Mancur Olson's new book is a bold and innovative attempt to explain the current major economic problems—slowing growth, persistent inequality, and a worsening trade-off between unemployment and inflation—as consequences of the progressive organization of what he labels "distributional coalitions," that is, collectivities of actors who join together in pursuit of a larger share of the national income. While I find some of his argument unpersuasive and much of his argument plausible but problematic, this is a book well worth reading. Writing for a broad audience, Olson avoids both technical language and formal methods. The basic thesis is quite simple and the presentation very accessible.

Olson's reasoning rests upon the dilemma of collective action, the subject of his first, seminal book, *The Logic of Collective Action* (Cambridge, Mass.: Harvard University Press, 1965). The dilemma is that mutually beneficial collective action will not be undertaken by self-centered rational actors when free riding is possible, that is, when all members of the collectivity can reap the collective benefits without contributing to the collective effort. Olson uses this logic of collective action to argue that not all groups in society with common interests will organize, that small groups are more likely to organize than large ones, and that groups are more likely to pursue particularistic, redistributive strategies than universalistic, growth-promoting strategies. The result is that stable societies witness a gradual proliferation of distributional coalitions which acquire monopoly power in the market, sometimes, but not always, with the aid of the state. Olson's examples of distributional coalitions range from medieval guilds to Indian castes, from cartels of employers to unions of employees. The consequences of the emergence of a dense network of distributional coalitions include retarded economic growth, institutional sclerosis, heightened inequality, and greater macroeconomic vulnerability to changes in aggregate demand.

Olson points to three ways in which the growth of distributional coalitions is inhibited or their detrimental effects mitigated. First, war and turmoil wipe the organizational slate clean and give the economy a temporary breathing space which permits rapid growth. This is his explanation of rapid postwar growth of Germany and Japan. Second, the establishment of large, encompassing coalitions, as in Scandinavia, moderates the negative consequences since large organizations internalize more of the costs of their actions than small ones. Neither of these represent policy recommendations. To invite foreign conquest in order to spur economic growth is an example of killing the patient to cure the disease. Nor is the size of voluntary organizations in civil society subject to governmental control. It is the third barrier to the growth of distributional coalitions which leads to the moral of the story. Geographical expansion of trade undermines local monopolies. As Olson states, a monopoly over a small part of a market is no monopoly at all. Thus, Olson's book represents a new argument on behalf of the oldest of economists' policy recommendations: free trade.

Olson's primary analysis comprises two parts: a theory of the pattern of growth of distributional coalitions and a theory of the consequences of distributional coalitions for economic growth. There are problems with both. The major explanatory variable accounting for cross-national variations in the impact of distributional coalitions is conquest and turmoil. Yet, lack of stability works both
ways in Olson’s theory. Turmoil is ‘good’ because it prevents the formation of distributional coalitions. On the other hand, turmoil is ‘bad’ because it makes impossible the formation of all but the smallest and, hence, most destructive distributional coalitions. Thus the absence of stability is invoked to explain both the relatively rapid growth of the French economy and the stagnation of much of the Third World.

Olson’s more enduring contribution, to my mind, is to our understanding of the economic consequences of distributional coalitions. Previously, economists have suggested two ways in which distributional coalitions reduce aggregate output. One, resources are diverted from productive pursuits to unproductive political lobbying to gain special favors from the state. Two, the creation of monopolies always involves both a redistribution of income in favor of the monopolists and a loss of efficiency in the allocation of resources. Olson suggests a third and much more important effect. He claims that widespread monopolization reduces the production and diffusion of technological innovations and, hence, not only lowers aggregate output but reduces its rate of growth. Olson lists a number of reasons why. Innovations often threaten the interests of some group who, if organized, can prevent their adoption. Distributional coalitions are plagued by slow decision making and crowded agendas which reduce their ability to respond to new opportunities. The lessened ability to reallocate resources from one use to another prevents the economy from realizing all of the potential benefits of innovation. What Olson neglects to mention is that there is an opposing view, represented by Joseph Schumpeter, that sees monopoly power as a necessary spur for innovation. Under conditions of perfect competition, no potential innovator would pay the costs of innovation since no one can capture the rewards of innovation. That is the usual justification for the granting of temporary monopolies, called patents, to innovators. There is, according to Schumpeter, a trade-off between static and dynamic efficiency. Recent work on the relationship between monopoly and innovation by M. Kamien and N. Schwartz (Market Structure and Innovation [Cambridge: Cambridge University Press, 1982]) divides incentives to innovate into the rewards from successful innovation and the threat posed by innovating competitors. The rewards from innovation are positively related to monopoly power while the threat of innovation by competitors is negatively related to monopoly power. At this point, the economic theory of the relationship between monopoly and innovation yields no clear predictions. While I am in sympathy with Olson’s view that small distributional coalitions retard growth as well as with his belief in the long-run benefits of free trade, it must be admitted that Olson’s hypothesis lacks a firm microeconomic foundation.

Most of the book consists of illustrative examples drawn from the most disparate sources: the rapid postwar growth of Germany, Japan, and, to a lesser extent, France compared with that of Great Britain, regional variations in growth in the U.S., the rapid growth of the countries of the EEC, the relative decline of the largest cities during the birth of the industrial revolution, the failure of China to industrialize and the success of Meiji Japan, and the development of the caste system in India and apartheid in South Africa. Multiple illustrations do not constitute proof, however. For one thing, it is always possible to think of counterexamples. (See the review of this book by Lester Thurow in the New York Review of Books, March 3, 1983.) Aware of this, Olson presents simple statistical tests done on the comparative growth rates of American states which support his hypothesis. In the multiple statistical studies on the relationship between
monopolization and innovation reported by Kamien and Schwartz, however, no clear relationship is supported.

While I have emphasized my reservations about Olson's central hypothesis, let me end by saying that his final chapter on the business cycle is a tour de force. It provides the best starting point I know of for a theory of cyclical behavior that is based on rigorous microeconomic assumptions without denying the reality of involuntary unemployment.

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Psychoanalysis enjoys a high standing in public opinion. Freud has been hailed as a genius, the Darwin of the mind, and as the author of "a whole climate of opinion" (W. H. Auden). But despite its high popular standing, psychoanalysis has been beset by continuing controversy and uncertainty. The philosopher Karl Popper has said that "no substantially stronger claim to scientific status can be made for it than for Homer's collected stories," that the psychoanalytic account of a case history is no better than many others and contains interesting but untestable suggestions. According to P. B. Medawar, psychoanalytic theory is a stupendous intellectual confidence trick, which, like the dinosaur and the zeppelin, is doomed to be without posterity.

Farrell accepts neither extreme view. After subjecting psychoanalytic theory, method, and therapy to close scrutiny in light of what he takes to be the criteria of empirical science, and then to the test of results from research by orthodox scientific methods, Farrell concludes that the Low Level part of the theory contains at best only pointers to the truth and its High Level, theoretical part is "a theory of great promise, which offers a vision of human nature that goes far beyond our present powers of empirical validation and incorporation into the corpus of scientific knowledge" (p. 205).

Although he finds the concepts of psychoanalysis to be empirically vacuous (not susceptible of strict operational definition), at least the Low Level concepts, such as regression and defense mechanisms, do provide family likenesses that enable the experienced and skilled practitioner to pick out aspects of thought and behavior that would otherwise have been missed. And if determinate consequences cannot be deduced from the theory's generalizations, tendencies and probabilities can. Freud is compared, in his influence on psychology, to Newton, whose vague model of the interaction of forces between unobservable atoms explained a wide range of disparate phenomena and had a significant regulative and heuristic role in subsequent inquiry into chemical reactions and matter. The treatment of patients is found limited as a method of inquiry by the placebo effect, by "P-dependence" (the theoretical perspective of the analyst determines the material he discovers), and by "M-dependence" (the analytic situation changes the patient to produce facts—the results are "artifact infected"). Farrell nevertheless finds that "the material does seem to point to a large core of something authentic about human nature" (p. 146), that Freud's psychoanalysis has the advantages...