

The Institutional Foundations of Diffuse Interest Representation

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April 2009

Researchers in public policy have long assumed that diffuse interests were therefore weak interests. Because large groups of individuals are difficult to organize, they are thought to go under-represented in public policy. The problem is meant to be one of coordination. When groups of individuals share an interest in a common policy, and the benefits of that policy cannot be excluded from any member of the group, then no single member has an interest to advocate for that policy when advocacy requires any significant level of cost. As each individual waits for others to act, their shared policy objectives remain underprovided. The larger the interested group, the more challenging it becomes to overcome these barriers to mobilization. The most diffuse interests in society should therefore be least represented in public policy. This conclusion, when it was first proposed by Mancur Olson in his 1965 *Logic of Collective Action*, was a direct attack on a school of pluralism that assumed groups would influence policy in proportion to their size. The Olson critique was profoundly influential on the social sciences. It is not an exaggeration to say that an entire generation of political scientists learned from Olson—and a cohort of regulation theorists including George Stigler and James Q. Wilson—that concentrated interests enjoy the upper hand in public policy.

Yet this conclusion is almost entirely unsubstantiated by evidence from public policy. The flaw in the Chicago School approach to regulation is highlighted by the success of national consumer protection policies. The consumer interests should, by their account, be among the most difficult to organize. Consumers as a group should suffer from high barriers to collective

organization. Individual consumers have little incentive to contribute time or resources to a cause that may provide them only limited benefits. Diffuse benefits from consumer mobilization face often very concentrated costs for business.¹ To succeed, consumers not only must organize, but do so more effectively than the businesses they confront. Moreover, consumers are themselves commonly also participants in production, either as workers, managers, or share-holders. To the extent that new consumer protections impose a cost on producers, even those individuals who stand to benefit as consumers may choose to forego such benefits out of concern for the losses that new protections might impose on them via its impact on producers. For all of these familiar reasons, the elaborate institutions of consumer protections that now suffuse the advanced industrialized countries pose a theoretical challenge. How have highly diffuse social and economic interests systematically prevailed over concentrated economic interests?

Olson was surely correct that diffuse interests are more difficult to mobilize than concentrated interests. His error was to assume that the difficulty of organization would discourage political, economic and social actors from attempting it. With sufficient incentives, any of several actors may have an interest in overcoming the high cost of mobilization. Further, the very challenge of organizing diffuse interests makes them especially attractive targets.

Although organizing diffuse interests is challenging, the challenge also offers enticing potential advantages to a variety of actors. For politicians subject to electoral pressures, diffuse interest groups can help to bolster important constituencies. While such issues are typically not decisive in elections, the risk of being attacked for inaction on policies of relevance to diffuse

¹ Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, Mass.: Harvard University Press, 1965); Russell Hardin, *Collective Action* (Baltimore: Johns Hopkins University Press, 1982); Elinor Ostrom, "A Behavioral Approach to the Rational Choice Theory of Collective Action: Presidential Address, American Political Science Association, 1997," *American Political Science Review* 92, no. 1 (1998).

interests typically makes pursuing them attractive. Individuals outside of the political process may have personal and reputational reasons for wanting to organize diffuse interests. They may wish to be the leader of a movement; they may feel passionately about an issue, perhaps out of personal experience; they may see it as a route to a future political career. Ralph Nader (consumer safety) and Al Gore (global warming) are American examples of this phenomenon. Whatever their motivations may be, diffuse interests attract ambitious individuals who are willing to confront the difficulties of coordination in order to reap the benefits of mobilization. Finally, economic actors may have an interest in supporting diffuse interest organization. Producers may seek allies in creating and policing markets. Organized labor may attempt to structure markets in ways that pressure employers or support skilled manufacturing. While their motivations are different, what all three kinds of actors share is a strong set of incentives—political, personal, and economic, respectively—to overcome the organizational challenges to diffuse interest organization.

The very difficulty of diffuse interest group organization creates barriers to subsequent entry. These barriers generate a first-mover advantage that encourages a *rapid* mobilization of diffuse interests. The first mover advantage has three components. First, the first-mover may make enduring decisions about which shared interests to emphasize. Diffuse groups typically share multiple and overlapping interests. Early choices about which of these interests to emphasize shape members' own views about the nature of the interests they share. Once established as a shared identity, this initial choice may be virtually impossible to alter. Second, any new rights that are achieved on behalf of the diffuse interest become established as legal precedent in the courts and in national bureaucracies. Even after the diffuse interest group has disbanded, courts and regulators will protect the rights they secured against subsequent groups

that organize to dispute their prior claims. Indeed, this is a central democratic function of courts: they mediate between conflicting interests that happened to have mobilized in different historical periods. The third element of the first-mover advantage is their role in creating a legitimating narrative for the newly represented diffuse group. Such narratives—which include stories about legitimate interests, identity, and social purpose—shape the terms on which the interest comes to be understood and evaluated. While seemingly intangible, such narratives retain extraordinary normative power over time. They render new interpretations of existing diffuse interests extremely difficult.

Concentrated interests are easier to organize than are diffuse interests, but they are also easier to target for public recrimination in the media. Concentrated interests that exert political effort to pursue their narrow interests therefore find they must express that interest in the form of a related diffuse interest. In doing so, they typically access one of two types of legitimating narratives. On the one hand, they may claim to defend market access for some broad group. Wal-Mart, in its struggle against organized labor, vaunts the low prices it offers to the even more diffuse body of consumers. On the other hand, concentrated interest groups may pursue a narrative of protection. US Pharmaceutical firms have lobbied to block drug re-importation primarily on the grounds that such drugs may be counterfeit and dangerous. Some of the most effective interest groups—the US gun lobby is an example—combine narratives of access and protection. Whether or not narrow interests achieve their own narrow goals depends to a large degree on their ability to define and defend a parallel set of diffuse interests.

These three elements work together to generate expectations about diffuse interest representation that are starkly different from those of Chicago-school regulation theory. Most importantly, a variety of actors have an interest in organizing diffuse interests. While this kind of

organization *is* difficult, as Mancur Olson and others have noted, that difficulty does not detract strong advocates. Quite the contrary, the challenge of organizing diffuse interests creates barriers to later entry by other groups or individuals who might seek to redefine those diffuse interests in different ways.

If diffuse interests are typically able to achieve their goals, why do they sometimes fail to do so? First, diffuse interests often lose to other diffuse interests. This means that the fate of concentrated interests often rests on the outcome of a conflict between one set of diffuse interests and another. Modern mass retailers, for example, worked to ally themselves with consumers against traditional retailers in policy over land use planning and store hours. Who won and lost these conflicts among diffuse interests depended in part on their national institutional setting. Two types of institutional variation are most salient: electoral regime, and variety of capitalism. Electoral regimes condition the type of diffuse interest that is likely to be supported by elected representatives and their administrators. Majoritarian systems favor highly diffuse consumer interests; proportional systems that encourage coalition governments enable cross-class alliances that can favor diffuse sectoral interests over broad consumer interests. Varieties of capitalism shape the sorts of alliances economic actors are likely to form. Under liberal market institutions, producers emphasize mass-market products. They therefore favor alliances with general consumer interests that promote the broadest possible homogenous market conditions. Under coordinated market institutions, producers emphasize high quality production. They therefore favor alliances with diffuse interests that promote quality at the expense of market extension.

The second way in which diffuse interests appear to lose is by the way in which their interest comes to be defined. As new diffuse interests first aggregate, we frequently observe a struggle over what the common and unifying interest of the group is. Two such “legitimizing

narratives” emerge most commonly: a narrative of market access, and a narrative of protection. When different countries have adopted different narratives, each may believe the other is ignoring the interests of a diffuse pragmatic interest group. For example, French regulators have imposed restrictive regulation on consumer lenders, not because this is the will of the domestic sector, but because a narrative of protection has evolved in that country that links access to credit with over-indebtedness and social exclusion. While foreign lenders eager to break into the French lending market see the measure as a form of protectionism, French policymakers fear that opening up their market more will only increase the level of economic distress among low-income borrowers. When conflicting national narratives of access and protection confront one another, often in the context of trade and investment negotiations, each looks to the other side like a manifestation of industry capture.

Finally, even in cases of what appears to be genuine industry capture—pharmaceutical pricing and agricultural supports are among the strongest cases of this—industry has far less ability to influence government policy than the Chicago School interpretation suggests. In particular, lobbying impact on the elements of public policy that govern their sector appears to be strongly constrained by the outcomes of historical accommodations that reconciled their sector interests with broader societal interests. Once narrow economic interests have found ways to legitimate a set of interests by creating a narrative that links their narrow interest with a diffuse group interests, such legitimating narratives are exceedingly difficult to change. Efforts to redefine European farm protections in terms of land-use management met with intense opposition from farmers who perceived the new narrative as undermining their collective interest. One consequence is that the lobbying power of successful concentrated interests is less dramatic than is commonly assumed. While they may appear to have a strong influence on a

particular area of policy, their ability to exercise influence on other dimensions of public policy may be extremely limited.

Given the considerable counter-evidence, it is fascinating to consider why the Chicago school approach to public policy remained dominant for so long. Concentrated interests that were meant to dominate public policy typically failed; diffuse interests that were meant to go under-represented systematically mobilized and gained representation. In the face of counter-evidence, the persistence of the Olson/Stigler analysis of economic regulation offers a fascinating case study in the sociology of knowledge. How do we explain the Lazareth-like qualities of the Olson/Stigler thesis?

First, their durability is a testimony to the allure of game theory as a tractable model of social organization. Although neither Olson nor Stigler formalized their insights about the weakness of diffuse interests and the strength of concentrated interests, each had disciples that did: Russell Hardin and Sam Peltzman, respectively. Once they had pointed out that coordinating diffuse groups created payoffs that mirrored a prisoner's dilemma game, it may have been predictable that the theories themselves would enjoy sustained influence. This would prove to be true both in economics and in political science, where formalized rational-actor analysis was blossoming. To be clear, my goal is not to undermine this highly fruitful line of inquiry. The insights of a rational-choice approach help to define clearly the sort of obstacles to mobilization that have made diffuse interest organization challenging. I only want to emphasize that this is only half of the story; that the incentives to overcome these challenges are frequently even greater.

A second reason for the persistence of the regulatory capture doctrine is that it was embraced in the United States by both the political left and the political right as a motivating

policy insight. For the left, the disproportionate influence of concentrated business interests has defined a populist agenda that had its roots in the progressive movement. It lay at the core of the trust-busting policies of the 1930s, and of the leftist mobilizations of the 1960s. By the time Olson wrote *The Logic*, the left had already embraced its core insight, although their solutions varied. John Kenneth Galbraith advocated a 'countervailing force' to oppose the concentrated interests of business; democratic theorists emphasized the role of new kinds of democratic institutions that could insulate policy formation from industry interests; theorists of public policy studied new approaches to economic regulation that could contain the meretricious effects of policy capture.

For the political right in the United States, the Olson/Stigler thesis had different implications. The difficulty of insulating economic policy from the influence of concentrated interests suggested that many areas of economic regulation, even those that had a sound economic basis, were likely to become distorted in practice and should therefore be foresworn. The way to remove policy capture was to eliminate the captured policy. This argument was commonly raised by opponents of strategic trade theory, of government technology subsidies, and of aggressive enforcement of competition policy. These public policy implications were the source of persistent tension within the Chicago School. On the one hand, the economics branch of the Chicago school argued that deregulation would permit markets to function unfettered, and therefore more efficiently. On the other hand, the implications of free markets for policy influence were potentially less benign. Rather than generating new efficiencies, they risked to distort producer incentives in ways that would generate less efficient outcomes. Given this

fundamental tension, it is not surprising that the bulk of Chicago School public policy theorists moved closer to Washington, DC.²

One consequence of this three-way consensus—among academic policy researchers, the left, and the right—has been the emergence of a restricted view of the role of business in regulation. Broadly, policy prescriptions have been contested between two extremes: either business must be insulated from regulation, or regulation must be insulated from business. This research suggests that such a policy framing is overly narrow. It opens the possibility for designing regulatory policy in which business is a collaborative partner rather than an opponent of regulators. Industry groups can support regulatory policies that they perceive as consolidating or expanding markets. And, increasingly, complex regulatory issues require more sophisticated interaction among government agencies, industry and user groups.

The point is not that business always works in the public interest; nor that business influence on public policy is necessarily benign. Business interest must be channeled into the public interest through a set of functioning democratic and legal institutions. These include a free press with aggressive investigative journalism, freely contested elections, competitive economic markets, a right and ability to mobilize interest groups, and an independent court system. The necessary institutional foundations for diffuse interest representation limit the applicability of this theory mainly to the advanced industrialized countries. Even among these, serious incursions into the freedom of the press, as in Italy under Silvio Berlusconi, or limitations on party competition, as in Japan under Liberal Democratic Party rule, can limit the ability of diffuse interest groups to mobilize and defend their interests. In the Latin American countries, effective

² This so-called Virginia school included University of Chicago trained public policy scholars who were granted tenure at the University of Virginia, but also at the University of Maryland and George Mason University.

diffuse interest representation appears to be limited to periods of genuine political contestation.³ This implies that the Olson/Stigler thesis may continue to characterize interest group organization in much of the developing world, much of the time. The Olson/Stigler thesis may also accurately reflect policy formation in certain narrow areas of foreign policy in the advanced industrialized economies for which a compelling diffuse interest does not exist within the domestic political constituency. The US embargo of Cuba is an example of a policy driven by a concentrated interest group—the first generation of Cuban refugees to the United States—that has no compelling economic or security logic for the broader US public. Yet no politician, activist or business group has mobilized to oppose the embargo because there is virtually no definable diffuse interest that is hurt in a meaningful way by the policy. Post-colonial economic policies of many of the European countries have a similar characteristic. They lack a set of diffuse domestic interests that might be organized to counter the concentrated interests of national industries. Without a counter-veiling diffuse interest to organize against it, policy capture in foreign economic policy faces little check.

However, in most cases in which concentrated interests have succeeded in achieving their narrow goals in the domestic realm, they have done so by allying themselves compellingly with more diffuse interests. This sort of alliance deserves more attention. It may be the key to understanding the political economy of liberalization in the late 1970s and 1980s. Whatever else was true about the neo-liberal initiatives of this period, they represented a victory of a new coalition between the highly diffuse consumer interest and a set of concentrated industry interests. The Reagan and Thatcher reforms in particular represented a re-shifting of economic policy away from monopoly pricing and toward open, competitive markets. This process almost

³ Victoria Murillo, *Political Competition, Partisanship, and Policymaking*, unpublished book manuscript, 2008.

certainly hurt wages. But it also almost certainly lowered prices across a range of economic sectors. Neo-liberal reforms flourished in those countries in which the business-consumer alliance prevailed over the competing diffuse interests of labor and welfare recipients. By studying how and under what circumstances concentrated interests were able to build coalitions with highly diffuse interests, we may better understand why neo-liberal reforms took hold where and when they did. In particular, the role of electoral systems and varieties of capitalism appears to be central. Insofar as majoritarian electoral regimes and liberal market organization favor the highly diffuse consumer interest over the merely somewhat diffuse interests of labor, it is perhaps unsurprising that the United States and Britain led the neo-liberal revolution.