problem. State agencies may lack the required resources to guarantee 'full enforcement'. Furthermore, state regulation may lack legitimacy among the subjects of regulation, who hence may oppose it and appeal against the rules and decisions in court, leading to lengthy and costly court battles. Not only may this lengthen the period of implementation considerably (that is, delay decision making); it may also produce extensive case law, thus increasing the complexity of and controversy over regulation, giving subjects a sense of 'regulatory unreasonableness' and 'overregulation', which further increases opposition to regulation (Bardach and Kagan, 1982; Vogel, 1986).

Market failure and state failure both being possible, several European nations have gained good experiences with market regulation through associations. Self-regulation by industry has at least the advantage that implementation is closer to the subjects to be regulated, so account can be taken of the specific conditions and the constraints of the industry. Furthermore, self-regulation tends to increase the legitimacy of regulations among the subjects of regulation, thus reducing controversy and opposition and the attendant costs.

Because of free-rider problems, industries have at times needed to call for state backing for self-regulatory arrangements. Where this has happened, either passively in the form of official tolerance, or actively, in the form of statutory sanctioning, it has produced mixed public-private forms of regulation, which have also been called meso- or sectoral corporatism.

In the following sections we discuss several typical market failures and present examples of associations which have provided regulations or collective goods to counter such failures, thus contributing to economic efficiency and growth.

5.1 Information asymmetries, opportunism, distrust: product quality control in the agro-food industries and future delivery services

Fierce competition in unregulated markets may entice, if not force, competitors or transaction partners to engage in opportunistic behaviour. This may create or intensify mutual distrust and lead to high transaction costs.

Distrust and opportunistic behaviour may be furthered by *information asymmetries*. These may tempt entrepreneurs to engage in the adulteration of product quality (or, for that matter, to hide the dangers of specific working conditions). This temptation is particularly great in generic products, for which it is difficult to build up individual brand names which would facilitate product accountability of firms. Examples are meat, milk, cheese, vegetables or certain medicines. Meat does not show whether hormones have gone into its production, nor butter whether margarine has been mixed with it. It is only after the transaction has been made that one may become aware of the consequences. Under such conditions, fierce market competition may induce manufacturers or traders to adulterate; for certain products, such as food, toys, medicine or buildings, this may endanger the health and safety of consumers. In such cases most governments have eventually set product quality standards.

However, trade associations have also taken on tasks in product quality regulation and standardization, sometimes alone, sometimes in cooperation with the state, the latter particularly where public health issues were involved. In several European countries, state regulations are codifications of earlier private regulations. Examples abound. A good one is Dutch dairy quality regulation. Quality became severely threatened around 1900. Owing to the presence of a well-developed margarine industry, Dutch butter manufacturers frequently mixed margarine with the butter – so much that the mixture became known internationally as ‘Dutch butter’. Furthermore, cheese was made from skimmed milk without consumers being informed. The cheese appeared normal while it was fresh, but with ageing it collapsed. In 1903 there was an infamous court case in England, involving a Dutch ‘civil engineering work’ of only 1.6 per cent fat and 57 per cent water. Such fraud was detrimental not only to the consumer but also to the reputation of the Dutch dairy industry. Exports dropped to an all-time low. Individually, firms could do nothing to stop it, owing to free-rider problems. They therefore formed associations, which set quality standards and tried to control the trade through monopolizing the butter auctions and boycotting unreliable merchants. However, in time they could not function without public coercion, which came when the state required formal butter or cheese marks for export licences. The implementation of these schemes is,

however, still in the hands of private interest associations. Similar developments took place in many other sectors of the Dutch economy.

Associations are institutions that help to *create trust* and thus facilitate transactions. This applies in particular to transactions of goods to be *delivered in the future*. Here the trust problem is especially great. How can the buyer of an insurance plan be certain that the insurance company will still exist twenty-five years from now when benefits are to be paid out? Or that the travel agency won't go bankrupt before the start of the trip purchased? Such trust – and hence the transactions – require a third party guaranteeing observation of the contract. Usually the state supplies such a service. It registers, sets standards for, and controls banks and insurance companies. More generally, it backs up contracts by civil law.

However, trade associations have also assumed responsibilities in this area. Thus Dutch and Austrian associations of travel agencies, car repair shops and construction firms have created funds that guarantee consumers delivery of the goods by the sector if a specific supplier goes bankrupt before delivery. By advertising such guarantee funds, associations encourage consumers to demand guarantees for their future delivery contracts and hence force firms to associate with the funds and to satisfy their conditions. Often such collective guarantee schemes have been combined with private certification of firms to be admitted to the guarantee fund. Thus they set standards for financial solvency, professional training, or the quality of goods and services provided. Furthermore, such standards are backed up by complaints procedures and controls on the quality of work provided. The Dutch car repair and body shop associations investigate customers' complaints about the necessity or quality of repairs provided by their members. In this way they raise the quality and reliability of firms operating in these markets. This in turn contributes to trust between transaction partners and to increased transactions.

5.2 Reduction of transaction costs of commercial and social conflict

By increasing trust between economic actors, associations help to reduce the – potentially high – costs of resistance to legislation and of commercial, social and legal conflict. Conflict and all-out competition in markets certainly have advantages which are too well known to deserve mentioning (keeping economic actors alert, stimulating innovation, cost cutting, efficiency, etc.). However, competition and conflict, whether between competitors, between customers and suppliers, employers and employees, or between firms and the state also have their own costs which may become substantial: duplicate investments, boycotts, strikes

and lengthy court battles. These transaction costs may be considered socially inefficient.

Associations may help to reduce these costs. They may do so by generally increasing trust. Furthermore, specific associational activities may help to prevent conflict; where this cannot be avoided, they provide alternative and cheaper procedures for conflict resolution, such as (continued) negotiations and arbitration. Self-regulation, mentioned above, usually helps to build a certain degree of cooperation among the subjects of regulation, thus reducing opposition to regulations, including administrative and civil litigation. This saves on the lawyer costs. Collective bargaining between associations of customers and suppliers and between those of workers and employers may channel and mitigate commercial and social conflict and prevent boycotts and strikes. Informal mediation procedures, arbitration clauses in associational regulations or contracts among different associations, and specially created arbitration boards keep commercial and employment conflicts out of the courts. Such procedures are often more efficient in settling legal conflicts, both because they involve less costs in lawyers' fees and damages and because they may help reduce conflict between the partners involved, whereas litigation often tends to escalate already existing conflict.

Dutch trade associations and trade unions have many such provisions and arbitration bodies that help both to prevent and to resolve social or commercial conflict. As already stated, travel agencies and construction firms have formed guarantee funds to indemnify customers against the sudden bankruptcy of their suppliers. That implies that customers do not have to resort to tort litigation for compensation. Other trade associations, in such diverse sectors as construction, the dockyards, mineral oil markets, travel agencies and marriage counselling bureaux, have formed arbitration boards. These boards have a bi- or tripartite composition, with representatives of suppliers and customers /consumers or employers and employees. Commercial disputes have to be submitted to these boards. They try to bring both parties to a voluntary solution, try to satisfy both parties, and if necessary take a once and for all decision, preventing a lengthy and costly voyage through the court system. As a result, settlement of trade disputes is much more efficient, as is illustrated by a case study in Kagan (1990): 'Claims agents who deal with cargo damage disputes arising from trans-Atlantic shipments say that lawyers' bills are far higher if a legal dispute is processed in New York rather than in Rotterdam, even though the relevant substantive law in the two countries is essentially identical.' Kagan concludes that 'American litigation, with its wasteful, lawyer-dominated pretrial discovery and its cumbersome jury trials, is far less efficient than Continental European or British methods' (Kagan and Axelrad, 1996: 10).

Other facilities that reduce the costs of (tort) litigation include unemployment benefits and job protection provisions, agreed to in negotiations between employers' associations and trade unions. An illustration is the incidence of asbestos-based tort cases. Although the frequency of asbestos-related diseases among Dutch workers was five to ten times as high as in the USA in the 1970s and 1980s (Kagan and Axelrad, 1996: 5), Dutchmen rarely went to court. By 1991 fewer than ten cases had been filed (Vinke and Wilthagen, 1992), although Dutch law authorizes tort claims against employers. By contrast, an estimated 200,000 asbestos tort cases had been filed in the United States. The explanation is that victims had other roads open to them in the Netherlands. For about a century, compensation for damage caused by work accidents and diseases has predominantly been based on social security. Financial consequences of the risks of labour were collectivized. The same holds for many other European countries.

As a result of such conflict-mitigating associational provisions, litigation costs are much lower in the Netherlands than in many other countries. The difference becomes particularly striking in comparison with the litigious USA. Table 5 shows that the USA has a lawyer density ten times that of the Netherlands: 312 lawyers per 100,000 inhabitants as against 35. Expenditure on the professional services of the 780,000 lawyers in the USA has been estimated to be more than \$100 billion a year, or 2.4 per cent of GDP (Sander, 1992, quoted in Kagan and Axelrad, 1996; see also Lipset, 1996: 50). This made the US legal industry larger than the US steel or automobile industry measured in terms of value added. In the larger West European nations, the costs of going to court amounted to 0.5 to 0.6 per cent of GDP. In the Netherlands they were negligible.

Associations may help to reduce not only legal conflict but also underlying social conflict such as labour unrest. Potential social conflict is thus

Table 5 Density of lawyers and tort cases by country

Country	Lawyers	Lawyers per 100,000 population	Tort costs as % of GNP, 1987
United States	780,000	312.0	2.4
West Germany	115,900	190.1	0.5
England and Wales	68,067	134.0	0.5
Italy	46,401	81.2	0.5
France	27,700	49.1	0.6
Netherlands	5,124	35.2	—

Sources: 'The rule of lawyers', *The Economist Survey*, 18 July 1992, pp. 3–4, and 'Order in the tort', *The Economist Survey*, 18 July 1992, pp. 10–13, quoted in Lipset (1996: 50).

Note: Data on lawyers for 'last available years' (in 1992).

channelled into institutionalized consultation and collective bargaining, resulting in substantially fewer strikes; this increases productivity, one more way in which associations may be involved in 'production' and not just 'redistribution'. This is demonstrated in Table 6, which shows that countries which score high on associational collective bargaining score low on strike frequency.

In Table 6, a number of OECD countries are grouped in four categories (taken from Visser, 1998 and Traxler, 1996). Category I is that of 'Northern corporatism', where wage bargaining is done at a central level, by national sector-unspecific peak associations. Category II is called 'Central social partnership'. In these countries wage bargaining is primarily done at the sectoral level between sectoral employers' associations and trade unions, which, however, each coordinate their policies within less centralized peak associations. In both these categories the associations of both sides are relatively strong in the sense that they have a medium to high density ratio and that they are well-resourced organizations recognized by and given access to relevant interlocutors. Relations between social partners are usually integrative rather than adversarial. That is not the case with category III called 'Latin confrontation'. Here the associations are relatively weak (low density ratio, limited organizational resources, little recognition by or access to state agencies), and relations tend to be confrontational. They try to bargain but success is limited, leading to frequent state intervention in wage setting. The fourth and last category is called 'Anglo-Saxon pluralism', with mostly firm-level bargaining by usually relatively weak trade unions.

Table 6 shows that over a long period the greater the role of relatively independent sectoral associations in wage bargaining, the lower the strike frequency. Lowest strike rates are found in the countries with strong sectoral associations that do the wage setting. Where the peak associations are strongest and most active (to the detriment of sectoral associations), strike rates are already higher. Apparently these central associations lack the legitimacy and authority among workers to prevent strikes. The highest strike rates are found in those countries where associations play a minor role in wage setting, in the southern European countries where in the absence of strong associations the state plays an important role, and in the liberal pluralist Anglo-Saxon countries, where most bargaining takes place at the firm level.

5.3 Short-termism and the problem of providing collective goods

A major deficiency of the market is that it often fosters business policies which may be rational in the short run but may result in long-term inefficiencies. While long-term investments are required to maintain long-term international competitiveness, firms may not make such investments

Table 6 Associational collective bargaining and strike frequency

<i>Category and country</i>	<i>% workers covered by collective wage agreements</i>	<i>Working days lost to strikes per 1,000 workers (annual average 1970–95)</i>
<i>I Northern corporatism: centralized bargaining:</i>		
Sweden	83	105
Finland	95	452
Norway	75	68
Denmark	74	179
Average		201
<i>II Central social partnership: sectoral bargaining with some central coordination:</i>		
Austria	98	6
Netherlands	71	29
Germany	82	35
Switzerland	53	1
Average		18
<i>III Latin confrontation: weak associations, contestational social relations, large role for the state in wage setting:</i>		
France	92	173
Italy	n.a.	1,095
Spain	71	661
Average		643
<i>IV Anglo-Saxon pluralism: uncoordinated bargaining at company/firm level:</i>		
UK	47	354
Ireland	n.a.	469
USA	18	196*
Average		340

Sources: Categorization of countries is based on Visser (1998) and Traxler (1996). Data on coverage rate from Traxler (1996) (adjusted coverage rate, i.e. categories of workers, for example, public employees, who have no right to collective bargaining are excluded). Data on strike frequency from Visser (1998) (based on ILO data). US data from Visser and Hemerijck (1997).

Note: * Data strike frequency is average for 1960–95. n.a. = not available.

because they might reduce their short-term profits. Firms have to take account of what their competitors do in the short run. Thus long-term investment planning may be guided by short-term competitive positions on markets. This danger increases the greater and more structural the uncertainty about the success of the investments (in the end marketable goods and future sales prospects), the higher the sunk costs of long-term investment, the greater the importance of stock markets and investors/shareholders interested in short-term profit, and the greater the difficulties with the private appropriation of the fruits of investments.

A special case arises where it is difficult to exclude others from sharing in the benefits of a private investment. This basically means private investment in public goods. Cases are generic research and development and training. The threat that trained workers may be poached and that R&D findings may be copied by competitors tends to discourage managers from making investments which may be necessary for the long-term competitiveness of the firm, the sector and the country. This danger is especially great where the assets are not very firm-specific, where labour is traditionally relatively mobile, where knowledge is more codified than tacit, and where it is difficult to patent or keep knowledge otherwise secret and private.

The usual answer to this problem is government financing or even organization of basic/generic R&D and training in public vocational schools, universities and public research institutes. This has two disadvantages. First, training in such settings is often rather far removed from actual practice in industry. Second, all taxpayers share in the costs of collective goods whose benefits go, at least directly, only to a small segment of the population, specific industries and their (prospective) workers. Both disadvantages can be countered by having such industries finance and organize sector-specific training and general R&D themselves.

That is exactly what has been done in several countries, with trade associations playing an important role. Because they are instrumental in providing collective goods, the state has endowed them with sometimes statutory powers: compulsory membership for firms in the sector, the right to levy fees for sector-specific goods, a monopoly on the provision of such goods. Of the 352 business associations in nine European countries studied in the Organization of Business Interests research project, 35 per cent had programmes for collective research and development, and 47 per cent engaged in vocational training programmes for workers and/or for the entrepreneurs themselves, thus raising the qualification levels of workers and entrepreneurs.

Perhaps the best-developed systems are those of the German, Austrian and Swiss regional Chambers of Artisans, of Industry and Trade, and of Agriculture, and the sectoral guilds that are affiliated to them. They are backed by statutory powers, as in the German *Handwerksrecht*, providing them with compulsory membership to combat the problem of free riders, the right to levy fees and set training standards, the monopoly on conducting exams, etc. Furthermore, training requirements for the establishment of firms or shops force prospective entrepreneurs to take part in these courses. The voluntary trade associations that exist in addition to these compulsory ones are also closely involved in either their governance or their activities. Thus, for example, they may organize training courses or set exams. They provide the so-called 'dual system', combining theoretical and practical training, for which the

Germans are so famous. This system of trade associations is responsible for the high skill level of workers, one of the assets of German industry and trade (Streeck, 1989; Crouch, 1995).

The Dutch equivalent of the German, Austrian and Swiss Chambers are the statutory trade associations (STAs), compulsory associations with the power to enact binding regulations, enforceable under public administrative law, and the power to 'tax' their sector to finance sectoral collective goods. They can be created at the request of a sector and are found in about a quarter of industry, mostly the agro-food sector. The STAs finance and organize collective goods, such as product quality control (mentioned above), vocational training, research and development, and collective advertising. These forms of associational self-regulation and service provision have contributed to the strong competitive position of the Dutch agro-food sectors in world markets, as is testified by their export performance. Most sectors that scored high on the list of the Dutch sectors with a high share in world trade are sectors organized in statutory trade associations. Such sectors are the producers of cut flowers (share in total world trade of 64 per cent), bulbs and plants (56 per cent), eggs (61 per cent), pigs (57 per cent), condensed milk (53 per cent), cacao powder (49 per cent), tomatoes (43 per cent), raw potatoes (36 per cent), pork (32 per cent), cacao butter (32 per cent), beer (30 per cent), tobacco products (28 per cent), salted pork (25 per cent), margarine (24 per cent), milk powder (23 per cent), chicken meat, butter and cheese (each 22 per cent), starch (21 per cent), and seeds (20 per cent) (data from UN Trade Statistics, quoted in Jacobs *et al.*, 1990: 29).

5.4 Ruinous competition: cartels in the construction industry

The most ideal-typical cases of 'distributional coalitions' are cartels. It seems almost a commonplace that these are 'bad' for economic efficiency, dynamism, innovation and growth. But are they really always so detrimental and inefficient?

A well-known recipe for market failure is ruinous competition, as can be illustrated by the construction industry. Here market entry and exit are relatively easy, due to the low investments required. Although competition may force less efficient producers out of the market, they may come back the next day under a different name. Bankruptcy does not cost much. Easy entry and exit make for a high turnover of firms and for large numbers of small firms, reducing the transparency of the market and, concomitantly, the possibility on learning effects on creditors. Permanent overcapacity leads to fierce and destructive competition, resulting in prices below average costs and to pressure on workers to accept low (black) wages and dangerous working conditions. The high turnover is illustrated by the relatively unregulated British construction

industry, where up to 40 per cent of firms disappear every year (Barclays Bank, 1990). The problem of ruinous competition is, however, not limited to the construction industry, but has historically also been found in sectors like printing and retailing.

Fierce ruinous competition may also be aggravated by imbalances of power between customer and supplier or by tendering procedures. These pit one customer or principal against several suppliers, allowing the principal to play off prospective contractors against each other and forcing prices down. To offset such dependencies and to fight permanent overcapacity, some national construction industries have organized trade associations and cartels. The Dutch industry, for example, had organized a prototypical 'distributional coalition' or cartel. This was a highly visible and controversial cartel, which has been persecuted by the European Commission and condemned by the European Court of Justice.

However, it is a rather unambitious cartel. It does not fix general prices or conditions of supply. Nor is it a quota division agreement. It merely provides a system of individual price fixing. Members of (regional) cartel associations are obliged to report any intention to offer a price to a principal. When two or more contractors intend to submit tenders for the same work, the cartel has to organize a pre-tender meeting at which all interested members must be present. The meeting can decide to 'determine the rightful claimant'. All participants then have to submit their price in writing to the chairperson. The latter determines who has the lowest price and thus the right to the work. Members may also decide to make all prices public at the meeting, to give the participants an insight into price development. All participants are bound by their prices. These are the ones they have to submit to the principal, increased with any surcharges agreed to at the meeting. They are not allowed to bargain subsequently with the principal for a specified term. Thus the cartel should prevent principals from playing off suppliers against each other and bargaining a second round, confronting contractors with the prices of their competitors.

This construction cartel was unique in Europe (Czarnovski *et al.*, 1976; OECD, 1976, 1978). The Dutch allowed what is forbidden elsewhere. Various other countries had less far-reaching regulations. In England, prices were compared through 'builders' conferences' after tenders had been submitted in order to give contractors an idea of the price development in the market (Grant, 1983). The Swiss Baumeister Verband (SBV) went a bit further. It organized pre-tender meetings at which prices were opened without names, in order to give participants an insight into the price level. Furthermore, members negotiated over technical specifications of the work and various calculation bases, and could agree on binding tariffs for raw materials and wages (Kriesi and Schaller, 1984). Germany has the strictest anti-cartel regime. Even the less far-reaching

regulations are illegal there. The Bundeskartellamt actively prosecutes contractors who engage in collusive practices. In 1975, 336 German contractors were fined 36 million marks and in 1983 seventy-seven firms were fined 54 million marks (Czarnovski *et al.*, 1976). It was the largest economic scandal in the history of the Federal Republic. That alone is an indication of how high the pressure in construction must be to mitigate the fierce competition. Informal and illegal price collusion probably takes place everywhere in construction. The Dutch have preferred to take such market agreements out of the secretive atmosphere of smoky backrooms, to formalize them and thus to make them more subject to control.

The cartel may offset market failures such as ruinous competition and imbalances of power. But might it not make matters worse by raising prices for consumers and decreasing the quality of goods, as economists would expect? To investigate this, we have compared the Dutch construction industry on a number of criteria with those of other EU and former EFTA countries. The results are presented in Tables 7 and 8. The numbers in parentheses are the rank order scores per variable.

Table 7 indicates that Dutch contractors do not make excessive profits because of their cartel. The 'rest income quota' (non-labour income (rent, interest and profits) as a percentage of value added) as an indicator of profitability in Dutch construction is the lowest among eight of the EU countries. In Germany, with its strict anti-cartel policy, contractors make almost twice as much profit.

The cartel does not discourage technical innovation, as Olson maintains for distributional coalitions. On the contrary, the Dutch construction industry is among the most technologically advanced in Europe, judging by its high labour productivity which is – like growth of labour productivity – among the highest in Europe.

Furthermore, the construction cartel does not make Dutch contractors lazy and self-sufficient in the domestic market. Related to the size of the sector, the Dutch are by far the most active abroad.

Neither does the construction cartel lead to exploitation of consumers. Table 8 indicates that its building prices are among the lowest in Europe. Only the less developed countries of Portugal and Greece are cheaper. In the densely populated country Netherlands the average rent for a comfortable three-room apartment in a large city is one of the lowest in Europe. Except for Portugal and Greece, only the thinly populated welfare state of Sweden is cheaper. The quality of housing in the Netherlands is also high. Almost all houses have a bath or shower, which is far from the case elsewhere in Europe, and the average housing age in the Netherlands is one of the lowest in Europe.

In general, the Dutch construction industry is the top scorer on a number of indicators of static and dynamic efficiency. The cartel seems to increase competitive power by mitigating ruinous competition. The cartel also

Table 7 Profits and productivity in the construction industry: the Netherlands compared with other European countries

Country	Rest income as % of value added (1987)	Labour productivity in ecus (1989)	Annual labour productivity change in construction in relation to average for all industry (1979–89)	Construction abroad in US\$ per domestic employee in construction (1989)
Netherlands	4.1 (8)	29,800 (3)	1.1 (1.5)	5,924 (1)
<i>EEC:</i>				
Belgium	4.8 (7)	34,600 (1)	-1.5 (7)	3,711 (2)
Germany	7.2 (3)	25,360 (4)	0.0 (5.5)	569 (10)
Denmark	n.a.	24,200 (7)	0.2 (3)	1,636 (7)
Spain	16.2 (1)	18,872 (10)	0.0 (5.5)	390 (11)
France	5.3 (5)	24,975 (5)	0.1 (4)	3,493 (3)
UK	6.8 (4)	21,100 (9)	-2.4 (9)	2,030 (5)
Greece	n.a.	n.a.	n.a.	n.a.
Italy	11.6 (2)	6,420 (11)	-3.7 (10)	1,434 (8)
Ireland	5.2 (6)	n.a.	n.a.	n.a.
Portugal	n.a.	4,080 (12)	1.1 (1.5)	n.a.
<i>Non-EEC:</i>				
Austria	n.a.	24,737 (6)	-1.8 (8)	n.a.
Switzerland	n.a.	30,560 (2)	n.a.	2,569 (9)
Sweden	n.a.	n.a.	n.a.	1,909 (4)

Sources: Knechtel (1990, Tables 13, 19, 20, 23); OECD, *Labour Force Statistics* (Paris); authors' calculations.

Note: The numbers in parentheses indicate the rank-order scores. Column 1: Rest income is the sum of interest paid, insurance premiums and profits, in firms with twenty or more employees. Column 2: Gross value added per worker. Data for Sweden are for 1985. n.a. = not available.

brings a minimal stability to the market and the sector structure, beneficial for planning long-term investments. Abuse of market power by the cartel is not so likely or frequent. The typical sector structure and tendering procedure in construction still guarantee sufficient competition.

The example of construction indicates that a 'distributional coalition' such as a cartel will have the most positive and least negative consequences for economic efficiency when a reasonable balance can be found between the demands of stability and flexibility. Some degree of competition should be maintained. That is likely in sectors exposed to international competition or in sectors with large numbers of firms.

The construction cartel is just one example of the many cartels that until recently organized the Dutch economy. In 1992 the official Dutch cartel register contained 245 market-sharing agreements, 267 price and

Table 8 Prices and quality in the construction industry: the Netherlands compared with European countries

<i>Country</i>	<i>Building prices for housing per m² in ecus (1987)</i>	<i>Average monthly rent in US\$ (1989)</i>	<i>% of houses with bath or shower (1981-7)</i>	<i>Average age of houses in years (1985)</i>
Netherlands	471 (3)	434 (4)	97 (3)	34.9 (2)
<i>EEC:</i>				
Belgium	976 (12)	602 (9)	76 (8)	48.1 (11)
Germany	555 (6)	532 (6)	99 (1)	38.7 (4)
Denmark	588 (8)	473 (5)	87 (4)	44.5 (8)
Spain	548 (5)	1,090 (13)	n.a.	34.2 (1)
France	577 (7)	963 (12)	85 (6.5)	44.1 (7)
UK	539 (4)	1,245 (14)	98 (2)	44.0 (6)
Greece	275 (2)	423 (3)	n.a.	n.a.
Italy	635 (9)	612 (10)	86 (5)	38.5 (3)
Ireland	n.a.	554 (8)	85 (6.5)	46.5 (10)
Portugal	191 (1)	361 (1)	58 (9)	41.4 (5)
<i>Non-EEC:</i>				
Austria	756 (11)	534 (7)	n.a.	46.0 (9)
Switzerland	713 (10)	698 (11)	n.a.	n.a.
Sweden	n.a.	416 (2)	n.a.	n.a.

Sources: Czerny (1990: 69; Austrian Schillings converted to ecus using exchange rates in Knechtel, 1990); World Economic Forum (1992) for column 2; Knechtel (1990: Tables 7, 9).

Note: n.a. = not available. Column 2 gives the rent for an unfurnished three-room flat in a large city.

tendering agreements, 202 distribution agreements and 45 collective exclusive trading agreements, the latter mostly of professional organizations which limited market entry (OECD, 1993: 60). Hence the OECD has called Dutch competition law 'the unusual case'. The Netherlands was one of the few countries to have had an 'abuse' regime since the 1930s. That is, cartels were legal, unless their destructive consequences could be demonstrated. Recently Dutch law has been changed to bring it into line with the European Union and other member states where the opposite principle holds. But until 1997 the Netherlands could be considered a 'cartel paradise'. This system was widely accepted, even by customers, as proved by the scarcity of formal complaints.

The cartels do not seem to have had a detrimental effect on the economy. The country ranked high while the cartels were still in place, for example, in the World Competitiveness Report of the International Institute for Management Development and the World Economic Forum in Lausanne (World Economic Forum, 1992). In 1991 it ranked seventh,

after other countries with 'organized capitalism' such as Japan, Germany, Austria and Switzerland. In 1996 Holland still ranked seventh. Even such a liberal forum as the OECD had to admit that 'collusive agreements' such as the Dutch cartels did not seem to harm the economy. Even though

many sectors of the economy are enmeshed in a web of restrictive agreements, regulations, and barriers to entry . . . while economic growth has been slightly lower than the EC average over the last decade or so, prices are not obviously higher than in most other countries. What is the answer to this apparent paradox? A possible explanation might be that the Dutch way of dealing with competition, combined with the openness of the economy, has been sufficient to prevent most blatant abuses of market power; also, the social consensus may have had a beneficial impact on overall economic performance.

(OECD, 1993: 57)

In the sectors discussed associations played an important role in reducing uncertainty and encouraging growth. Here the net effects were clearly positive. Of course, this does not always have to be the case. Such sectoral comparisons indicate that one cannot – at the very least – generalize Olson's arguments about the negative effects of associations.

6 SECTORAL CORPORATISM AND MACROECONOMIC GROWTH: A COUNTRY COMPARISON

Associational activity at the sectoral level may enhance the performance of those sectors. But how would it affect the performance of economies as a whole? What is good for one sector may not necessarily be good for others or for the economy as a whole. Sectors could 'externalize' their costs to other sectors.

In this respect the distinction between macro- and meso-corporatism is relevant. Macro- or intersectoral corporatism refers to the organization of economic interests in large encompassing (peak) associations and hence to governance arrangements that involve intersectoral concertation between peak associations of labour, capital and sometimes the state, usually on the issue of macroeconomic policy, including overall wage development. Meso- or sectoral corporatism refers to well-organized associations at the sectoral level that perform governance functions for that sector. This can be in the field of wage bargaining, but in order to be considered real meso-corporatism associations need to perform governance functions in other fields as well, such as the ones addressed above: product quality regulation, vocational training, collective research and development, and general market ordering.

There is an extensive literature on the economic performance of macro-corporatist arrangements (e.g. Schmitter, 1981; Czada, 1983; Cameron, 1984; Lehmbruch, 1984; Lehner, 1988; Calmfors and Driffill, 1988; Crepaz, 1992; Pekkarinen *et al.*, 1992). These authors show that encompassing associations have positive effects on economic performance indicators such as low strike incidence, high productivity, low inflation and gradual adjustment to external shocks and technological change. The rationale behind these findings might be that, as Olson has argued, encompassing interest associations have more problems in externalizing costs and pursuing particularistic policies. That is, these findings are still in line with Olson's thesis. But does Olson's argument on the negative effects of *non-encompassing* special-interest associations also hold true?

It is not easy to characterize countries according to the prevalence of sectoral or meso-corporatism. We have done so in several ways. First, we have based ourselves on the classifications in the literature on the dominant level of wage negotiations in several countries (most recently Traxler, 1996; Visser, 1998; see also Table 6). Second, we have based ourselves on the OBI data on the involvement of business associations in public policy (which provided a qualitative but not a quantitative indication) and on other case studies on the prevalence of sectoral corporatism in different countries. Third, we asked twelve established scholars in the field (Schmitter, Lehmbruch, Czada, Grant, Heritier, Schmid, Kriesi, Crouch, Traxler, Visser, Hemerijck, Grande) to classify countries according to the prevalence of meso-corporatism. On the basis of this information we come to the following classification of countries on the prevalence of meso-corporatism.

High sectoral corporatism, or intensive delegation of public policy to sectoral associations and self-regulation by industry, is found in Austria, Germany, Belgium, the Netherlands and Switzerland. Eight of the twelve mentioned ranked these countries high on the meso-corporatism scale. A number of comparative policy studies and country monographs, among others produced in the OBI project, show that sectoral associations are very much involved in self-regulation and that the state has delegated the formulation and/or implementation of public policy to a variety of private interest associations. Such arrangements are found both in a diversity of important sectors (small business, *Handwerk*, construction, agriculture, banking and insurance) and in various policy fields (social security, health, competition policy, vocational training industrial policy, research and development, environmental policy). It is not coincidental that these countries are, perhaps with the exception of Austria, located on the central city-belt of late medieval Europe (Rokkan, 1981), where bourgeois merchant oligarchies developed an early tradition of self-government by organizations of civil society which survived the onslaught of the French Revolution, and which at present is manifested

in the chamber and guild organizations found in these countries. Thus in these societies, forms of self-organization had emerged from civil society at an early date.

Medium sectoral corporatism is found in the Scandinavian countries of Sweden, Norway, Denmark and Finland. These countries have also a tradition of self-organization by civil society, for example, in Sweden based on the early presence of independent farmers. However, these countries have a stronger etatist tradition, which also resulted in strong centralization of interest associability. This was in part because of their absolutist inheritance, but more so because of the dominance of social democracy. Therefore there was less delegation of authority to private associations and less tolerance for self-regulation, particularly of business, because this was sometimes perceived as a threat to workers' and consumers' interests. These countries score high on macro-corporatism, which also reduces the leeway for sectoral associations. In addition, Italy was classified by most experts as being medium on the scale of meso-corporatism, which fits both with indications from case studies and with its location on the European city-belt stemming from the Renaissance.

Weak or no sectoral corporatism is found in countries with a liberal-pluralist tradition (the UK, USA, Ireland), in countries where the political culture as well as the public administration are highly suspicious of 'special interest' associations (USA), and in France with its strong etatist tradition and dislike of particularistic interests, which have been perceived as threats to the interests of the 'great French state' and/or as political vehicles of the Catholic Church (Hayward, 1975). This suspicion of interest associations dates back to the French Revolution – which set out to destroy all intermediary organs between the citizen and the state – and to the problematic history of Church–state relations in that country (Crouch, 1993).

Institutions of sectoral corporatism have been typical of these countries for longer periods of time. Many have their roots in the process of state formation there. Others have been created in response to the economic crises of the 1870s and 1930s (Katzenstein, 1985). They have also played an important role in the edifice of the welfare state, erected after 1945. Hence, this classification can be considered to hold for the whole pre- and post-war period under study.

In Table 9 we classify fourteen countries according to the prevalence of sectoral corporatism. The table compares their average national growth rates over different periods of time. Over the period 1950 to 1994 countries that score high on sectoral corporatism have on average performed best, although the differences are small. Their average annual growth rate is 3.4 per cent, higher than the categories of medium- and low sectoral corporatist countries with on average 3.1 per cent and 3 per cent.

Table 9 Average annual growth rates of countries classified by the prevalence of sectoral corporatism

	1929-38	1938-48	1948-58	1958-73	1973-81	1981-94	1950-94
<i>High sectoral corporatism:</i>							
Austria	-1.8	-0.9	7.6	4.7	2.5	2.2	3.6
Germany	3.5	-6.2	7.3	4.7	1.9	2.2	4.0
Netherlands	-2.2	6.7	5.8	4.9	2.0	2.1	3.4
Belgium, nnp	3.7	0.3	3.2	4.7	2.0	2.0	3.1
Switzerland	n.a.	2.5	3.5	4.6	0.5	1.7	2.9
Group average							3.4
<i>Medium sectoral corporatism:</i>							
Denmark	2.2	1.7	3.1	4.5	1.2	2.2	2.8
Finland, ndp	3.7	0.5	4.2	5.3	2.5	2.0	3.6
Norway	2.6	n.a.	3.5	4.1	4.2	2.4	3.5
Sweden	2.2	3.3	3.4	4.1	1.5	1.2	2.6
Italy	1.6	-0.1	5.9	5.2	3.3	2.0	3.8
Group average							3.1
<i>Low sectoral corporatism:</i>							
France, nnp	-1.9	-0.4	4.3	5.2	2.4	2.2	3.6
Ireland, ndp	0.1	1.3	0.4	4.3	4.4	3.3	3.4
United Kingdom	1.8	1.5	2.4	3.3	0.6	2.1	2.2
USA	n.a.	n.a.	n.a.	3.9	2.0	2.2	2.9
Group average							3
Total average	1.2	0.9	4.3	4.6	2.2	2.1	3.3

Notes: Data in the first three columns refer to growth of Gross Domestic Product at constant prices and are from Flora *et al.* (1987) and the authors' own calculations. For Belgium and France only Net National Product (nnp) and for Finland and Ireland only Net Domestic Product (ndp) data were available. The last four columns are OECD data of GDP at 1980 prices in US\$ and authors' own calculations. Average annual growth rates have been calculated according to the formula: $(\ln(x_t) - \ln(x_0))/t$.

A cautious conclusion would be that countries scoring high on sectoral corporatism do at least not perform worse with regard to growth.¹ Even if we give no econometric proof that associations improve growth rates, our data indicate that associations are, at the very least, not harmful to growth as Olson presumes them to be.

Some might argue that, in the long run, institutional arrangements are not the decisive factor for growth. Technical variables relevant to the production function, such as growth of labour inputs and investment ratios, technical change or economies of scale, may be more important for explaining long-term growth. Van de Klundert and van Schaik (1993) found normal patterns of growth for eight countries between 1870 and 1989 primarily determined by investment ratios.

But what then determines high investment ratios? Eichengreen (1994) showed, for Western Europe after the Second World War, that high investment ratios were largely due to institutions singularly well suited to reconstruction and growth. They solved commitment and coordination problems. In particular, they disseminated information, monitored the compliance of interest groups with their agreements to moderate wage claims and boosted investment. Furthermore, Eichengreen showed that some countries had a poorer growth performance because they failed to develop the relevant domestic institutions or did so only with delay. The countries he mentions are the United Kingdom, Ireland, France and Italy. With the exception of Italy, these are precisely those European countries that we rank as low sectoral corporatist countries in Table 9.

Furthermore, associational governance could also positively influence other economic performance indicators. Schettkat (1992) showed that the same growth rates of GDP in Germany and the USA were accompanied by different growth rates of labour productivity. The 'quality' of growth was hence quite different between countries. The German institutional setting achieved high labour productivity increases (through the vocational training system, the varying of working hours instead of hiring and firing, and through demand management), while American growth was mainly due to an extension of the (partly low-qualified) service sector. Even though in the long run both countries show very similar GDP growth rates, associational institutional settings increased the quality of growth.

CONCLUSION

Mancur Olson's books are appealing for their logical consistency and parsimony. They provoke debate and invite confrontation with empirical data. This article makes that confrontation and finds the data contradict the three major hypotheses of the 1982 book.

- 1 Contrary to Olson's assumptions, the number of associations does not increase over time. Furthermore, contrary to what he suggests, war does not break up 'distributional coalitions' but tends to strengthen them.
- 2 The argument that the greater the number of special interest associations the worse does not hold. The greater the number of special-interest associations, the more opposition will develop among them and the lower the chances that public policy will be dominated by them.
- 3 'Distributional coalitions', or interest associations which pursue particularistic interests, do not necessarily threaten growth. They do not always hamper the introduction of technological innovations or the

optimal allocation of input factors through the erection of market entry barriers.

Even the purely redistributive activities of interest associations can have positive economic effects. Union demands for wage increases in line with productivity growth and for social security programmes have increased or at least stabilized domestic demand over time, thus providing Keynesian demand stimulation of the economy. Fordism would perhaps not have been possible without unions – and without employers' associations as their partners in negotiations.

However, associations in many European countries are concerned not only with redistribution but also with improving allocation. Even the creation of market entry barriers can have favourable economic effects by reducing ruinous competition, correcting imbalances of power on markets, dampening fluctuations in prices, and reducing excessive volatility in turnover. Associational regulation may be important for engendering trust and stabilizing expectations, thus enhancing long-term investment. Furthermore, associations may provide public goods in the form of research and development, vocational training, etc., which reduce temporary market failures and uncertainties and thus allow for long-term planning and growth of the economy.

The positive functions of associational regulation may be offset by the 'regulatory failures' which Olson had in mind. Associational lobbying and regulation can of course contribute to structural rigidities and inefficiencies, such as oversized research and development units, an improperly trained workforce, incentives to firms to avoid risk taking. There is often a trade-off between the reduction of uncertainty and the safeguarding of flexibility (cf. also Traxler and Unger, 1994b). Associations can provide stability, but this stability may become rigidity. Whether the one or the other dominates depends partly on the characteristics and problems of the sector. There are, however, indications that overall the balance strikes in favour of associations. A comparison of long-term growth data shows that countries with sectoral associational governance have on average higher overall economic growth rates.

NOTE

- 1 We do not control for the influence of variables other than the degree of sectoral corporatism on growth rates. Other variables can be found in Denison (1985) who analysed how much different sources of growth contributed to growth rate differentials in nine western countries between 1850 and 1962. He studied sources of growth in labour input (employment, hours of work, age and sex composition of workers, education), in capital input (dwellings, earnings on international assets, non-residential structure and equipment, inventories), and growth in land. As indicators of technological progress he distinguished advances in knowledge, changes in the lag in application of

knowledge, and improved allocation of resources. He found that growth rate differences between countries were largely determined by the extent to which inputs were increased, by the reallocation of resources from farm to non-farm employment, and by economies of scale (1985: 326ff.).

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