Randall G. Holcombe

Coordination, Cooperation, and Control

The Evolution of Economic and Political Power

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For Lora

Preface

When Thomas Robert Malthus published his *Essay on Population* in 1798, his main claim—that because population grows faster than the resources to support it, most people would remain stuck at a subsistence level of income—seemed very plausible, because for all of human history up to that point, most people lived on a subsistence level of income. A subsistence level of income is just sufficient for the population to maintain its current size. Any less and the population will have to shrink, whereas an income above subsistence would allow more people to survive and reproduce, causing population growth to push income back to the subsistence level. Population size was determined by the availability of resources to feed it, Malthus said.

Malthus envisioned not just that most people would be poor, but that they would be living on the brink of starvation. While standards of living did rise as a result of the Industrial Revolution, until the twentieth century, the economic history of humankind was the search for enough calories to survive. In advanced economies in the twenty-first century, one of the biggest nutritional problems people face is obesity. This would have been unimaginable in Malthus's day, when obesity was a sign of wealth, because only the wealthy could afford to overeat.

One fact of economic history on which everyone will agree is that the world has grown immensely wealthier in the few hundred years since Malthus wrote. In 1800, the world's population was about one billion. In the early twenty-first century it exceeds seven billion, and almost all of those seven-plus billion people have standards of living well above subsistence. But while everybody will agree that this substantial increase in economic well-being has occurred, there is much less agreement on why it has occurred. A one-word answer is: capitalism. This leaves open the question of why capitalism emerged in Western Europe in the seventeenth and eighteenth centuries, and looking ahead, whether capitalism is a stable economic system. Perhaps, as Karl Marx suggested, capitalism is just a temporary stage in the historical evolution of economic systems.

Twentieth-century neoclassical economic theory, the type of analysis developed by Nobel laureates John R. Hicks and Paul Samuelson, describes the way a market economy works so that the forces of supply and demand lead an economy toward an equilibrium, but that theory assumes the basic institutions of capitalism. People engage in production and exchange based on well-defined property rights, but this system, which has produced such remarkable prosperity in a few centuries, relies on certain a set of institutions for its existence and continued survival. The present volume looks into the origin of those institutions.

Many factors have contributed toward that remarkable prosperity, including technological advances and the development and widespread acceptance of Enlightenment ideas. This volume focuses on another factor that is not often clearly articulated: the institutions that convey political and economic power.

An analysis of the institutional sources of power is not often undertaken by economists because power relationships fall outside the bounds of economics, as those bounds have been defined in the twentieth century. In the nineteenth century, economics and politics were studied within the same discipline of political economy, but the discipline divided into economics and political science around the beginning of the twentieth century. Twentieth-century neoclassical economics was remarkably institution-free. Toward the end of the twentieth century and into the twenty-first, economists increasingly recognized the importance of institutions, but even then, the institutional origins of power were rarely the main focus of institutional analysis.

This analysis looks at the evolution of those institutions over human history, ultimately showing how the evolution of institutions that allocated power laid the foundation for capitalism, and showing how those same institutions have evolved to threaten capitalism. While the book uses historical and anthropological evidence to understand the evolution of political and economic power, the subject matter in the book falls under the heading of political economy, not history or anthropology. It uses the contributions of scholars in those areas to provide an understanding of power relationships in political economy, supported by historical and anthropological evidence. The book puts forward some conjectures about power relationships which appear to be consistent with the historical development of economic and political institutions.

A number of individuals have offered helpful comments as I have developed this book, including Nigel Ashford, Roger Congleton, Peter Leeson, Ennio Piano, and Dennis Ridley. I know that by mentioning a few names, I am leaving out many others. I also must give much credit to Lora, my wife and also an economist, for her support as I have worked on the book.

Tallahassee, Florida Randall G. Holcombe

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CHAPTER 1

The Concept of Power

In his presidential address to the American Economic Association, John Kenneth Galbraith said "[E]conomics divorced from consideration of the exercise of power is without meaning and certainly without relevance."[1] The main conclusion of this volume is that when economic and political power are held by the same people, the result is stagnation; when those who hold economic power are not the same people who hold political power, the result is progress. The remarkable increase in prosperity the world has seen since the beginning of the Industrial Revolution a few hundred years ago has been the result of the separation of economic from political power. For readers who are immediately inclined to agree with this conclusion, the policy challenge is to see how economic power can be separated from political power in cases where they are combined, and once separated, how they can remain separated. People seek power, so preventing people who have one type of power from using it to acquire another is not a trivial issue. Institutions must be in place to keep those types of power separated, and those institutions must be robust enough to resist attempts by the powerful to combine economic and political power.

These institutional challenges cannot be addressed without understanding the concept of power. After considering the nature of power in abstract terms, this volume looks at the historical evolution of institutions of power. In pre-agricultural clan-based societies, power is undifferentiated. Powerful people in those societies have social power, which encompasses all types of power, so political and economic power are combined

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with all other types of power in those societies. In agricultural societies, political and economic power also tend to be held by the same people. Power in agrarian societies comes from control over land, which brings with it control over the people who work the land. Commerce and industry can facilitate the development of institutions that allow economic power to exist independently from political power because capital and entrepreneurship are more significant factors of production, and they are mobile so they can escape the abuse of power. The chapters that follow explain why economic and political power tend to be held by the same people, describe factors that can lead to their separation, and explain why stagnation occurs when they are combined and progress occurs when they are separated.

People do not willingly give up the power they have, and economic power became separated from political power not by taking economic power away from the powerful, but through institutional innovations that allowed people without political power to accumulate economic power by creating more of it. A clear example of this is the economic power that was accumulated by American industrialists in the late 1800s. Rockefeller, Carnegie, Vanderbilt, and others gained economic power not by taking it away from those who previously held it, but by creating new economic power through the growth of the businesses they owned.

This example suggests several important issues. One stems from the fact that an almost immediate response to the rise of those industrialists was an attempt by those with political power to control the economic power of those new industrialists, through regulation, antitrust laws, and taxation. Those with political power often use it to try to control and confiscate economic power. A second issue is that those with economic power have an incentive to use it to obtain political power, both to protect themselves from the predatory use of political power, and to further their business interests by using the force of government to protect their businesses from competitive pressures. One way those with economic power can keep their economic power from being subordinated to political power is to buy off those who have political power. Issues such as these suggest the value of undertaking a more thorough study of economic and political power.

Types of Power

Economic power is institutionalized control over resources. Political power is institutionalized control over the actions of people through threats of coercion. Political power provides its holders with the institutionalized ability to make people comply with their mandates because of the threat of sanctions to be imposed on those who do not comply. In early societies, and even in many societies up into modern times, there has been little difference between these two types of power. Control over resources was maintained by force, and was one component of the ability to force people to act as the powerful wanted. To control people's actions meant to control their use of resources. In advanced societies, economic power and political power are more clearly distinct. One important question is how those two forms of power, nearly indistinguishable in earlier times, and even combined in some twenty-first century societies, became differentiated through the development of economic and political institutions that enabled them to be separated.

Not all power fits neatly within these two categories. People may have social power, military power, religious power, and other types of power they can use to influence people, all of which are supported by institutions. The concepts of economic and political power, as used in this volume, always have an institutional foundation. An example of a robber threatening a victim with physical harm shows that not all uses of power are supported by institutions, and indeed, most societies have institutions that are designed to prevent robbery. Not all uses of force by one person against another are exercises of political power. But economic and political power—and all types of power considered in this volume—are supported by institutions.

Another type of power, emphasized by John Kenneth Galbraith, is conditioned power, which is exercised by changing the beliefs of individuals so that they act as the holder of conditioned power wants because they find it the natural, proper, or right thing to do.[2] It is not force, nor exchange, but a form of persuasion based on the beliefs of those subject to the power. Political power, religious power, social power, and all institutionalized power can be enhanced by conditioned power.

All of these types of power interact with each other, and all will be considered in the chapters that follow. The volume focuses primarily on economic and political power, however, because when those who have economic power are not the same people who have political power, so they can use their economic power without being coerced by other types of power, economic progress results. The remarkable prosperity that the world has seen since the beginning of the Industrial Revolution is the result of that separation, something that has been underappreciated by economists and social scientists more generally. And, economic power has almost always been dominated by political power throughout the history of humankind.[3] The causes of the economic progress that has occurred since the beginning of the Industrial Revolution cannot be completely understood without understanding how economic power was able to develop separately from political power.

As modern social science has advanced, the study of the institutions of economic and political power has evolved from the nineteenth century study of political economy, where both were studied together, into the separate disciplines of economics and political science. There is value in examining economic and political power together, and studying their historical evolution lends insight into their current relationships. Even in the twenty-first century, when economic power and political power are obviously two different things, the two are intimately connected, as suggested by accusations of cronyism, corporatism, and corruption. Economic and political power have common origins, and an understanding of how they have evolved illuminates the institutional innovations that facilitated their separation, explains why economic progress depends on their separation, and emphasizes the evolving relationship between these two types of power in the twenty-first century.

The Concept of Power

Kaushik Basu says "Power and influence are complex concepts, and it is quite likely that these concepts have so many facets and nuances that it will never be possible to capture them in a single definition."[4] The claim of the present volume is not that it offers the indisputably correct definitions of political and economic power, but that this way of defining those concepts provides useful insights for understanding some of their features. Political power is the ability to use the institutional framework to credibly threaten to impose costs on people so they will act as those with political power want them to act. Economic power is institutionalized control over resources. Control over resources, in all but rare cases in which people can maintain physical control of everything they own, requires an institutional framework that defines and enforces property rights. This institutional framework is created by those who have political power. Economic power can be protected by those who have political power, which is reflected in the concept of rule of law, but it can also be appropriated by those who have political power, when they use that power to forcibly transfer resources from others to themselves. There is a complex interrelationship between economic and political power.

Defined this way, political power enables its holders to force people to act in ways they might otherwise choose not to. Coercion underlies political power. Economic power—the control over resources—does not enable its holders to force others, but rather gives them an opportunity to entice others to engage in voluntary exchange for their mutual benefit. Some readers will be skeptical, and the next two chapters are devoted to fleshing out more fully the properties of political and economic power. But because readers may not be used to thinking in these terms, it is important to clarify these important characteristics of the way economic and political power are defined here.

Political power, exercised through formal institutions, is always based on force. If people would voluntarily pay for publicly provided goods and services, there would be no need to force them to pay taxes. If people would voluntarily act as regulations require, there would be no reason to impose penalties on people who do not comply. This is true no matter how much people agree with the activities of their governments. If the law requires that automobile drivers fasten their seatbelts when driving, the threat of force lies behind that requirement even for those who would always voluntarily choose to fasten their seatbelts, and even for those who agree that this is a desirable law.[5] Political power is founded on the institutionalized ability to use force. In saying this, there is no judgment as to whether the exercise of political power is harmful or beneficial. A government's use of force to prevent some people from assaulting others creates a more orderly society, based on the threat of force against those who do not comply with the government's rules.

Robert Dahl defines power in this way: "*A* has power over *B* to the extent that he can get *B* to do something that *B* would not otherwise do."[6] This corresponds with this chapter's concept of political power, but not economic power. Two parties engage in an exchange because both want to do it. Nobody is forced. Both parties have control over resources the other party wants in exchange, and they both agree that they benefit from the exchange. When separated from political power, economic power—control over resources—only gives its holders the ability to entice others to engage in voluntary exchanges. Kenneth Boulding says "power is the ability to get what one wants."[7] People who have political power can threaten the use of force to get what they want; people who have economic power can entice others to engage in voluntary exchange to get what they want.

In a manner similar to Dahl, Steven Lukes defines power by saying that "*A* exercises power over *B* when *A* affects *B* in a manner contrary to *B*'s interests."[8] One difference between Dahl's and Lukes's definitions is that Lukes is more clear in noting that the person who exercises power does so in a manner that adversely affects the person who is subject to power. One might quibble by saying that when the robber says "Your money or your life," it is in your interest to give up the money, but one can see that the encounter is contrary to the victim's interest, as opposed to a voluntary exchange in which both parties agree to something that they would not otherwise do were it not for receiving compensation.

One also might also quibble by saying that it is in everyone's interests to obey certain laws—even those who find it in their narrow interests to break them. But the fact that coercion stands behind the enforcement of laws indicates that obeying them is likely to be against individuals' interests, narrowly defined. People like for others to be constrained by laws—at least the ones that produce an orderly society—but often they would prefer to be unconstrained themselves. They "agree" to pay taxes with the idea that everybody is forced to pay, even when they want the goods and services those taxes finance, but the "agreement" is based on coercion—the idea that everyone is forced to pay.

Readers might question the assertion that economic power differs from political power in this way on several grounds. First, some firms have market power that leaves individuals with little choice other than to deal with them. Still, in the absence of political power, nobody is forced to transact with firms, even if they have substantial market power. For the skeptical reader, the distinction between economic power as defined here—control over resources—and market power is discussed further in Chap. 3. Market power is not economic power, as economic power is defined here. Even firms with monopoly power cannot compel people to transact with them unless they also have political power.

This leads to a second reason for skepticism: those with economic power often can use their power to obtain political power, which does enable those with economic power to force people to deal with them. Consider two examples. First, most electric utilities in the United States are privately owned firms that are granted monopoly franchises from government, leaving those monopolies as the only suppliers of electricity. Two observations on this: one is that people are still not forced to buy from the monopoly, if they choose to go without electricity (admittedly, not a desirable choice); a second is that it is political power, not economic power, that conveys the monopoly.[9] There is good reason to be uneasy about allowing economic and political power to combine in this way. A second example is the requirement by the United States government that motor fuels contain 10 percent ethanol. People who want motor fuel are forced to buy ethanol even if they would rather not. But again, buyers are forced into this transaction due to political power, not the economic power of ethanol producers.

Adolf Berle observes, “Power is invariably personal. There is no such thing as ‘class power,’ elite power,’ or group power,’ though classes, elites, and groups may assist processes of organization by which power is lodged in individuals.”[10] Some individuals, as Dahl describes, are able to get people to do things they would not otherwise do, and some individuals have control over resources. Groups do not seek and maintain power; individuals do, although they use their status as group members to facilitate their accumulation of power. Berle reiterates, “Power is invariably personal. However attained, it can be exercised only by the decision and act of an individual.”[11] Berle goes on to say, “When one speaks of the power of a collective group—a state, a corporation, a political party, a trade union—the phrase is short-hand. It conceals the fact that the group had achieved an organization, had conferred decision-making power upon, or at least its exercise by, certain individuals formally or informally recognized as power holders.”[12] Berle is observing that the power individuals hold because of their group membership is institutionalized power.

Kenneth Boulding, categorizing different types of power, says “I distinguish three major categories, which I have called threat power, economic power, and integrative power—the stick, the carrot, and the hug. These are closely related to another tripartite division: the power to destroy, the power to produce and exchange, and the power to integrate, that is, the power to create such relationships as love, respect, friendship, legitimacy, and so on.”[13] Boulding’s first two categories correspond closely with the way this volume views political and economic power. Political power is threat power, the power to destroy. Economic power is control over resources, the power to produce and exchange. Economic power entices people to recognize it, rather than threatening them to obey it.

Boulding emphasizes the importance of integrative power, which suggests the power to persuade along the lines of what Galbraith called conditioned power. This integrative power is beyond a doubt an important element in obtaining and maintaining both political and economic power. Political power cannot be maintained without a group of adherents who stand ready to defend those who have it, and to support its legitimacy. Economic power cannot be maintained unless people can be persuaded that those who hold it have a legitimate right to control the resources they claim.

This brief introduction is not intended to convince skeptical readers—that will be attempted in the following two chapters—but rather to clarify what is meant by political and economic power. As Basu noted, the concept of power is elusive enough that there may not be a single definition of it that will satisfy everyone. But defining economic and political power as is done here provides some insights into their evolution, into the mechanisms that have allowed their separation, and toward an understanding about why that separation is important for human progress.

Institutions and Power

Both political and economic power are exercised within formal institutions. The role of institutions is slightly different for these two types of power. Political power is always exercised within socially recognized institutions. Economic power is almost always maintained through institutions, though to a limited degree might be able to exist without them.

Political power is the institutionalized ability to use force to get others to comply with the demands of the holder of the power. As noted earlier, a robber might forcibly take someone's property, but this use of the robber's power is not political power because it is not institutionalized. Indeed, institutions generally are designed to prevent robbery, so not all uses of force by one person against another qualify as the use of political power. This does not deny that there may be ambiguities as to where to draw the line. For example, if a Mafia sets up shop in a location and threatens local businesses with harm unless they pay up, is this institutionalized power or is it robbery? If a Mafia does this, how are its actions different from a government that threatens to imprison those who do not pay their taxes?

One way to draw the line would be to examine whether there was a general recognition that a payment was expected, with generally recognized sanctions if the payment was not made. If so, that would appear to be institutionalized and therefore would constitute political power. This is an interesting question, but one that does not matter much for the analysis that follows, because the political power that is important for the analysis below is exercised by governments, and there is little debate that governments wield institutionalized power.

Economic power is (almost always) institutionalized control over resources. People could protect a very limited amount of resources for their own use without any institutionalized reinforcement, but beyond that—and beyond just personal use of resources—some institutions are required. If one wants to engage in exchange, both parties must recognize that they have ownership rights and the right to transfer ownership. Some institutions, however rudimentary, would be necessary to define ownership rights and the right to exchange ownership rights.

Beyond resources that individuals can keep under their own physical control, institutions are necessary to maintain and protect economic power. Institutions are necessary to keep others from stealing resources individuals own, but even more fundamentally, institutions define what individuals can own and what they can do with what they own. Private versus communal property is defined by institutions, and limits on what people can do with resources under their control all are defined by institutions. Zoning laws provide an example of institutional limits on how people can use their property; they are but one example of the regulatory environment in which people may be required to use their property in some ways and prohibited from using it in others. The definition and enforcement of rights to intellectual property opens up deeper questions about what people are entitled to own and exchange. Control over resources is a more complex concept than at first it appears.

One complication in considering political and economic power is that economic power by itself often is insufficient to exclude others from resources people control. Political power does that. Without some outside enforcement, people might trespass on the property of others, or might steal the property of others. While people can hire security services on their own, government institutions are designed to discourage these actions. So, political power is necessary to protect economic power in most cases. In twenty-first century market economies, those two types of power are separated, so that someone's control over an automobile, or a house, or a factory, constitutes economic power, but it exists only because political power stands ready to enforce that claim. For the most part, the control owners exercise over their automobiles, homes, businesses, and ideas is maintained only because those who have political power threaten the use of force against people who would violate those ownership rights.

One question that presents itself is why those with political power use it to protect the economic power of those who have limited political power. Another question is how political power and economic power can remain separated when those with political power can use it to take control of resources by force from those who have economic power. Indeed, much human history recounts those who have a comparative advantage in the use of force taking resources from those who ultimately were unable to defend their resources, and lost control over them.

Consent Versus Coercion

One of the premises on which some of this volume's arguments are built is that political power is based on coercion while economic power is exercised through consent between transacting parties. Kaushik Basu gives an example to suggest that it is not always easy to differentiate consensual from coercive interactions among people.[14] Suppose that in a feudal society, a feudal lord commands a serf to do something, saying that if the serf does not do it, the lord will not give the serf any food. This appears to be coercion, but it might also be viewed another way: the lord is offering to exchange food for the serf's doing what the lord asks. The reason this example appears ambiguous is that the person who holds economic power also holds political power: the lord has both. Basu's example is complicated by the broader institutional structure of feudalism. If serfs had the option of leaving their current lord to deal with another, this would look more like an economic transaction, which the serf would be free to refuse, but because serfs are bound to their lords, feudal lords are able to exercise political power over their serfs.[15]

One way to identify coercion is that if two people have no connections with each other, and one person shows up to make an offer to the other, would one of those people be worse off as a result of their interaction? If so, the relationship is coercive. If a thief shows up to make an offer to a victim—your money or your life—the victim is worse off than if they had no interaction, signifying coercion. If a vendor shows up to a customer and offers the customer the option to make a transaction which the customer could turn down, the customer is no worse off whether or not the transaction takes place, so there is no coercion. The complicating factor in

Basu's serfdom example is that the serf cannot survive outside the protection of the services of the lord, giving the lord both economic and political power over the serf. The serf would be better off had the lord not made the offer, so the interaction is coercive.[16]

Consider an extreme example of someone lost in a desert and dying of thirst, when another person comes by with water and offers to sell the lost and thirsty individual a gallon of water for a million dollars. This seems unethical, and it appears that the person with the water is taking advantage of a monopoly position with someone in desperate circumstances. But looking at coercion as described above, the lost individual is no worse off than had the person with the water not come by, so while the person with the water might be condemned for unethical and exploitative behavior, no coercion is involved because the offer can always be declined, and the thirsty individual is no worse off because of the encounter with the person offering to sell water. What is at issue is not whether the person with the water is acting ethically, but whether that person is acting coercively.

The person with the water in this example has an extreme amount of monopoly power—control over resources—but no political power to force an exchange. Is this the best way to view coercion? Despite the unrealistic example, if the person with the water is its rightful owner, institutions that define property rights would imply that it would be coercive to force the owner of the water to give it up under conditions to which he did not agree. However, this conclusion brings with it the assumption that there are institutions that define property rights, and that assign property rights to the person who has the water. What if prevailing institutions specified that water is owned in common, requiring people with the water to share it? What if prevailing institutions set a maximum price that people could charge for water?

Taxi fares are often regulated this way, specifying the price taxi services can charge. Many other prices are similarly regulated, specifying minimum or maximum allowable charges. This is coercive because it restricts what people who control resources can do with them. It stands in the way of mutually agreeable voluntary exchange. A minimum wage law, for example, prohibits voluntary transactions of labor for wages at a price below the specified minimum. It prevents low-skilled workers from exercising their economic power at a mutually agreeable price. The minimum wage law shows how political power can be used to prevent people from using their economic power—in this case even though those who want to use their economic power have very little of it. All regulations are based on force.

They either require people to do things they would otherwise choose not to, or prohibit people from doing things they otherwise would choose to do.

Basu suggests that there are cases in which it is difficult to differentiate consensual from coercive interactions among individuals, and there is no need to dispute this. In what follows, interactions are considered consensual if parties to them are no worse off than had the interaction not occurred, and are coercive if (at least) one of the parties would be better off had the interaction not occurred.

Galbraith distinguishes condign and compensatory power. "Condign power threatens the individual with something physically or emotionally painful enough so that he forgoes the pursuit of his own will or preference in order to avoid it. Compensatory power offers the individual a reward or payment sufficiently advantageous or agreeable so that he (or she) forgoes the pursuit of his own preference to seek the reward instead. In less abstract language, condign power wins submission by the promise or reality of punishment; compensatory power wins submission by the promise or reality of benefit."[17] Condign power thus corresponds with cases in which one party would be better off had the interaction not occurred, whereas compensatory power corresponds with interactions in which both individuals choose to participate. Condign power is coercive, and is descriptive of the use of political power; compensatory power is not coercive, and is descriptive of the use of economic power.

Galbraith offers as an example of compensatory power employees who agree to take a wage or salary in exchange for pursuing the goals of the employer rather than the employees' own preferences. But he also notes that people submit to both types of power because they think it is the proper thing to do. People obey laws because they think they should, and take jobs because they want to lead productive lives. Echoing the ambiguities suggested by Basu, Galbraith says, "The problem of understanding power, as always, is the absence of pure cases."[18]

What about taxes that are used to provide public goods? People may value the public goods more than the taxes they pay to finance them, but the taxes are still coercive because people are threatened with harm if they do not pay the taxes the government says are due. Even if they are better off paying taxes and consuming public goods, many people might choose to be free riders and not pay taxes if they had the choice. Yes, people might be worse off as a result, but all this shows is that coercion can sometimes be socially beneficial, which one would hope to be the case for all laws. But saying people are better off with institutions that coerce them is not the same as saying that coercion is really consent.

People coerce others when they threaten to impose costs on those others if they do not comply with the demands of the people doing the coercing. People engage in consensual relationships when they offer benefits to others, which can be accepted or declined.

Power and Persuasion

Beyond a doubt, all types of power are more effectively used when people are persuaded that their best course of action is to do what the holders of power desire. Being able to persuade people this way is what Galbraith calls conditioned power.[19] The use of the power of persuasion is most clear in the case of social power, in which sanctions for nonconformance are informal. Disapproval of family and friends and even strangers for rude or obnoxious behavior are examples. In some cases people may have an expectation that individuals will volunteer toward a group effort, whether it is helping someone who has suffered a misfortune or contributing something toward a group outing. People are expected to comply with social norms, and are persuaded to so that they can avoid the disapproval of those with social power.

The power of persuasion is most effective in small groups where all members know each other and want to avoid disapproval. In larger groups, social norms may have to be enforced legally. People risk social disapproval for littering, for example, but sometimes disapproval of strangers is an insufficient deterrent, so formal rules along with formal sanctions may be required. The point is that those who hold social power are able to exercise it only because those over whom they wield that power are persuaded that they should act in ways that meet with the approval of the holders of power.

Religious power is another example of power based on persuasion. Religious authorities lay out rules and people comply because they are persuaded that they will be punished, perhaps even in an afterlife, by an abstract deity if they violate the rules of their religion. Religious power may be reinforced by social power in that people do not want others who share their religion to see them violate religious doctrine. Again, the key point is that religious power is effective because people are persuaded that they should yield to it.

Political power also rests heavily on persuasion. As previously noted, political power is based on the threat of force against those who do not comply, but those who hold political power will rarely be in a position to force everyone to comply. The threat of force intimidates most people into compliance, but the actual use of force expends resources, so those with political power have an incentive to convince people that they should comply voluntarily with their demands. While governments could not collect much in the way of taxes without threatening those who do not comply with tax laws, if those with political power can persuade taxpayers that it is their duty to pay, and that they should appreciate the process by which those taxes finance government goods and services they consume, enforcing compliance will be less costly and resistance to government mandates—whether taxation or regulation—will be lower.

People might be persuaded by being bribed. As Bertrand de Jouvenel notes, "The king employs a considerable part of the tribute in grants of largesse, bestowed by way of banquets or presents, to those whose support consolidates his authority, whereas their defection would endanger it. Do we not see modern governments as well using the public funds to endow social groups or classes, whose votes they are anxious to secure? Today the name is different, and it is called the redistribution of incomes by taxation."[20] Support can be bought, but the forces of propaganda and patriotism can both solidify power and leave more of the benefits of power in the hands of those who hold it.

Those with political power use a combination of propaganda and patriotism to persuade people to yield to their demands. The next chapter fleshes out these ideas more fully. Again, the point is that political power, which is based on the threat of force, is greatly facilitated by persuading people that they should comply with the demands of those who hold it, so that the threat of force is sufficient and actual force does not have to be used.

Economic power also is enhanced through persuasion. While people engage in economic exchange only if they voluntarily agree to do so, sellers often try to encourage buyers by persuading them of the merits of their wares. Some argue that advertising subliminally creates desires for things people would not otherwise want,[21] but regardless of whether those who have economic power use it to take advantage of others,[22] it is clear that advertising is an example of people using persuasion to enhance their economic power.

Even military power, which obviously is based on force, relies heavily on persuasion. The actual use of force is costly, so military power is a more effective method of control when the threat of force is sufficient to convince those subject to military power to submit. Military conflict imposes costs on both the victors and the losers, so military power is most effective when the display of potential force is sufficient to accomplish the goals of those who hold it. If military power can intimidate those subject to it into compliance, persuasion can take the place of costly physical conflict.

All power is more effective when those who hold power can persuade others to yield to it, whether that persuasion involves convincing buyers to make a purchase, convincing citizens to be law-abiding, convincing adversaries that armed conflict would be disadvantageous to them, or convincing parishioners to follow Church rules.

The Desire for Power

People desire power for instrumental reasons. It can help them achieve their goals. But people also enjoy having power for its own sake. Power provides utility to its holders beyond just its instrumental value. John Kenneth Galbraith says, “In all societies, from the most primitive to the ostensibly most civilized, the exercise of power is profoundly enjoyed. … power is pursued not only for the service it renders to personal interests, values, or social perceptions, but also for its own sake, for the emotional and material rewards inherent in its possession and exercise.”[23] Bertrand de Jouvenel remarks, “ “Power… can only maintain the ascendancy necessary to it by the intense and brutal love which the rulers have for their authority.”[24] Adam Smith observed, “The pride of man makes him love to domineer, and nothing mortifies him so much as to be obliged to condescend to persuade his inferiors.”[25]

Max Weber says “the career of politics grants a feeling of power. The knowledge of influencing men, of participating in power over them, and above all, the feeling of holding in one’s hands a nerve fiber of historically important events can elevate the professional politician above everyday routine even when he is placed in formally modest positions.”[26] People want to hold power because it can help them accomplish their goals, but the acquisition of power is also a goal in itself.

Bertrand Russell, in his Nobel lecture “What Desires Are Politically Important?” offered these insights on the desire for power.[27] “Man differs from other animals in one very important respect, and that is that he has some desires which are, so to speak, infinite, which can never be fully gratified." Russell lists acquisitiveness, rivalry, vanity, and love of power as four examples. Regarding rivalry, Russell says, "The world would be a happier place than it is if acquisitiveness were always stronger than rivalry. But in fact, a great many men will cheerfully face impoverishment if they can thereby secure complete ruin for their rivals." Just as rivalry often trumps acquisitiveness, the quest for power often trumps vanity. "Power, like vanity, is insatiable. Nothing short of omnipotence could satisfy it completely. And as it is especially the vice of energetic men, the causal efficacy of love of power is out of all proportion to its frequency. It is, indeed, by far the strongest motive in the lives of important men. … Love of power is greatly increased by the experience of power, and this applies to petty power as well as to that of potentates."

The implication of Russell's observation, related to political and economic power, is that desire for political power will dominate the desire for economic power. He says that people are willing to impoverish themselves to crush their rivals, and that the quest for power is "the strongest motive in the lives of important men," but that this quest for power "applies to petty power as well as to that of potentates." As Smith said, "the pride of man makes him love to domineer."

Russell continues, "In any autocratic regime, the holders of power become increasingly tyrannical with experience of the delights that power can afford. Since power over human beings is shown in making them do what they would rather not do, the man who is actuated by love of power is more apt to inflict pain than to permit pleasure." If Russell's observations are accurate, there is good reason to take Galbraith's admonition that economics cannot be fully understood without considering the effects of power—both the political power of those who define and enforce economic rights, and the economic power of those who have control over resources.

Coordination, Cooperation, and Control

Thomas Hobbes argued the merits of a government that defined and enforced rules of social interaction, saying that without it people would live in an anarchy where life would be solitary, poor, nasty, brutish, and short.[28] Hobbes was not quite accurate on at least one point: humans have always been social creatures and have always lived and worked in groups. Those groups all have had institutional structures that have allowed them to interact together productively. Those institutions have varied over time, and from place to place, but they have all served the purpose of coordinating the behaviors of group members.

Some institutional structures are more productive than others. There was a great debate in the twentieth century about whether central economic planning was a more efficient method for coordinating the economic activities of individuals than allocating resources through markets.[29] This debate points toward the main issue of this volume: the combination of economic and political power. With central economic planning, economic power is exercised by those who have political power; in market economies the two types of power are separated. One question is: what are the implications of using these two different methods of coordinating the activities of individuals? The collapse of the centrally planned economies at the end of the twentieth century points toward the advantages of decentralized markets over central economic planning.

Markets work on the basis of cooperation between buyers and sellers. While the market process is often referred to as competition, competitors, defined in this way, do not interact directly with each other. Rather, they are competing for customers; that is, they are competing to entice individuals to cooperate with them to make voluntary transactions. Employers cooperate with employees, offering them wages in exchange for their labor, and businesses cooperate with customers, offering them goods and services in exchange for payment. The transactions are voluntary, and in markets people interact with others only if they choose to. Market activity is cooperative behavior.

Governments operate by control, demanding that those subject to their power act as they command, or bear costs imposed on them by government institutions. People are required to pay taxes and abide by regulations, and are threatened with penalties if they do not. As already noted, this is not necessarily undesirable. Everybody can benefit from a society in which people obey laws and in which government provides public goods. Cooperation and control are two different principles which can guide individuals as they coordinate their interactions with each other, and societies have elements of each.

In all societies, individuals interact with each other based on power. Economic activity is based on control over resources—economic power—and political power gives some people the authority to mandate the activities of others, relying on the threat of force should people choose not to comply. Control over resources—economic power—does not give some people control over others, whereas political power does give some individuals control over others through the threat of force to coerce others to comply.

This discussion of the concept of power reveals that there are many ways of looking at power, and many different types of power. Thus, the definitions of power used here are not offered with any suggestion that other definitions are wrong, or that there are not other productive ways to analyze power. And while recognizing many types of power, this volume focuses on political and economic power because of its thesis that prosperity and progress result when those two types of power are held by different groups of individuals.

If modern prosperity rests on the separation of economic from political power, a major question is how they can be separated when they are joined, and how they can remain separated when they are separated. Political power, which is built on the ability to coerce others into submission, tends to dominate economic power, which is gained only through mutual agreement. There is no need to persuade people when they can be forced. Looking at the historical evolution of power, economic power has separated from political power when advances in economic institutions have enabled the creation of new economic power which slips outside the control of pre-existing political institutions. With this introduction, the next two chapters look more specifically at economic and political power.

Notes

1. John Kenneth Galbraith, *The Anatomy of* Power (Boston: Houghton Mifflin Company, 1983), p. xiii. In this quotation, Galbraith is summarizing the message of his American Economic Association presidential address, “Power and the Useful Economist,” *American Economic Review* 63, no. 1 (March 1973), pp. 1–11.
2. Galbraith, *The Anatomy of Power*, ch. 3.
3. Other types of power have imposed constraints on economic power. For example, during the Middle Ages the doctrines of the Church which disapproved of usury and established a concept of just price limited the exercise of economic power. Similarly, Galbraith’s concept of conditioned power can constrain economic power.
4. Kaushik Basu, *Prelude to Political Economy: A Study of the Social and Political Foundations of Economics.* (Oxford: Oxford University Press, 2000), p. 164.

5. This idea is emphasized by Leland B. Yeager, "Rights, Contract, and Utility in Policy Espousal," *Cato Journal* 5, no. 1 (Summer 1985), pp. 259–294, and *Ethics as a Social Science: The Moral Philosophy of Social Cooperation,* (Cheltenham, UK: Edward Elgar, 2001).
6. Robert A. Dahl, "The Concept of Power," *Behavioral Science* 2, no. 3 (1957), pp. 202–203.
7. Kenneth E. Boulding, *Three Faces of Power,* (Newbury Park, CA: Sage, 1989), p. 15.
8. Steven Lukes, *Power: A Radical View* (London: Macmillan, 1974), p. 34.
9. While there is some thought among economists that the production of electricity is a natural monopoly in which market forces ultimately lead to a single firm in the industry, Gregg A. Jarrell, "The Demand for State Regulation of the Electric Utility Industry," *Journal of Law & Economics* 21, no. 2 (October 1978), pp. 269–295, shows that the electric utility monopolies were the result of competing utilities asking government to allow them to combine in exchange for government regulation. More generally, it is difficult to think of any monopoly that is not either the result of some government protection, or the government itself.
10. Adolf A. Berle, *Power* (New York: Harcourt, Brace & World, 1967), p. 37.
11. Berle, *Power*, p. 62.
12. Berle, *Power*, p. 63. Berle uses this individualistic view of power to argue against a concept such as "ruling class," which suggests that power rests with a group rather than with individuals. Individuals can be members of a ruling class, but it is the individuals, not the class, who hold the power.
13. Boulding, *Three Faces of Power*, 1989), p. 10.
14. Basu, *Prelude to Political Economy*, pp. 134–135.
15. Another complication of this example is that serfs actually produce the food that both they and their lords eat. If the lord were unable to exercise political power over the serf, it would be the serf who could threaten to withhold food from the lord.
16. The assumption is that the serf is bound to the lord and has no alternative. In actual feudal systems this may not be the case, and serfs often could migrate to cities, but this is a complication beyond Basu's example, which assumes the serf is bound to the lord.
17. Galbraith, *The Anatomy of Power*, p. 14.
18. Galbraith, *The Anatomy of Power*, p. 23.
19. Galbraith, *The Anatomy of Power*, ch. 3.
20. Bernard de Jouvenel, *On Power: Its Nature, and the History of Its Growth* (New York: The Viking Press, 1949), p. 115.
21. See, for examples, Vance Packard, *The Hidden Persuaders* (New York: David McKay, 1957), and John Kenneth Galbraith, *The Affluent Society* (Boston: Houghton Mifflin Company, 1958).

22. For a counterargument to the idea that these wants created by advertisers lower the welfare of those who buy things to satisfy those wants, see Friedrich A. Hayek, "The Non Sequitur of the 'Dependence Effect,'" *Southern Economic Journal* 27, no. 4 (April 1961), pp. 346–348.
23. Galbraith, *The Anatomy of Power*, p. 10.
24. de Jouvenel, *On Power*, p. 120.
25. Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937 [orig. 1776]) p. 365.
26. Max Weber, "Politics as a Vocation." In H.H. Gerth and C. Wright Mills, eds., *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1946), p. 115.
27. All quotations from Russell were found at www.nobelprize.org/prizes/literature/1950/russell/lecture
28. Thomas Hobbes, *Leviathan*, (New York: E.P. Dutton, 1950 [orig. 1651]).
29. On the side of central economic planning, see Oskar Lange and Fred M. Taylor, *On the Economic Theory of Socialism* (Minneapolis, MN: University of Minnesota Press, 1938) and Abba Lerner, *The Economics of Control: Principles of Welfare Economics* (New York: Macmillan, 1946). The debate was initiated with the publication of Ludwig von Mises, *Socialism* (New Haven, CT: Yale University Press, 1951), originally published in German in 1922, which argued that rational economic planning could not take place without markets and market prices. See Lawrence H. White, *The Clash of Economic Ideas: The Great Policy Debates and Experiments of the Last Hundred Years* (Cambridge: Cambridge University Press, 2012) for a discussion of this debate.