Modern Classics of Comparative Politics. PO605

Albert O. Hirschman.. Exit, voice and Loyalty

Under any economic, social, or political system, individuals, business firms, and organisations in general are subject to lapses from efficient , rational, law-abiding, virtuous or otherwise functional behaviour. No matter how well a societies basic institutions are devised, failures of some actors to live up to the behaviour 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 dysfunctional or misbehaviour, but lest the misbehaviour feed on itself and lead to general decay, society but be able to marshal from within itself forces which will make as many of the faltering actors as possible revert to the behaviour required for its proper functioning. This book undertakes a reconnaissance (exploration) of these forces as they operate in the economy.

While moralists and political scientists have been much concerned with rescuing individuals from immoral behaviour, 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 economies one assumes either fully and undeviating rational behaviour or, at the very least, an unchanging level of rationality on the part of the economic actors. Deterioration of a firms performance may result from an adverse shift in supply and demand conditions while the willingness and ability of the firm to maximise profits are not damaged, but it could also reflect some 'loss of maximising aptitude or energy' with supply and demand factors being unchanged. The latter interpretation would immediately raise the question how the firms maximising energy can be brought back up to par. **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 easily 'repairable lapse' has been alien to their reasoning.**

The second cause of the economists 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 it 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 calmness and composure** than either the moralist who is concerned of the intrinsic worth of every one of his patients (the state) is unique and irreplaceable.

Having accounted for the economists 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 (faulty) 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, corruption or boredom. But even where vigorous competition prevails, unconcern with the possibility of restoring temporarily laggard (declining) 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 loses as well as human hardship.

At this point it will be interjected (to insert between other elements) 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 a 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?.

Exit and Voice