

Mancur Olson and the Campaign

Howard Husock

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One might be forgiven for concluding, from the rhetoric of the current US presidential campaign, that the wisdom of the work of the late Mancur Olson's work has finally been popularly recognized. After all, candidates of both political parties regularly and strongly denounce the power of "special interests." "Too often in Washington," Barack Obama has said, "special interests still exercise an effective veto on our progress, on issues from health care reform and drug costs to energy independence and global warming." John McCain sounds a similarly high-minded note: "America," he has said, "needs leadership devoted to the public interest, not the special interest."

Such statements are distant echoes of Olson's two master works, *The Logic of Collective Action* and, most notably, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities*, in which he convincingly linked organized interest groups and their access to and influence on the political process to the potential for long-term national decline. Indeed, Olson, the University of Maryland economist who died in 1998, can fairly be said to have introduced the concept of the special interest which parasitically dines on the larger population, into popular—or at least academic—consciousness. It is far from clear, however, that McCain and Obama mean the same thing as each other, or Olson, when they refer to special interests—and the differences are ones that matter.

In considering the subject, it is worth starting out with Mancur Olson's own words. His core insights: that individuals organize into groups in order to gain benefits for themselves—and that the political process provides an

especially good means for the few to enrich themselves at the expense of the many. As Olson put it: "Individuals in a few special vocations can receive considerable rewards in private goods if they acquired exceptional knowledge in public goods.... Withal, the typical citizen will find that his or her income and life chances will not be improved by zealous study of public affairs or even of any single collective good." So it is, he observed, by extension, that lobbyists can manipulate the arcane details of tax laws to benefit specific interests—because the public generally has no rational incentive to devote the time necessary to learning about such details. Thus, broadly, vast possibilities to feather private nests at public expense are made possible by the sheer existence of vast public revenues which can be dispersed by elected representatives subject to the blandishments of interest groups. Over time, extrapolated Olson, such private hijacking of capital would lead to a sort of eutrophication of the overall economy, leading to national decline of the sort he believed the stagflation of the early 1980s (*Decline* was published in 1982) presaged.

The USA has, of course, since that time, seen a period of significant economic growth. But that does not necessarily make Olson wrong. It may be that the power of the American economy is such that it can absorb thousands of small cuts and still thrive. But it is possible, as well, that Olson's diagnosis was right—and prescient. Notwithstanding recent widespread prosperity and economic growth in the USA, we have seen some regions where Olson-style coalition of interest groups dominate government fall into slow decline. A good example: the once-prosperous Upstate New York region which, burdened by high property and income taxes which support munificent benefits for well-organized public sector labor unions who dominate elections for local and state offices, has steadily lost population and lagged the nation economically. My colleagues EJ McMahon

H. Husock (✉)
Manhattan Institute for Policy Research,
New York, NY, USA
e-mail: hhusock@manhattan-institute.org

and Fred Siegel, writing in *The Public Interest* and specifically citing Olson, described the link between Olson's description of interest groups and such long-term decline, which they saw as relevant to New York City, as well. "Relative prosperity and the illusion that a local economy can sustain the higher taxes that go with bigger government encourages weak government leaders to offer small concessions to special interests, such as municipal unions or vocal advocates for the poor. These concessions snowball over time, creating an ever-larger constituency for government spending and making it increasingly difficult to turn back the clock." Thus, if Olson's critique remains relevant—but its description is not to be inevitable—then this question suggests itself: which of the two major presidential candidates might best serve as a bulwark against interest group domination?

Both McCain and Obama, as noted above, like to say they oppose special interests. Both cite their campaign financing mechanisms—specifically their not accepting funds from political action committees—as evidence. If one truly believed that "taking the money out of politics" would guarantee that politics would serve the general, long-run interests of the country, one might well lean toward McCain, co-author of the McCain-Feingold legislation which has limited the extent to which organized citizens can contribute to campaigns. But Obama, too, has boasted of resisting the contributions of PACs. Still, the financial inputs to a campaign would seem a less reliable way to judge candidates than actual political decisions. One could well imagine an exhaustive analysis of votes and positions, in order to reach some determination about special interest influence. Even absent such, however, it seems clear that neither candidate appears beyond the reach of the influence of campaign contributors or lobbyists. Consider the following stories.

The Washington Post has reported that Senator McCain played a role in helping advance the cause of an Arizona land developer who had hired as lobbyists former members of McCain's staff—promoting "legislation that will let an Arizona rancher trade remote grassland and ponderosa pine forest for acres of valuable federally owned property that is ready for development, a land swap that now stands to directly benefit one of his top presidential campaign fundraisers." Senator Obama, for his part, has been linked by the *New York Times* with the nuclear power industry, whose financial support for him is said to have influenced him to push to take its side in a dispute with a small group of southern Illinois residents regarding federal legislation requiring disclosure of small radiation leaks. "The history of the bill shows Mr. Obama navigating a home-state controversy that pitted two important constituencies against each other and tested his skills as a legislative infighter. On one side were neighbors of several nuclear plants upset that

low-level radioactive leaks had gone unreported for years; on the other was Exelon, the country's largest nuclear plant operator and one of Mr. Obama's largest sources of campaign money." "Since 2003, executives and employees of Exelon, which is based in Illinois, have contributed at least \$227,000 to Mr. Obama's campaigns for the US Senate and for president."

Do such stories mean that both men are simply hypocrites—and that their criticisms of special interests should be dismissed? Is theirs the sort of Olson-type matter about which we should be dismayed? Perhaps, one cannot rule out, however, the possibility that in each of these cases, campaign support from what are characterized as special interests may actually help the realization of the general interest—whether in ensuring adequate electricity supply or helping select real estate reach its highest and best use.

It is one thing, however, to be involved with the advance of specific interests with specific agendas—that may, indeed, be the nature of politics and not indefensible—and quite another to be willing to oppose Olson-like arrangements outright. In other words, if candidates are to be judged by their willingness to oppose special interests, one must look for evidence they are actually willing to do *oppose* them. The record here suggests some interesting contrasts—both in terms of such a willingness and in interpretation as to the meaning of the term special interest.

Both in his 2000 presidential campaign and the current one, McCain risked the wrath of Iowa voters, so key to the primary election process, by opposing federal subsidies and other assistance for the domestic corn-to-fuel ethanol industry. As *Investor's Business Daily* reported in November, 2007, "Attending a bioeconomy conference in Ames, Iowa, last November, he delivered some unwelcome words. "I oppose subsidies," McCain said. "Not just ethanol subsidies. Subsidies. And not just in Iowa either. I oppose them in my own state of Arizona. I am proud of the conservative tradition that the government can sometimes best serve the interests of the American people by knowing when to stay out of their way."

This is not a minor issue. It is widely understood to have influenced presidential politics for years because of Iowa's early caucus vote. It is not a stretch to see this as a classic Olson-type situation. That the biofuels industry, in the time since, has been so widely linked to the international increase in food prices perfectly reflects the Olsonian dangers of subsidizing the diversion of grain from food into fuel. In this regard, Senator Obama's behavior was quite different. Indeed, prior to the Iowa caucuses, he went out of his way to imply support for still deeper subsidies. "Family farmers and local ethanol producers have set an example for how to embrace new technologies to lessen our dependence on foreign oil," Obama said. "We are at a

critical time in the history of our renewable fuels industry, and we need to fix the imbalance in the market that's working against locally owned plants.”

A related matter of similar magnitude is the legislation always referred to as “the farm bill”. Indeed this legislation so strongly brings Mancur Olson to mind that the *New York Times*' David Brooks—the columnist with the University of Chicago political science background—could not help mentioning Olson in his May 13, 2008 column about the bill (shortly after this essay was written). Notwithstanding skyrocketing farm commodity prices, the Congress continues to act as if the family farm foreclosure crisis of the Depression is still with us—and appropriates some \$10 billion in agricultural subsidies annually. It is hard to overstate the ways in which these are unconscionable. They reward the already-wealthy (the nominal income cap for those receiving farm subsidies is \$750,000). Just as bad, they stand in the way of a successful conclusion to the latest round of world trade liberalization talks—which, although they might lead to import competition for some U.S. farm products (such as sugar), would be much more notable for allowing desperately poor countries to export their products to the developed world. Prior to this year's Congressional debate on the bill, Senator McCain was explicit in his denunciation of it. “I would veto that bill,” he said. Obama, in contrast, was silent.

Trade and agriculture, of course, brings up the larger question of trade generally. In this, Senator Obama has chosen—at least in his campaign rhetoric (which cannot help but matter)—to break from what had been a bipartisan consensus in support of freer trade. It was, of course, the Clinton Administration which saw through the North America Free Trade Agreement to fruition. And notwithstanding what all serious economic observers see as NAFTA's positive results—during the first 5 years of the treaty, U.S. manufacturing jobs actually increased by 250,000, Harvard economist Robert Lawrence notes—Obama felt it appropriate to criticize the agreement in the heat of primary season in the Rust Belt. The special interest here to which he was pandering was, of course, certain high-priced union labor, whose loss may have been Mexico or Canada's gain—as well as a gain to the U.S. economy as a whole. McCain, who, in contrast has said that “NAFTA represents an important component of our international economic policy”, focused, in the current campaign on the sort of collateral damage which—as per Olson—Obama's opposition to NAFTA might cause, noting that following through on the threat to “reopen” the treaty could well so alienate Canada that it might decide to pull its troops from Afghanistan (the war Obama has said we *should* be fighting).

Obama, has, however, as noted above, pledged to stand up to special interests who would get in the way of the best

public policy—citing, as an example, the principals in the health care industry. It is quite possible, of course, that the health insurance or pharmaceutical industries—just like grain farmers or sugar growers—would seek to use federal legislation to extract subsidies or tilt markets in ways that would allow them to realize “rents”, as economists would put it. Nonetheless, the situation of such firms would seem fundamentally different than that of the ethanol industry, which, in contrast, would simply not exist at all had it not been for ongoing subsidies. So it is that Senator Obama would seem to have a quite different understanding of what it means to “stand up” against special interests. He implies that by their very nature certain private industries stand in the way of the public interest. That is what, for instance, one can conclude from his vote in favor the 2007 Medicare Prescription Drug Price Negotiation Act. That act would have allowed the federal government, through bulk purchase of prescription drugs, to drive down the price to individual consumers. Doing so, however, comes, of course, at the price of the profits of the prescription drug industry—a prospect which has not troubled Obama. That can be said to reflect a fundamental confusion both between what truly constitutes a special interest and activity which, although spearheaded by private agency, can truly be said to be in the long-term general interest of the public. Obama casts his as an anti-special interest position but implicitly it is, rather, a position favoring redistribution—policy favoring individual receipt of low-cost existing pharmaceutical drugs over drug company profits. Lost in that calculus is the possibility, indeed the likelihood, that drug company earnings would be re-invested in the research and development of new and effective medicines that would help save those who have yet to become sick—or who are, indeed, yet to be born. Rather, long-term public benefit is cast as the short-term greed of the private corporation.

Beyond such industry-specific positions, it is worth assessing the candidates in terms of another, not unrelated situation which, nonetheless points in a direction broader than that sketched by Olson. One can argue that we have seen the development of situations in which that which purports to be the general interest has itself become a kind of special interest, with potentially long-term deleterious effects. Indeed, it is the way the candidates deal with this sort of issue—I have in mind not a small, member's bill but grand matters such as health insurance or social security—that, arguably, should, in addition to the sort of special interests to which Olson referred, be the manner in which we judge the presidential candidates.

Herein, what Milton Friedman calls the tyranny of the status quo comes into play; claimants of the present using the political process to advance their interests over potential future beneficiaries. But might this not also be viewed, as well, as a relative of the sort of collective action effect with

which Olson identifies? They clearly are deeply difficult issues for politicians. Consider this: Who really wants to tell the American Association of Retired Persons that major change must be considered for the old age portion of the U.S. social security system? Who really wants to suggest that it may be considered immoral to ask future workers—indeed, today's young—to sacrifice their own potential prosperity to provide current benefits for the huge bulge of retiring Baby Boomers? (For a trenchant analysis of the social security problem, see Christopher Buckley's excellent comic novel, *Boomsday*—which demonstrates the difficulties the political process poses for the outnumbered young.) Indeed, and most worrisome, why should they, as a political matter? To do so, candidates would have to pin their own hopes on a non-Olsonian coalition of those who believe that present redistribution and consequent comforts—in the one life one gets to live—are less important than future innovation and economic expansion. Such would, moreover, require voter willingness to believe in America as an ongoing experiment to determine whether the future can continue to improve on the past—or whether we have become a nation of those content—and intent—on extracting benefits for ourselves through the political system, comforted by being told that such represents “social justice”. The early returns for elected officials urging us to bet on ongoing improvement are not good. That was, arguably, the implication of the Bush Administration's “ownership society” mantra—with its effort to promote personal retirement accounts—part of its abortive “ownership society” initiative—over redistribution.

Nonetheless, McCain has, without emphasizing it, endorsed the idea of personal retirement accounts as a

supplement to social security pensions—and as a way to avoid raising taxes still further to meet looming obligations which could see fewer than three active workers available to help support each retiree. Obama, in contrast, has expressed support for asking active workers to pay still more to support retirees—many of whom may well prove to be affluent. His justification for raising the current \$97,000 income cap on income subject to social security? “What I have proposed is that we raise the cap on the payroll tax, because right now millionaires and billionaires don't have to pay beyond \$97,000 a year.” That such persons are already shouldering the vast bulk of the burden of the general income tax—and that their capital, were it not simply redistributed—might be put to important, job-creating investment uses—is apparently lost in Obama's Olson-esque formulation.

Mancur Olson's *Decline of Nations* can be understood, narrowly, as a description of certain laws of political commerce. More broadly, though, it be seen as a description of the ways in which politics can be a battle of the few versus the many—and even past versus future. This year, ironically, the older candidate, perhaps counter-intuitively, appears to be the one most on the side of the latter.

Howard Husock, an Advisory Editor of *Society*, is Vice-President, Policy Research at the Manhattan Institute for Policy Research.