

Introduction and Doctrinal Background

Under any economic, social, or political system, individuals, business firms, and organizations in general are subject to lapses from efficient, rational, law-abiding, virtuous, or otherwise functional behavior. No matter how well a society's basic institutions are devised, failures of some actors to live up to the behavior which is expected of them are bound to occur, if only for all kinds of accidental reasons. Each society learns to live with a certain amount of such dysfunctional or mis-behavior; but lest the misbehavior feed on itself and lead to general decay, society must be able to marshal from within itself forces which will make as many of the faltering actors as possible revert to the behavior required for its proper functioning. This book undertakes initially a reconnaissance of these forces as they operate in the economy; the concepts to be developed will, however, be found to be applicable not only to economic operators such as business firms, but to a wide variety of noneconomic organizations and situations.

While moralists and political scientists have been much concerned with rescuing individuals from immoral behavior, societies from corruption, and governments from decay, economists have paid little attention to *repairable lapses* of economic actors. There are two reasons for this neglect. First, in economics one assumes either fully and undeviatingly rational behavior or, at the very least, an *unchanging level* of rationality on the part of the economic actors. Deterioration of a firm's performance may result from an adverse shift in supply and demand conditions while the willingness and ability of the firm to maximize profits (or growth rate or whatever) are unimpaired; but it could also reflect some "loss of maximizing aptitude or energy" with supply and demand factors being un-

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changed. The latter interpretation would immediately raise the question how the firm's maximizing energy can be brought back up to par. But the usual interpretation is the former one; and in that case, the reversibility of changes in objective supply and demand conditions is much more in doubt. In other words, economists have typically assumed that a firm that falls behind (or gets ahead) does so "*for a good reason*"; the concept—central to this book—of a random and more or less easily "repairable lapse" has been alien to their reasoning.

The second cause of the economist's unconcern about lapses is related to the first. In the traditional model of the competitive economy, recovery from any lapse is not really essential. As one firm loses out in the competitive struggle, its market share is taken up and its factors are hired by others, including newcomers; in the upshot, total resources may well be better allocated. With this picture in mind, the economist can afford to watch lapses of any one of *his* patients (such as business firms) with far greater equanimity than either the moralist who is convinced of the intrinsic worth of every one of *his* patients (individuals) or the political scientist whose patient (the state) is unique and irreplaceable.

Having accounted for the economist's unconcern we can immediately question its justification: for the image of the economy as a fully competitive system where changes in the fortunes of individual firms are exclusively caused by basic shifts of comparative advantage is surely a defective representation of the real world. In the first place, there are the well-known, large realms of monopoly, oligopoly, and monopolistic competition: deterioration in performance of firms operating in that part of the economy could result in more or less permanent *pockets* of inefficiency and neglect; it must obviously be viewed with an alarm approaching that of the political scientist who sees his polity's integrity being threatened by strife, corrup-

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tion, or boredom. But even where vigorous competition prevails, unconcern with the possibility of restoring temporarily laggard firms to vigor is hardly justified. Precisely in sectors where there are large numbers of firms competing with one another in similar conditions, declines in the fortunes of individual firms are just as likely to be due to random, subjective factors that are reversible or remediable as to permanent adverse shifts in cost and demand conditions. In these circumstances, mechanisms of recuperation would play a most useful role in avoiding social losses as well as human hardship.

At this point, it will be interjected that such a mechanism of recuperation is readily available through competition itself. Is not competition supposed to keep a firm "on its toes"? And if the firm has already slipped, isn't it the experience of declining revenue and the threat of extinction through competition that will cause its managers to make a major effort to bring performance back up to where it should be?

There can be no doubt that competition is one major mechanism of recuperation. It will here be argued, however (1) that the implications of this particular function of competition have not been adequately spelled out and (2) that a major alternative mechanism can come into play either when the competitive mechanism is unavailable or as a complement to it.

Enter "Exit" and "Voice"

The argument to be presented starts with the firm producing saleable outputs for customers; but it will be found to be largely—and, at times, principally—applicable to organizations (such as voluntary associations, trade unions, or political parties) that provide services to their members without direct monetary counterpart. The per-

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formance of a firm or an organization is assumed to be subject to deterioration for unspecified, random causes which are neither so compelling nor so durable as to prevent a return to previous performance levels, provided managers direct their attention and energy to that task. The deterioration in performance is reflected most typically and generally, that is, for both firms and other organizations, in an absolute or comparative deterioration of the *quality* of the product or service provided.¹ Management then finds out about its failings via two alternative routes:

(1) Some customers stop buying the firm's products or some members leave the organization: this is the *exit option*. As a result, revenues drop, membership declines, and management is impelled to search for ways and means to correct whatever faults have led to exit.

(2) The firm's customers or the organization's members express their dissatisfaction directly to management or to some other authority to which management is subordinate or through general protest addressed to anyone who cares to listen: this is the *voice option*. As a result, management once again engages in a search for the causes and possible cures of customers' and members' dissatisfaction.

The remainder of this book is largely devoted to the

1. For business firms operating in situations of monopoly or monopolistic competition, performance deterioration can also be reflected in cost and resulting price increases or in a combination of quality drops and price increases. On the other hand, changes in either price or quality are ruled out when both are rigidly dictated by a perfectly competitive market; in this admittedly unrealistic situation, deterioration can manifest itself only via increases in cost which, with price and quality unchanged, will lead straightaway to a decline in net revenue. Under perfect competition, then, managers learn about their failings directly and exclusively from financial evidence generated within the firm, without any intermediation on the part of the customers who remain totally unaware of the firm's troubles. It is perhaps because the whole range of phenomena here described has no place in the perfectly competitive model that it has not been paid attention to by economists.

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comparative analysis of these two options and to their interplay. I will investigate questions such as: Under what conditions will the exit option prevail over the voice option and vice versa? What is the comparative efficiency of the two options as mechanisms of recuperation? In what situations do both options come into play jointly? What institutions could serve to perfect each of the two options as mechanisms of recuperation? Are institutions perfecting the exit option compatible with those designed to improve the working of the voice option?

Latitude for Deterioration, and Slack in Economic Thought

Before setting out to answer some of these questions, I shall now step back briefly and indicate how I conceive the subject of this book to be related to economic and social science thought around us.

Talking with students of animal behavior (at the Center for Advanced Study in the Behavioral Sciences) about the social organization of primates I learnt about the smoothness and efficiency with which leadership succession, a problem human societies have found so intractable, was handled in certain baboon bands. Here is how the process is described for a typical band of *Hamadryas* baboons lorded over by one male leader:

Sub-adult males steal very young females from their mothers and attend them with every semblance of solicitous maternal care. The young female is rigorously controlled, and repeated retrieval trains her not to go away . . . At this stage there is no sexual behaviour, the female being yet two to three years from child bearing . . . As these young interlopers mature and the overlord ages, the younger animal starts initiating group movements although the direction of eventual movement is dependent upon the older animal's choice. A highly complex relation-

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ship develops between the two animals which, by paying close attention to one another and by reciprocal "notification," cooperate in governing group movement. Old males retain command of group direction but gradually relinquish sexual control over their females to the younger male animal . . . It seems that eventually old males resign entirely from their original reproduction units but retain great influence within the band as a whole, and young males refer to them continuously particularly before developing the direction of march.²

Compare this marvel of gradualness and continuity with the violent ups and downs to which human societies have always been subject as "bad" government followed upon "good," and as strong or wise or good leaders were succeeded by weaklings, fools, or criminals.

The reason for which humans have failed to develop a finely built social process assuring continuity and steady quality in leadership is probably that they did not have to. Most human societies are marked by the existence of a surplus above subsistence. The counterpart of this surplus is society's ability to take considerable deterioration in its stride. A lower level of performance, which would mean disaster for baboons, merely causes discomfort, at least initially, to humans.

The wide latitude human societies have for deterioration is the inevitable counterpart of man's increasing productivity and control over his environment. Occasional decline as well as prolonged mediocrity—in relation to achievable performance levels—must be counted among the many penalties of progress. A priori it would seem futile, therefore, to look for social arrangements that

2. John Hurrell Crook, "The Socio-Ecology of Primates," in J. H. Crook, ed., *Social Behaviour in Animals and Man* (to be published by Academic Press, London). The passage quoted summarizes research by Hans Kummer, "Social Organization of Hamadryas Baboons," *Bibliotheca Primatologica*, no. 6 (Basle: S. Karger, 1968).

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would wholly eliminate any sort of deterioration of polities and of their various constituent entities. Because of the surplus and the resulting latitude, any homeostatic controls with which human societies might be equipped are bound to be rough.

Recognition of this unpleasant truth has been impeded by a recurring utopian dream: that economic progress, while increasing the surplus above subsistence, will also bring with it disciplines and sanctions of such severity as to rule out any backsliding that may be due, for example, to faulty political processes. In the eighteenth century the expansion of commerce and of industry was sometimes hailed not so much because of the increase in well-being that it would make possible, but because it would bring with it powerful restraints on the willfulness of the prince and thereby reduce and perhaps eliminate the system's latitude for deterioration. One characteristic passage from Sir James Steuart's *Inquiry into the Principles of Political Oeconomy* (1767) will suffice to make the point:

How hurtful soever the natural and immediate effects of political revolutions may have been formerly, when the mechanism of government was more simple than at present, they are now brought under such restrictions, by the complicated system of modern oeconomy, that the evil which might otherwise result from them may be guarded against with ease . . .

The power of a modern prince, let it be by the constitution of his kingdom ever so absolute, immediately becomes limited so soon as he establishes the plan of oeconomy . . . If his authority formerly resembled the solidity and force of the wedge (which may indifferently be made use of, for splitting of timber, stones and other hard bodies, and which may be thrown aside and taken up again at pleasure), it will at length come to resemble the delicacy of the watch, which is good for no other purpose than to mark the progression of time, and which is immediately destroyed, if put to any other use, or touched with any but

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the gentlest hand . . . modern economy, therefore, is the most effectual bridle ever was invented against the folly of despotism.³

This noble hope echoes nearly two hundred years later in the writings of a Latin American intellectual similarly predicting, against all likelihood, that economic progress and latitude for deterioration will be negatively, rather than positively, correlated:

[In the pre-coffee era, policy makers] are lyrical and romantic because they cannot yet defer to a product whose output is constantly on the increase. It is a time of childhood and play. Coffee will bring maturity and seriousness. It will not permit Colombians to continue playing fast and loose with the national economy. The ideological absolutism will disappear and the epoch of moderation and sobriety will dawn . . . Coffee is incompatible with anarchy.⁴

History has cruelly disappointed the expectations of both Sir James Steuart and Nieto Arteta that economic growth and technical progress would erect secure barriers against "despotism," "anarchy," and irresponsible behavior in general. Yet their line of thought is hardly extinct. It is, in fact, not unrelated to today's widespread belief that a major war is unthinkable and therefore impossible in the nuclear age.

The common assumption of these constructs is simply stated: while technical progress increases society's surplus above subsistence it also introduces a mechanism of the utmost complexity and delicacy, so that certain types of social misbehavior which previously had unfortunate

3. (Chicago: University of Chicago Press, 1966), I, 277, 278-279.

4. Luis Eduardo Nieto Arteta, *El café en la sociedad colombiana* (Bogotá: Breviarios de orientación colombiana, 1958), pp. 34-35. This posthumously published essay was written in 1947, only a year before the outbreak of the sanguinary civil disturbances known as *la violencia*, just as Sir James Steuart wrote about the definitive conquest of despotism not long before the rise of Napoleon.

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but tolerable consequences would now be so clearly disastrous that they will be more securely barred than before.

As a result society is, and then again it is not, in a surplus situation: it is producing a surplus, but is not at liberty *not* to produce it or to produce less of it than is possible; in effect, social behavior is as simply and as rigidly prescribed and constrained as it is in a no-surplus, bare subsistence situation.

The economist cannot fail to note the similarity of the situation with the model of perfect competition. For this model contains the same basic paradox: society as a whole produces a comfortable and perhaps steadily increasing surplus, but every individual firm considered in isolation is barely getting by, so that a single false step will be its undoing. As a result, everyone is constantly made to perform at the top of his form and society as a whole is operating on its—forever expanding—“production frontier,” with economically useful resources fully occupied. This image of a relentlessly *taut economy* has held a privileged place in economic analysis, even when perfect competition was recognized as a purely theoretical construct with little reality-content.

These various observations add up to a syndrome, namely, to man's fundamentally ambivalent attitude toward his ability to produce a surplus: he likes surplus but is fearful of paying its price. While unwilling to give up progress he hankers after the simple rigid constraints on behavior that governed him when he, like all other creatures, was totally absorbed by the need to satisfy his most basic drives. Who knows but that this hankering is at the root of the paradise myth! It seems plausible, indeed, that the *rise* of man above the narrowly constrained condition of all other living creatures was frequently sensed, though it can hardly ever have been avowed, as a *fall*; and a radical but basically simple act of the imagination may well have metamorphosed this condition which one was really

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yearning for into its exact opposite, the Garden of Eden.⁵

But we must leave paradise and return to social thought, for there is another side to our story. The simple idea that the ability to produce a surplus above subsistence makes it possible and indeed likely that occasionally less than the maximum producible surplus will be produced has not gone wholly unnoticed. In fact, next to the traditional model of the permanently *taut* economy, elements of a theory of the *slack* economy begin to be available. I am not referring now to unemployment and depression economics—the slack associated with these phenomena results from malfunctions at the macroeconomic level which frustrate firms and individuals in their supposedly undiminished zeal to maximize profits and satisfaction. Nor is the question of slack involved in the dispute about what it is that business firms, and particularly the large corporations, really do maximize: profits, growth, market shares, community goodwill, or some composite functions of such objectives. The assumption underlying this dispute is that, whatever it is that firms do, they do it the best they can even though the criterion for “best” performance is becoming rather murky. Finally I am not concerned with the large body of writings showing that the actions of conscientiously maximizing private producers and consumers may fail to produce a *social* optimum, because of the existence of monopolistic elements and externalities.

5. Samuel Johnson intimated this thought in his fable about the Happy Valley of Abyssinia. When Prince Rasselas first analyzes the discontent he feels in the paradiselike valley, he compares his condition to that of some grazing goats in the following terms: “What makes the difference between man and all the rest of the animal creation? Every beast that strays beside me has the same corporal necessities with myself; he is hungry and crops the grass, he is thirsty and drinks the stream, his thirst and hunger are appeased, he is satisfied and sleeps; he rises again and is hungry, he is again fed and is at rest. I am hungry or thirsty like him, but when thirst or hunger cease, I am not at rest; I am like him pained with want, but am not, like him, satisfied with fulness.” (Samuel Johnson, *Rasselas*, II.)

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Here again the difference between actual and potential output is not due to some "failure of nerve" at the micro-economic level. But of late there has been increasing attention to the possibility of just such a failure.

A seminal contribution in this area was H. A. Simon's suggestion that firms are normally aiming at no more than a "satisfactory" rather than at the highest possible rate of profits.⁶ This notion was given considerable underpinning in 1963 by Richard Cyert and James March, who in their book *A Behavioral Theory of the Firm*⁷ introduced the concept of "organizational slack." At about the same time, Gary Becker showed that some of the basic and empirically well-tested microeconomic theorems (for example, that market demand curves for individual commodities are negatively inclined) are consistent with a wide range of irrational and inefficient behavior on the part of consumers and producers even though these theorems had originally been derived on the assumption of undeviating rationality.⁸ The importance of slack was later affirmed in a particularly sweeping form by Harvey Leibenstein.⁹ Finally, in a widely discussed polemical essay, Professor M. M. Postan has recently contended that Britain's economic ailments are better understood by focusing on microeconomic slack than on any mistaken macroeconomic policies. He writes:

6. H. A. Simon, "A Behavioral Model of Rational Choice," *Quarterly Journal of Economics*, 69:98-118 (1952). An early, completely forgotten empirical work with a related theme has the significant title *The Triumph of Mediocrity in Business*, by Horace Secrist, published in 1933 by the Bureau of Business Research, Northwestern University. The book contains an elaborate statistical demonstration that, over a period of time, initially high-performing firms will on the average show deterioration while the initial low performers will exhibit improvement.

7. Richard M. Cyert and James G. March, *Behavioral Theory of the Firm* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1963).

8. Gary S. Becker, "Irrational Behavior and Economic Theory," *Journal of Political Economy*, 52:1-13 (February 1962).

9. Harvey Leibenstein, "Allocative Efficiency versus X-Efficiency," *American Economic Review*, 56:392-415 (June 1966).

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For many (perhaps most) of these . . . ailments the morbid causes will be found not in the malfunctioning of the life processes in the body economic, such as the low rate of savings, or the high level of prices, or the insufficient allocation of national resources to research and development, but in specific failures of its individual cells—management, design, salesmanship, or the behavior of groups of labor.¹⁰

I feel considerable kinship with this group of writings for I had adopted a similar position in dealing with the problem of development. The basic proposition of *The Strategy of Economic Development* (1958) was that “development depends not so much on finding optimal combinations for given resources and factors of production as on calling forth and enlisting for development purposes resources and abilities that are hidden, scattered or badly utilized.”¹¹ And the term slack actually came under my pen when I summarized later on the essential argument of that book in an article co-authored with C. E. Lindblom:

At any one point of time, an economy’s resources are not to be considered as rigidly fixed in amount, and more resources or factors of production will come into play if development is marked by sectoral imbalances that galvanize private entrepreneurs or public authorities into action . . . The crucial, but plausible, assumption here is that there is some “slack” in the economy; and that additional investment, hours of work, productivity, and decision making can be squeezed out of it by pressure mechanisms.¹²

Various reasons have been invoked for explaining slack. Leibenstein’s emphasis is on the uncertainties surrounding the production function and on the nonmarketability

10. M. M. Postan, “A Plague of Economists?” *Encounter* (January 1968), p. 44.

11. (New Haven: Yale University Press, 1958), p. 5.

12. “Economic Development, Research and Development, Policy Making: Some Converging Views,” *Behavioral Science*, 7:211–212 (April 1962).

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of managerial and other skills. Cyert and March refer primarily to the bargaining process that takes place among the various parties whose (shaky) coalition is required for factors to be hired and for output to be produced and marketed. I stressed rather similarly the existence of obstacles to entrepreneurial and cooperative behavior needed for the making of development decisions.

Those who have found that the individual economic operators and, as a result, the economy are ordinarily far from doing as well as they might, can be expected to react to their shocking discovery along two principal lines. The immediate and most obvious reaction is a determined search for ways and means to take up the slack, to retrieve the ideal of the taut economy. As long as the pressures of competition do not seem to be sufficient, the pressures of adversity will be invoked.¹³ Frequent changes in the environment, forcing the firm to be "on its toes," will be identified as one way of inducing performance closer to the firm's potential.¹⁴ Insofar as innovation is concerned, the inducing and focusing virtues of strikes and war have been stressed.¹⁵ My own search concentrated on pressure mechanisms such as intersectoral and intrasectoral imbalances and on production processes that exact high penalties for poor performance or do not tolerate it at all.¹⁶ Finally, the advocates of social revolution have contributed to this line of thought: one of their most seductive arguments has long been that only revolutionary changes can tap and liberate the abundant but dormant, repressed, or alienated energies of the people.¹⁷

13. See Leibenstein, "Allocative Efficiency versus X-Efficiency."

14. Charles P. Bonini, "Simulation of Information and Decision Systems in the Firm" (unpub. diss. Carnegie Institute of Technology, 1962).

15. Nathan Rosenberg, "The Direction of Technological Change: Inducement Mechanisms and Focusing Devices," *Economic Development and Cultural Change*, 18 (October 1969).

16. Hirschman, *Strategy*, chs. 5-8.

17. See, for example, Paul Baran, *The Political Economy of Growth* (New York: Monthly Review Press, 1957).

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Quite a different reaction to the discovery of slack occurs when the discoverer asks himself, after having got over his initial shock, whether slack may not after all be a good thing, a blessing in disguise. The idea that slack fulfills some important, if unintended or latent, functions was put forward by Cyert and March, who point out that it permits firms to ride out adverse market or other developments. During such bad times slack acts like a reserve that can be called upon: excess costs will be cut, innovations that were already within one's grasp will at last be introduced, more aggressive sales behavior that had been shunned will now be engaged in, and so on. Slack in the political system has been rationalized in a very similar manner. The discovery that citizens do not normally use more than a fraction of their political resources came originally as a surprise and disappointment to political scientists who had been brought up to believe that democracy requires for its functioning the fullest possible participation of all citizens. But soon enough a degree of apathy was found to have some compensating advantages in as much as it contributes to the stability and flexibility of a political system and provides for "reserves" of political resources which can be thrown into the battle in crisis situations.¹⁸

The immediate response to the discovery of slack has thus been either to assert the rationality of a certain level of slack or to look for ways of extirpating excessive levels by invoking exogenous forces such as adversity, imbalances, revolution, and so on. Both these approaches look at slack as a gap of a given magnitude between actual and potential performance of individuals, firms, and organizations. This book takes a further, more radical step in recognizing the importance and pervasiveness of slack. It assumes not only that slack has somehow come into the

18. See below, pp. 31-32.

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world and exists in given amounts, but that it is *continuously being generated* as a result of some sort of entropy characteristic of human, surplus-producing societies. "There's a slacker born every minute," could be its motto. Firms and other organizations are conceived to be permanently and randomly subject to decline and decay, that is, to a gradual loss of rationality, efficiency, and surplus-producing energy, no matter how well the institutional framework within which they function is designed.

This radical pessimism, which views decay as an ever-present force constantly on the attack, generates its own cure: for as long as decay, while always conspicuous in some areas, is hardly in undisputed command everywhere and at all times, it is likely that the very process of decline activates certain counterforces.

Exit and Voice as Impersonations of Economics and Politics

In examining the nature and strength of these endogenous forces of recovery, our inquiry bifurcates, as already explained. Its breakup into the two contrasting, though not mutually exclusive, categories of exit and voice would be suspiciously neat if it did not faithfully reflect a more fundamental schism: that between economics and politics. Exit belongs to the former realm, voice to the latter. The customer who, dissatisfied with the product of one firm, shifts to that of another, uses the market to defend his welfare or to improve his position; and he also sets in motion market forces which may induce recovery on the part of the firm that has declined in comparative performance. This is the sort of mechanism economics thrives on. It is neat—one either exits or one does not; it is impersonal—any face-to-face confrontation between customer and

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firm with its imponderable and unpredictable elements is avoided and success and failure of the organization are communicated to it by a set of statistics; and it is indirect—any recovery on the part of the declining firm comes by courtesy of the Invisible Hand, as an unintended by-product of the customer's decision to shift. In all these respects, voice is just the opposite of exit. It is a far more "messy" concept because it can be graduated, all the way from faint grumbling to violent protest; it implies articulation of one's critical opinions rather than a private, "secret" vote in the anonymity of a supermarket; and finally, it is direct and straightforward rather than roundabout. Voice is political action par excellence.

The economist tends naturally to think that his mechanism is far more efficient and is in fact the only one to be taken seriously. A particularly good illustration of this bias appears in a well-known essay by Milton Friedman which advocates the introduction of the market mechanism into public education. The essence of the Friedman proposal is the distribution of special-purpose vouchers to parents of school-age children; with these vouchers the parents could buy educational services that would be supplied in competition by private enterprise. In justifying this scheme he says:

Parents could express their views about schools *directly*, by withdrawing their children from one school and sending them to another, to a much greater extent than is now possible. In general they can now take this step only by changing their place of residence. *For the rest, they can express their views only through cumbrous political channels.*¹⁹

19. "The Role of Government in Education," in Robert A. Solo, ed., *Economics and the Public Interest* (New Brunswick, N.J.: Rutgers University Press, 1955), p. 129. A revised form of this essay was included in Friedman's *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962) as ch. 6 and the cited passage appears unchanged on p. 91. The italics are mine.

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I am not interested here in discussing the merits of the Friedman proposal.²⁰ Rather, I am citing the above passage as a near perfect example of the economist's bias in favor of exit and against voice. In the first place, Friedman considers withdrawal or exit as the "direct" way of expressing one's unfavorable views of an organization. A person less well trained in economics might naïvely suggest that the direct way of expressing views is to express them! Secondly, the decision to voice one's views and efforts to make them prevail are contemptuously referred to by Friedman as a resort to "cumbrous political channels." But what else is the political, and indeed the democratic, process than the digging, the use, and hopefully the slow improvement of these very channels?

In a whole gamut of human institutions, from the state to the family, voice, however "cumbrous," is all their members normally have to work with. Significantly, one major, if problem-plagued, effort presently underway toward better public schools in the large cities is to make them more responsive to their members: decentralization has been advocated and undertaken as a means of making the channels of communication between members and management in the public school systems less "cumbrous" than heretofore.

But the economist is by no means alone in having a blindspot, a "trained incapacity" (as Veblen called it) for perceiving the usefulness of one of our two mechanisms. In fact, in the political realm exit has fared much worse than has voice in the realm of economics. Rather than as merely ineffective or "cumbrous," exit has often been branded as *criminal*, for it has been labeled desertion, defection, and treason.

Clearly, passions and preconceptions must be reduced

20. For a good discussion see Henry M. Levin, "The Failure of the Public Schools and the Free Market Remedy," *The Urban Review*, 2:32-37 (June 1968).

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on both sides if advantage is to be taken of an exceptional opportunity to observe how a typical market mechanism and a typical nonmarket, political mechanism work side by side, possibly in harmony and mutual support, possibly also in such a fashion that one gets into the other's way and undercuts its effectiveness.

A close look at this interplay between market and non-market forces will reveal the usefulness of certain tools of economic analysis for the understanding of political phenomena, *and vice versa*. Even more important, the analysis of this interplay will lead to a more complete understanding of social processes than can be afforded by economic or political analysis in isolation. From this point of view, this book can be viewed as the application to a new field of an argument on which much of *The Strategy of Economic Development* was based:

Tradition seems to require that economists argue forever about the question whether, in any disequilibrium situation, *market forces acting alone* are likely to restore equilibrium. Now this is certainly an interesting question. But as social scientists we surely must address ourselves also to the broader question: is the disequilibrium situation likely to be corrected at all, by market or nonmarket forces, or by both acting jointly? *It is our contention that nonmarket forces are not necessarily less "automatic" than market forces.*²¹

I was concerned here with disturbances of equilibrium and the return to it. Kenneth Arrow has argued along very similar lines for movements from less-than-optimal to optimal states:

I propose here the view that, when the market fails to achieve an optimal state, society will, to some extent at least, recognize the gap, and nonmarket social institutions

21. Hirschman, *Strategy*, p. 63. Italics in the original.

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will arise attempting to bridge it . . . this process is not necessarily conscious.²²

These views do not imply, as both Arrow and I immediately hastened to add, that any disequilibrium or nonoptimal state whatever will be eliminated by some combination of market and nonmarket forces. Nor do they exclude the possibility that the two sets of forces could work at cross-purposes. But they leave room for a conjunction—which could quite possibly be inadequate—of these two forces, whereas both *laissez-faire* and interventionist doctrines have looked at market and nonmarket forces in a strictly Manichaeian way, it being understood that the *laissez-faire* advocate's forces of good are the interventionist's forces of evil and vice versa.

A final point. Exit and voice, that is, market and non-market forces, that is, economic and political mechanisms, have been introduced as two principal actors of strictly equal rank and importance. In developing my play on that basis I hope to demonstrate to political scientists the usefulness of economic concepts *and to economists the usefulness of political concepts*. This reciprocity has been lacking in recent interdisciplinary work as economists have claimed that concepts developed for the purpose of analyzing phenomena of scarcity and resource allocation can be successfully used for explaining political phenomena as diverse as power, democracy, and nationalism. They have thus succeeded in occupying large portions of the neighboring discipline while political scientists—whose inferiority complex vis-à-vis the tool-rich economist is equaled only by that of the economist vis-à-vis the physicist—have shown themselves quite eager to be colonized and have often actively joined the invaders. Perhaps it

22. "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review*, 53:947 (December 1963).

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takes an economist to reawaken feelings of identity and pride among our oppressed colleagues and to give them a sense of confidence that their concepts too have not only *grandeur*, but *rayonnement* as well? I like to think that this could be a by-product of the present essay.