



DISCUSSANT RESPONSE

by

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to Peter Bernholz's

**EFFICIENCY, POLITICAL-ECONOMIC ORGANIZATION AND
INTERNATIONAL COMPETITION BETWEEN STATES**

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COMMENT ON BERNHOLZ:

THE IMPACT OF DISTRIBUTIONAL COALITIONS AND INTERSTATE COMPETITION ON ECONOMIC REGIMES AND PERFORMANCE

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It is quite difficult to provide a comment on a paper, if you are in almost perfect agreement with the author. Instead of criticism, I shall try to add a few items, one of which concerns distributional coalitions, and most of which concern the effects of interstate rivalry. Like Bernholz (199x), I subscribe to the propositions that these are the foundations of a prosperous economy: secure and well-defined property rights; decentralized decision-making, i.e., decision-makers benefit from or suffer the consequences of their actions; constraints on the tax and welfare state; avoidance of irresponsible deficits financed by the printing press; and limited government in general. Like him, I regard the rule of law and capitalism as prerequisites of democracy - and, unfortunately, unlimited democracy as a threat to its own foundations. Given rational ignorance of most voters on most issues, politicians are always likely to respond to the requests of special interest groups, to trade special favours for votes. As Bernholz (1977, 199x), Olson (1982), and others have argued, democratic politics seems to promote a return to the 'rent-seeking society' (Buchanan, Tollison, and Tullock 1980), where competition is restricted, prices are distorted, and resources are wasted in distributional struggles as well as misallocated. Of course, this results in reduced growth rates (Bernholz 1986, Weede 1990b).

Politicians in Western democracies tend to justify and hide their subservience to special interest groups behind notions of

justice and equity. This does not prevent them, however, from tolerance of and complicity in regressive redistributions of income. Take agricultural policies in the European Community, or in most Western societies for that matter. They tend to benefit larger and wealthier farmers more than poorer and needier producers. They are paid for not only by the taxpayer, but also by the consumer and thereby hurt poor households who spend a substantial part of their income on food disproportionately. Nevertheless, transfers from poorer consumers to richer producers are 'justified' as social necessities.

Instead of accepting the fine words of politicians, it seems advisable to start with the simple idea, that distributional struggles are likely to be won by those special interests who are organized best and therefore best placed to trade votes for political support in their efforts to reduce competition and to raise prices for their output. Therefore, I endorse Olson's (1982, p. 175) proposition: "There is greater inequality ... in the opportunity to create distributional coalitions than there is in the inherent productive abilities of people. The recipients of welfare in the United States are not organized, nor are the poor in other societies." If the most disadvantaged members of society tend to face the worst obstacles to getting organized, then political redistribution should on balance not contribute to the equalization of incomes, but add a political layer of inequality to the inequality generated by the market.

This idea has testable consequences and thereby may either be supported or called into question by easily available evidence. In Olson's (1982) theory, the age of democracy - or, more generally, the age of any stable political regime within permanent borders - permits the accumulation of distributional coalitions and price distortions and thereby reduces growth rates over time. Or, the older a democracy already is, the smaller its growth rate should be. In international comparisons, there is evidence to support this view (e.g. Bernholz 1986, Weede 1990b). If my suspicion about the frequently regressive redistributive

impact of interest groups is true, then it follows: the older a democracy is, the less egalitarian its size distribution of income should become. A comparison of income shares of the poorest 20 or 40 or 60 or 80% of the population among Western democracies classified by age of democracy invariably demonstrates that the poorest groups get the smallest shares in countries where democracy had already been established before World War I and the largest shares in countries where democracy has had an uninterrupted existence only since some time after the end of World War II (Weede 1990a, p. 162). This is not what one should expect, if democratic politicians and government were effective in improving the lot of the poor.

Now, I turn to my main topic, i.e., to the impact of interstate rivalry on economic regimes and performance. Of course, I (see Weede 1990a) do agree with Bernholz (199x), Jones (1981), Max Weber (1923/1981) and other writers who suggest that political fragmentation, interstate rivalry, and mutual hostility between European (or, more generally, Western) states has been an essential determinant of capitalist development in the occident and that imperial unity contributed to the absence of capitalism and progress in the great Asian civilizations. But there is not only historical and qualitative evidence on the linkage between international affairs and economic performance, but also econometric evidence from contemporary cross-national data. This evidence concerns both economic growth rates and income inequality.

Beginning with distributional issues, Andreski's (1968, pp. 27 and 72) work on Military Organization and Society provides the starting point; he argues: "The technical and military circumstances which make the willing cooperation of the masses in the war effort more or less essential, are the most powerful among the factors which determine the extent of social inequalities." Elsewhere in the same book, he even states his proposition in operational terms: "The height of stratification tends to covary with the M.P.R.", i.e., with the military participation ratio. In essence, this theory postulates that elite dependence on mass

support for military purposes forces elites to make concessions to the masses, to desist from regressive redistribution and, possibly, even to implement some progressive redistribution, where the survival of the state and its ruling class depends on the willing cooperation of conscripts drawn from all classes of society. South Korea, Taiwan, and Israel are contemporary examples of countries which face (or faced) serious threats to national security, but enjoy comparatively egalitarian distributions of income. By contrast, Latin American countries with few exceptions succeeded in avoiding war for most of this century, but they suffer from the least egalitarian size distributions of income or land.

International competition and hostility not only affect income distributions, but also growth rates. At the most abstract and general level, Arnold Gehlen (1969, pp. 91/92, my translation) has argued: "Evidently, war, economics, and finance constitute the breeding ground for rationality. Here, necessity and corresponding constraints prevail." Plausibly, threats to national security reinforce technocratic attitudes and a concern with efficiency rather than conspicuous consumption in the elite. Where ruling elites subject the masses to military conscription, their armed forces may become some kind of 'school for the nation'. In poor countries, or even still in 19th century Europe, the army may be the only available school where poor, rural, young men learn discipline or to work with technical mechanisms, like rifles or trucks. One may extend this argument, as has been done by Andreski (1968, p. 75): "The sentiments of national solidarity, the habits of co-operation in a large mass and the concern for efficiency have undoubtedly been stimulated, if not created, by the wars which the European nations have waged during several centuries. And it may not be due to solely material advantages that the nations renowned for efficient military organization, like the Germans and the Japanese, have also been successful in catching up in the industrial race." Currently, it is obvious that few capitalist nations carry a higher military burden and conscript a larger part of their male youth for a

longer period of time than either South Korea or Taiwan. Nevertheless, these countries have consistently outperformed even the Japanese.

So far, I have only provided arguments why threats to national security in general, and high military participation ratios in particular, should be associated positively with both superior growth rates and comparatively egalitarian distributions of income. As has repeatedly been demonstrated in cross-national studies, this is indeed true (Chan 1989; Garnier and Hazelrigg 1977; Weede and Jagodzinski 1981; Weede 1992a). By and large, the evidence is stronger, and the data base broader in the regression analyses accounting for growth than in those for income inequality. But it seems quite clear that the positive effects of threats to national security derive from military training (operationally: the military participation ratio) rather than from military expenditures.

Finally, I want to comment on the collapse of Communism in the Soviet-Union and her client-states. I do agree with Bernholz (199x) that Gorbachev's reforms were initiated because he and others in the politbureau realized that the Soviet economy could not compete with the advanced capitalist societies, that this discrepancy in the long run must affect Soviet military capabilities, too, that therefore a drive for economic efficiency was urgent. Conceivably, Reagan's strategic defense initiative was an essential element in persuading status quo oriented thinkers in Moscow that something had to be done, that private interest and the market have somehow to be tamed rather than merely constrained by the Communist Party. But the pressure for reform could only result in liberalization, because democratic capitalism in the West simultaneously threatened Communism with economic obsolescence and promised not to exploit transitional difficulties in the USSR by aggressive initiatives. As Deudney and Ikenberry (1991-92, p. 97) have put it: "a world dominated by liberal states affords remaining illiberal states both a need and a opportunity to liberalize." Although it is still disputed,

whether democracies get involved in war as frequently as other nations do, they certainly come close to avoiding war among each other (e.g. Bremer 1992, Weede 1992b), and thereby they extend a standing invitation to nondemocratic regimes to join the democratic zone of peace.

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