Mancur Olson:

How Bright are the Northern Lights? Some Questions about Sweden

Chapter 5

Why Implicit and Inefficient Redistribution is Commonplace

We have seen that rational ignorance is a fundamental reality grounded in individual rationality, that the difficulties of collective action can eventually be overcome by some groups but not by others, and that it is disproportionately the nonpoor, insider, and establishment interests that are organized for collective action. What will organizations representing nonpoor established interests have an incentive to do, given that they operate in a society in which most people are rationally ignorant?

The answer depends in part on the extent to which these organizations, whose members are also citizens of the larger society, have an incentive to take the interests of the society as a whole into account. Here I draw on the analysis in my *Rise and Decline of Nations.* Consider an organization that, though it might be large and have many members, is still only a small part of the whole country or society in question. For the sake of simple arithmetic, I assume an organization that represents 1 percent of the income-earning capacity of a country: for example, a labor union whose members' wages are in the aggregate 1 percent of the country's national income, or a trade association of firms that together earn 1 percent of the national income.

Organizations of this kind are relatively less important in Sweden, where there are also what I have called "encompassing" organizations, like the LO and the employers' federation, representing constituents that in the aggregate earn a significant percentage of the Swedish GDP and thus have a large stake in the society. I will deal with this special feature of the Swedish organization scene later, but the analysis of "narrow" coalitions that represent only a tiny part of a nation's income-earning capacity is nonetheless important here. It is important partly because the logic of these narrow coalitions to some degree also applies, in a more complex way, in Sweden,[1] and also

[1] The reasons why this is so are set out in my "Appreciation of the Tests and Criticisms" in

because these narrow coalitions have a decisive influence on the economic performance of most of the countries with which Sweden is being compared.

One logical possibility is that organized interests will use their capacity to make the society in which their constituents are located more efficient and prosperous. In general, being part of a rich society is better than being part of a poor one. A lobbying organization could, for example, lobby for measures that would make the society in which its members live and work more productive and successful. Would an organization for collective action that represents only, say, 1 percent of the society have an incentive to do this?

An organization that represents 1 percent of the society would get, on average, only 1 percent of the benefits from making its society more productive. If the national income of a country increases because it lobbies for more efficient public policies, the clients of the organization will get, on average, 1 percent of the increase in the national income. Those members, however, will have borne the whole cost of whatever lobbying they have done to improve the efficiency of the economy. If they get 1 percent of the benefits of their action and bear the whole cost of their action, then trying to make the society more efficient and prosperous will pay off for them only if the benefits of that action to the society as a whole exceed the costs of that action by a hundred times or more. Only if the cost-benefit ratio is better than 100 to 1 will the organization for collective action best serve its members by acting to make the society more efficient and prosperous.

How then can a special-interest group representing only a tiny part of a society best help its clients? If a larger slice of the pie that society produces can be obtained for the members of a special-interest organization, then the members of this organization will have this larger slice of the pie. Less metaphorically, if a larger percentage of the national output or national income that is produced in a country can be redistributed to the members of a special-interest group, then these members will have that larger share of the national income.

But the reader may now ask, "Won't lobbying for favors from government or combination in the marketplace to obtain monopolistic prices or wages make the economy less efficient and productive? And won't the members of the special-interest group bear part of the reduction in the national income that comes from the inefficiencies brought about by their effort to capture a larger proportion of the national income?" The answer, in most cases, is, "Yes." Cartelization will usually reduce the efficiency and prosperity of the society. Because a combination or cartel will produce and sell less and charge more, the society will normally be less efficient. Special-interest lobbying will similarly induce resources to go into the particular areas that are favored by the lobby-inspired legislation; resources will crowd into these areas until their contribution to the national income - their marginal social product - is lower than it would have been in other areas and the efficiency of the economy will thereby typically

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be reduced. So both cartelization and lobbying to get a larger percentage of the national income will, in most cases, make the society less efficient and productive.

Remember, however, that our special-interest group represented 1 percent of the society. Its members bear only 1 percent of the loss in national income or output that occurs because of the inefficiency its activities bring about, but they get the whole of the amount redistributed to them. Thus it pays our hypothetical special-interest group to seek to redistribute income to its own members even if this redistribution reduces the national income by up to 100 times the amount redistributed! Therefore, organizations that represent only a minute percentage of an economy's income-earning capacity are really "distributional coalitions" - coalitions that strive to redistribute more of the society's income to themselves, rather than to produce anything.

Will Coalitions Seek Unconditional Cash Transfers?

We know from Chapter 3 that unconditional cash transfers tend to have lower social costs than conditional subsidies: the conditions, such as continued production of some product in order to receive the subsidy (which may be in the form of a higher price for that product), distort the allocation of resources. By contrast, those who receive an unconditional cash subsidy have an incentive to allocate their resources to the most productive uses. Unless they obtain unconditional cash transfers that they will continue to receive even if they move into entirely different lines of activity, the coalitions' constituencies will get only a part (and often only a small part) of what society gives up.

Gary Becker emphasized that the political resistance to a redistribution will be greater the more the rest of society loses from it. Unconditional cash transfers would obviously be worth more to recipients than equal-sized redistributions with strings attached. If it were really true that unconditional cash transfers not only were less costly to the rest of society, but also had to overcome less political resistance, then it would follow that distributional coalitions would always demand unconditional cash transfers.

But they do not. Indeed, the redistributions that coalitions seek are almost never unconditional cash transfers. They are usually protective tariffs or quotas, monopoly prices or wages, price supports, regulations that restrict entry and competition, and subsidies for those in particular industries, regions, or occupations, or for those who use particular inputs. Physicians are not subsidized by cash grants that they receive even if they no longer practice medicine; unionized workers are not given government checks that they continue to get even if they retire or become entrepreneurs.

Typically, the redistributions sought by organized interests are, if possible, *not* directly from the government budget. Those who benefit from protection or monopoly do *not* want the tariffs or monopoly privileges replaced by checks drawn on the national treasury. When open subsidies from the treasury are the only attainable form of redistribution, they are almost always conditional on continued participation in some industry or activity; the subsidies to money-losing industries are available only to the firms and workers who stay in the losing industry, agricultural subsidies go only to those who continue to farm, and money-losing national airlines keep getting subsidies only so long as they fly.

To see why the redistributions sought by organized interests are virtually never the unconditional cash transfers that would be the least costly redistributions for the society, we need to return to the earlier analysis of the bias of collective action. We saw that it followed from the logic of collective action that those who could organize for lobbying, collusion, and cartelization were those with small numbers (such as the large firms in concentrated and protected manufacturing industries) or those with access to selective incentives (such as members of professions and workers already established in jobs). Though in a long-stable society some groups of below-average income will be organized for collective action, the overall pattern of collective action will favor more prosperous and better established interests; it will not include groups like the unemployed and the poor.

The organized groups that are never poor (but often relatively well-off) usually cannot obtain redistributions by appealing to the egalitarian moral sentiments of the electorate. Naturally enough, the typical voter does not want to have his or her own standard of living lowered solely for the purpose of transferring income to someone else who is already as well off, or better off, than the voter. Accordingly, most organized groups cannot further their interests by appealing on grounds of need for explicit redistributions to themselves. Each narrow distributional coalition also represents a small minority of the electorate, and therefore does not have votes enough to pass an explicit redistribution to itself.

So how can an organized group that cannot qualify for explicit redistribution on egalitarian grounds, and cannot hope to outvote the majority that would lose from redistributions to it, obtain any redistributions?

Rational Ignorance Makes Implicit Redistributions Possible

A distributional coalition can usually obtain redistributions by exploiting the rational ignorance of the electorate. Lobbying and special interest pressure usually succeeds, and cartelization and collusion are typically tolerated, mainly because of rational ignorance. If voters were fully informed, they would not be swayed by the publicity or advertising stemming from organized interests and they would replace any representatives who were serving interests other than those of the voters. They would also not allow those who sell them goods and services to raise prices and wages through cartelization. In reality, the average citizen's knowledge is extremely limited; survey data in the United States reveal that about half of the electorate do not know the name of their congressman in the House of Representatives, much less what help he has given organized interests to obtain campaign contributions. Diverse forms of public relations, advertising, and political indoctrination play large roles in forming public opinion.

In the real world organized interests have vast opportunities to persuade voters to accept what are, in fact, implicit redistributions to those organized interests, *as long as these redistributions are designed in such a way that the rationally ignorant can be persuaded that the society as a whole gains, or are so inconspicuous or indirect that a majority of the electorate is not aware of them.* A policy that can be made to appear, in a newspaper advertisement or a thirty-second television commercial, to have different beneficiaries than it actually has, can be successful. It does not matter much whether lengthy research would show that a policy was contrary to the interests of most voters, because it is not in the typical voter's interest to undertake such research, and any research done by those with a professional interest in the matter will not have a great political effect unless substantial resources are available to publicize the results. These resources may be available when two or more organized interests have opposing interests, but the difficulties of collective action ensure that many organized interests will not be countervailed.

As would be expected from the argument here, manufacturing firms ask for protection against imports, or investment incentives, or tax loopholes that will "strengthen or protect the national economy," or they inconspicuously raise prices through collusion. Physicians seek to keep out "unqualified" *new* doctors, to prevent competitive ("unethical") behavior, and lobby for government and insurance spending that insures "good quality care for the public." Lawyers seek to ensure that citizens have more rights to sue and get "justice" (with the paid counsel of lawyers) in the courts. Large farmers argue that the nation should not be dependent on foreign food supplies and thereby obtain tariffs or quotas, or they argue that the poorer farmer cannot live decently unless there are price supports, even though, in fact, the higher prices go mainly to the larger farmers who produce the most. Skilled workers established in an industry may speak in the name of the whole working class, yet use their cartelistic power to obtain a wage at which it does not pay the employers to hire the part of the working class that is unemployed. Virtually all organized groups seek privileges that they can persuade the public are beneficial to society as a whole; professors, for example, emphasize the value to society of academic freedom that tenure for themselves is supposed to provide, not the opportunity for sloth and neglect of students that their extreme job security makes possible.

The Implicit Redistributions that Rational Ignorance Permits are Almost Never Efficient Redistributions

The redistributions that can be made to appear to serve the interests of the society as a whole, or that are so inconspicuous and indirect that most voters don't notice them, obviously cannot be unconditional checks from the treasury. It is obvious who gains from an unconditional cash subsidy and the costs to the treasury and the taxpayers from such straightforward subsidies are conspicuous and easily distinguished. To appear to serve the interests of the society as a whole, the implicit redistribution must promote some type of production or activity that rationally ignorant voters can be persuaded is advantageous to the nation. Unfortunately, the very fact that an implicit redistribution is easier to obtain if it encourages some industry usually increases its social costs. Such redistributions normally expand some industry or activity beyond the socially efficient level, and thereby impose a cost to the society as a whole that is distinct from the redistribution itself. Inconspicuous redistributions are often also more costly to society than conspicuous ones: the costs that are not noticed are less likely to be minimized.

Tariffs and quotas are exceptionally apt devices for implicit redistribution. They protect a domestic industry and it is usually relatively easy to persuade voters that this also protects or strengthens the economy as a whole. The rationally ignorant have no reason to think about the implicit discouragement that protection of a given industry entails for other, unprotected industries that must compete with the protected industry for resources or export in the face of a higher exchange rate for the national currency, much less any reason to master the demanding literature on the deadweight losses that are often involved. Regulation that limits competition and entry is also an admirable device for implicit redistribution. The rationally ignorant normally take it for granted that the regulation favors the consumers and the public rather than the firms that are regulated and have no reason to go into the logic showing why the regulated firms are normally organized for collective action to influence the regulatory process and why the consumers and the public normally are not. The regulation can also be appealingly described as something that assures "orderly markets" and prevents "destructive competition," and thus made to appear favorable to economic progress. By contrast, the losses to the firms that would have entered the industry in the absence of regulation and the higher costs the regulation usually imposes on consumers are relatively subtle and difficult to identify. So are the ways in which regulation often slows down innovation by complicating decision-making. Similarly, cartelization and collusion are also well-suited for implicit redistribution. They can be defended as efforts to promote cooperation against foreign competition, as devices that insure "orderly markets," and as self-help efforts that do not impose costs upon taxpayers. Since prices and wages change from time to time in any case, the costs to consumers of the higher prices and wages that collusion and cartelization bring about are not usually evident to the casual observer.

In general, the most expedient devices for implicit redistribution are those that do *not* rely principally on the government budget. Usually any redistribution through the government budget, even if it is not an unconditional cash transfer, is easier to identify than a change in prices or wages that arises because of protection, regulation, or cartelization. The changes in prices and wages arising from redistributions that bypass the public treasury normally entail deadweight losses and usually are tied up with regulations and agreements that slow down innovation, but the redistributions that result from these price and wage changes are normally less conspicuous than governmental subsidies. The fact that redistributions through the public treasury are a poor choice for an organized interest partly explains why the sizes of the public sectors of countries are not well correlated with their economic performance.

Although all continuing redistributions by any feasible method entail some deadweight losses, the *implicit redistributions that nonpoor organized interests have an incentive to seek are those that are the least straightforward or the least conspicuous, not those that have the lowest social cost.* If it is proposed that a socially costly implicit redistribution to an organized interest be replaced by a less costly but more nearly transparent redistribution, the organized interest will normally object, because it is likely to lose the redistribution altogether if it becomes transparent. Therefore, industries that enjoy tariff or quota protection, for example, almost always oppose replacing this protection with open governmental transfers. Monopolies and cartels similarly do not want to give up their status in return for government checks.

Accordingly, we see that the theory of efficient redistribution is *not true* for *implicit* redistributions. It would probably be true, if other things were equal, that redistributions with a higher social cost would be at a political disadvantage. But other things are not equal - rational ignorance entails that the least straightforward and the least conspicuous methods of redistribution be chosen. There is no reason whatever to suppose that the redistributions chosen to meet these criteria will have the lowest social costs. Because of the conditionality inherent in redistributions that achieve their objectives by altering relative prices or reducing the degree of competition, devious redistributions will often have vastly higher social costs than unconditional and transparent subventions.

The opacity of implicit redistributions unfortunately also entails that there is no necessity that they should be curtailed just because their social costs become very high - these costs need not be perceived, much less measured, by a rationally ignorant electorate. Many empirical studies confirm the conclusion that we have arrived at by abstract argument: there are many real world examples of implicit redistributions with social costs that are large multiples of the increase in the net incomes of the beneficiaries.

Thus, contrary to one school of thought, there is no tendency for bargaining over public policy among the groups in a society to continue until joint gains are maximized and Pareto-efficiency is achieved. Some groups are not organized to bargain and some of the social losses are not even perceived by some large groups of losers.

So this is not, alas, the best of all possible worlds, nor even the most efficient. It contains many societies in which rational ignorance can regularly be exploited by narrow distributional coalitions composed of nonpoor insider interests. Such societies are, as I have said before, like china shops filled with wrestlers battling over the china - and breaking far more than they carry away.

Aggregate Evidence on the Inefficiency of Implicit Redistributions

Many quantitative studies have shown that particular government programs or protective tariffs or other implicit redistributions have social costs that are very large, even in relation to the amount redistributed. Critics may understandable object that these particular cases are unrepresentative; the studies may even have attracted economists' attention because the social costs were so high. There is, therefore, also a need for evidence about how well societies with high levels of implicit redistribution perform in comparison with other societies. If we can explain variations in growth rates and income levels across countries and regions - and especially variations that other theories cannot explain - with the aid of the type analysis of implicit redistribution by organizations for collective action that has been offered above, then that is strong evidence that implicit redistributions often really are inefficient. The theory of efficient redistribution already suffers because it cannot explain differences in economic performance across countries, and if a theory that explains poor economic performance as due to high social costs of redistribution is successful, then the theory of efficient redistribution is in real trouble.

Although I did not deal explicitly with the theory of efficient redistribution in *The Rise and Decline of Nations,* I did show there that all of the really remarkable examples of economic growth and stagnation since the Middle Ages could be explained in large part by the density of narrow coalitions for collective action. Thus the evidence in that book is also telling evidence against the theory of efficient redistribution. For the benefit of readers who do not know that book, I shall refer to a couple of the most dramatic pieces of evidence in it. Then I shall show that the new evidence about international trade in Chapter 2 is also aptly explained by the argument that we have just been through.

The argument in *Rise and Decline* predicts that long-stable societies have more groups that have been able to overcome the difficulties of collective action than lately unstable societies, and that the redistributions that narrow organizations for collective action have an incentive to seek normally have high social costs. The long-stable societies with many narrow distributional coalitions should therefore be less efficient and (for reasons spelled out in *Rise and Decline*) also less dynamic than otherwise comparable societies.

A great deal of evidence suggests that this is indeed the case. The society that has had the longest period of stability and immunity from invasion and institutional destruction is Great Britain. And Great Britain in the twentieth century, as the theory predicts, has the poorest economic performance of all of the major developed democracies. One of the smaller developed democracies, Ireland, has suffered from an even poorer economic performance, but Ireland has also never had its coalitions destroyed by upheaval and (by a process that will be described later in this chapter) it accumulated distributional coalitions at an exceptionally rapid rate during the long period when it had extremely high protection of manufactures.

The theory also has clear implications for the Axis nations defeated in World War II. In Germany and Japan, and to a lesser extent in Italy, the repressive dictatorial governments and the allied occupations after the war eliminated most of the distributional coalitions. A few such organizations were created during or shortly after the allied occupations, but most of these were "encompassing" organizations. The theory that has been outlined implies that, after a free and stable legal order had been established, those societies should have grown surprisingly rapidly. And, as everyone knows, they enjoyed "economic miracles." With appropriate elaboration, the aforementioned theory also explains the general pattern of regional growth in the United States since World War II.[2]

The Salience of the Evidence in Chapter 2

We found earlier that it is inherent in the logic of collective action that small groups, such as the small number of firms in a concentrated industry, have less difficulty acting in their common interest than large groups. If a country (and especially a smaller country) protects its manufacturing industry from foreign competition, then often only a few firms will need to collude to fix prices in a given line of industry. A small number of firms in a concentrated industry will usually be able to fix prices without help from the government, but in any event their small numbers will ease the formation of a lobby to get governmental help in enforcing the price fixing. Collective action among the few firms that produce a given manufactured good is accordingly fairly common, even in politically unstable environments. Any effective price-fixing agreements in manufacturing that work for any length of time need to include some specifications or understandings about the definition and quality of the manufactured product whose price is being fixed, since individual firms can profit by getting a larger share of the cartelized market through subtle price reductions in the form of free add-ons and extra quality. In the long run, this usually means more complex agreements and regulations that slow down the rate of innovation.

If, by contrast, a country is completely open to foreign manufactures, then normally all of the firms in the world producing the relevant manufactured good will need to combine if prices are to be fixed. There are so many different manufacturing firms in diverse countries around the world, and the difficulties of coordinating their behavior across many national, cultural, and linguistic borders are so great, that successful worldwide cartelization of manufactures is rare. Since there is no world government, we can be certain that no government will be using its coercive power to enforce a world wide cartel agreement or responding to any lobbying for world wide

[2] "The South Will Fall Again: The South as Leader and Laggard in Economic Growth," *Southern Economic Journal*, 49 (April 1983), pp. 917-32.

special-interest legislation.

Collusive price fixing among the manufacturing firms in each industry is accordingly more likely in countries (and especially small countries) with protection than in those with open markets.

If the manufacturing firms in a country are protected against foreign competition, they do not need to worry that their costs of production will become higher than those in other countries. If the workers are cartelized in the protected industry, they do not need to worry about wage demands that make production more costly than elsewhere. In countries with free trade in manufacturing, by contrast, unions are often severely constrained in the extent to which they can exploit their monopoly over the supply of the relevant labor by the competition of foreign firms. Although unionization takes longer to develop than collusion among manufacturing firms and is in some unstable societies obstructed by periods of repression, some countries that protect manufacturing have cartelized wage levels in the protected industries that are far above the levels that would be sustainable without the protection. So protectionism of manufactures not only leads to collusion among the protected manufacturing firms, but often in due course also to a sky-is-the-limit monopoly wage setting that can have no counterpart in manufacturing industries having to meet international competition. These unrestrained wage levels are sustainable only if there are work rules that keep employers from upgrading new and unskilled labor to replace the workers with the wages that are farthest above competitive levels. Such work rules make industrial life much more complex and legalistic and thereby reduce innovation.

In making any manufactured good of any complexity, many different components and resources - sometimes thousands of different inputs - are needed. If each of these can be purchased without hindrance in whichever part of the world offers the best value, manufactured goods of better quality or lower price can be produced. In the protectionist country, some of the components and inputs that are needed will be more expensive and harder to get because they are themselves subject to protection. If protection takes the form of quotas and exchange control, this problem can make it impossible for a manufacturer, especially one in a smaller country, to be competitive on the world market in the production of any complex manufactured product.

And, as we saw in Chapter 2, none of the highly protectionist smaller countries were able to sell much in the way of manufactures on competitive international markets, whereas those smaller manufacturing countries with relatively low protection of manufactures (such as Sweden) could. The conceptual framework that has been offered here is certainly consistent with (and I believe in large part explains) the extraordinarily strong association between the openness of smaller countries to imports of manufactures and their success in developing competitive manufacturing industries. Small countries with high protection of manufactures find, as collective action builds up behind their tariff barriers, that they suffer from pervasive and almost limitless implicit redistribution in manufacturing, and become so inefficient that they cannot sell manufactured goods in competitive world markets.

These results also bear upon some recent developments in the theory of international trade. As we recall from Chapter 2, these recent developments suggested that, when there is imperfect competition and economies of scale, a country can sometimes best serve its economic interests through protection of manufactures. Though the results here do not call the logic of the new models into question, they do suggest that these models have only a very limited pertinence for public policy. Imperfect competition and decreasing costs are most significant in manufacturing in smaller countries, and it is exactly those conditions that have been considered in this book. The results here suggest that it is precisely when decreasing costs and imperfect competition are conspicuous that protection will be especially damaging, since in these conditions protection especially reduces the number of producers that must act collectively in order to collude and cartelize. The failure of the small countries with high protection of manufactures to be able to export manufactures suggests that the damage done by the collective action that the protection facilitates is of much greater significance than the static gains the countries could sometimes receive from protection of manufactures in some cases where there are decreasing costs and imperfect competition.

Sudden Increases in the Size of the Market and the Polity that Determines Trade Policy

We also saw in Chapter 2 a dramatic tendency for rapid economic development when a great expansion in the size of the market occurred through national unification or through the creation of a common market. Why would this "jurisdictional integration" be so strongly correlated with economic development?

If the difficulties of collective action ensure that it emerges only slowly, and if narrowly-based distributional coalitions obtain implicit socially costly redistributions to themselves, then we can see why jurisdictional integration generates rapid economic development. The creation of a much bigger market and of a bigger jurisdiction for determining trade policy will undercut most of the existing distributional coalitions. It takes some time before new ones form, so there is exceptionally rapid economic growth for a time.

Consider a small protected market like a medieval town with its own walls and economic policies. Suppose that suddenly the protection in the small jurisdiction is eliminated because there is national unification or the creation of a common market. Then the organizations for collective action - the guilds that have profited from the use of their cartelistic powers and lobbying powers - will find that after jurisdictional integration their customers can purchase from other suppliers in other towns, or in the suburbs, or in the countryside. Suddenly, because of the creation of a wider market, the guilds have lost their monopoly power. Since the jurisdictional integration creates a much larger jurisdiction, it also requires lobbying on a far larger scale, so the organizations that were of a size suitable to lobby the town will usually not be strong enough to influence the new governmental unit.

So the theory predicts that the extent of damage done by organizations for collective action will be much smaller than usual after there has been a big freeing of trade, whether through national unification, a common market, or unilateral freeing of trade.

Organizations for collective action will eventually emerge again on a scale sufficient for lobbying or cartelizing the larger jurisdiction and the larger markets that have been created. But if my argument is right, it takes quite some time to overcome the difficulties of collective action, at least when the groups in question are large ones. Thus for a time there can be unusually rapid growth.

As the theory predicts, there was unusually rapid growth after the creation of the EEC, after the German Zollverein, after the Meiji Revolution, after the Dutch rebellion against the Spanish, and after the national unifications in England and the United States. Although the timing of the economic growth certainly is consistent with the theory, this correlation is not, of course, necessarily sufficient to establish causation.

Happily, various special features of the pattern of growth offer striking support for the argument. If we look, for example, at England in the early modern period, we find that the main form of manufacturing was textile manufacturing and that, after jurisdictional integration, it came to be handled under the merchant-employer or "putting-out" system. Manufacturing was not done mainly in the cities where the guilds, the distributional coalitions of the times, held sway, but rather in the scattered cottages of the countryside. Merchants went out to the countryside to contract with cottagers to have wool spun into yarn or yarn woven into cloth. This system was expensive both in terms of transportation costs and transactions costs, but it was nonetheless cheaper than production under guild rules in the old towns. In addition, much of the economic growth was concentrated in new towns or in suburbs where guilds did not exist. When the bigger national markets were created, firms could produce wherever they found costs were lowest, and costs were lower in places that were not under the control of guilds.

Both the striking association in smaller countries between relatively low levels of protection of manufactures and success in developing a competitive manufacturing industry and the clear association between increases in the size of the market through jurisdictional integration and economic development fit neatly into the pattern predicted by the theory offered here. Both lead to less implicit redistribution.