

Review of Randall G. Holcombe's *Coordination, Cooperation, and Control: The Evolution of Economic and Political Power*. Cham: Palgrave Macmillan, 2020, xii + 328 pp.

VAIOS KOLIOFOTIS

Eindhoven University of Technology

In the last few centuries, large parts of the world have become wealthier. According to standard economic theory, technological progress is one of the main contributors toward economic prosperity. Other important factors are institutional rules that protect property rights and promote innovation and competition among producers of goods and services. While the literature on institutions within economic science has grown immensely in recent years, theoretical and empirical research on the relationship between power and institutions is sparse. Building on decades of research on economics and public policy, Randall Holcombe's recent book *Coordination, Cooperation, and Control* looks into this neglected topic and focuses on power as a key concept in explaining the origin and evolution of institutions over human history.

According to Holcombe, one of the main reasons for the increase in wealth in the last centuries is the separation of economic and political power. The main claim of the book is that when the same people hold both economic and political power, the result is stagnation. Conversely, when economic and political power is separated, the result is economic progress. Therefore, keeping those with economic power from obtaining political power, and vice versa, is necessary to maintain the economic prosperity the world has seen in the last few hundred years.

In more detail, the 13 chapters of the book can be roughly separated into three parts. The first part includes four chapters and is devoted to examining in detail the properties of political and economic power. The concept of power is first presented in chapter 1, while the characteristics of political power and economic power are analyzed in chapters 2 and 3. Finally, chapter 4 examines how the separation of political and economic power occurs.

As Holcombe explains in the first part of his book, economic progress is only possible because of the coordination of the economic activities of individuals from all around the world. This coordination can oc-

cur in two different ways: cooperation and control. Markets work on the basis of cooperation between buyers and sellers and the voluntary exchange of goods and services. In contrast, governments operate by control, threatening to impose costs on those that do not pay taxes or abide by regulations of government institutions.

The concepts of economic and political power examined in this part have an institutional foundation. According to Holcombe, economic power is institutionalized control over resources exercised through voluntary cooperation with others. In contrast, political power is institutionalized control over the actions of people through threats of coercion (force and sanctions) against those who do not comply. However, cooperation in market exchanges requires an institutional framework that clearly defines and enforces property rights. This is created and protected by those who have political power.

While in the first part of the book Holcombe does not offer indisputable definitions of political and economic power, his way of presenting those concepts provides useful insights for understanding how they influence economic prosperity. When economic and political power is separated, those who have economic power have an incentive to engage in profitable activities and look for ways to create value for others. This results in more efficient production processes and new and improved goods and services. Therefore, when economic power is exercised independently of political power, the result is economic progress. In contrast, when people who hold economic power also acquire political power, the result is economic stagnation. Instead of promoting market competition and innovation, they use their political power to provide themselves with economic benefits through tax cuts, subsidies, tariffs, and market entry barriers.

The first four chapters provide the conceptual foundation for analyzing political and economic power. The second part consists of four chapters that build on this foundation to examine the evolution of economic and political power from a historical perspective. The chapters within this part address economic and political power in pre-agricultural societies (chapter 5) and in agrarian and feudal societies (chapter 6), the characteristics of institutions that support commerce and industry (chapter 7), and the power relationships developed in commercial and industrial societies (chapter 8). One of the main claims here is that while economic power has almost always been dominated by political power, the remarkable increase in economic prosperity in the last few hundred

years has been the result of the development of economic and political institutions of capitalism that led to the separation of economic and political power.

In more detail, Chapter 5 draws on a plethora of evidence to describe societies before the Neolithic (first agricultural) revolution. A key idea in this chapter is that in pre-agricultural societies the most important factor of production is labor, and that different types of power are not clearly differentiated. All relationships were based on labor activities and the personal knowledge and reputation of group members. Different types of power are combined because all of them are exercised over the activities of individuals. Although it is often difficult for individuals to leave pre-agricultural societies, groups can exit and take their labor with them. This ability provides some check on the abuse of power.

In chapter 6, Holcombe examines societies after the agricultural revolution where land displaces labor as the most important factor of production. In these societies, economic power is based on the possession of land that brings with it political power over those who work on that land. Therefore, in agricultural societies, political and economic power tends to be in the hands of the same people. There are also fewer checks on the abuse of power because those without land cannot easily move away from agrarian societies. Holcombe suggests that, because of the combination of economic and political power, societies were stagnant and economic progress was very slow.

In chapters 7 and 8, Holcombe examines modern industrial and commercial societies where capital and entrepreneurship are the most important factors of production. These societies are more productive than pre-agricultural and agricultural societies, creating economic surpluses. Capital and entrepreneurship are mobile and can therefore move and escape the abuse of political power. Moreover, capital depreciates and requires constant investment for its maintenance in a particular area. Therefore, there are incentives for those with political power to protect and tax those with economic power. Holcombe concludes that commerce and industry can facilitate the development of institutions that allow economic power to flourish independently from political power.

After a detailed historical analysis in the second part of the book, the third part examines topics familiar to followers of the Public Choice tradition. Holcombe's analysis of power provides some new ways to examine these theories and issues faced by contemporary societies. Chap-

ter 9 analyzes politics as a vocation, chapter 10 re-examines social contract theories, chapter 11 focuses on the role of ideology on the separation of political and economic power, and chapter 12 examines issues related to the recombination of political and economic power. Finally, chapter 13 applies ideas developed throughout the book to examine economic progress in countries around world.

In chapter 9, Holcombe examines the differences between plunder and taxation, the role of legal institutions, and the main characteristics of political competition. One of the main ideas of this chapter is that governments are based on the exchange of protection for tribute. To practice politics as a vocation, it is important that there is a surplus of economic resources that can support those that have political power. In commercial and industrial societies, instead of engaging in plunder that provides only short-run benefits, those with political power have an incentive to collect regular tribute over a long time. To avoid plunder, producers of economic wealth have an incentive to accept the legitimacy of those that hold political power and provide them with economic resources over a long time-horizon.

Chapter 10 of the book can be divided into two parts. The first part discusses social contract theories from political philosophy and relates them to the discussion of power in the previous chapters. According to Holcombe, a plausible way to view the social contract is as a set of generally accepted constitutional rules that restricts the government and determines the citizens' rights and obligations. In the second part of chapter 10, Holcombe discusses a way of measuring the separation of economic from political power. The Fraser Institute's *Economic Freedom of the World* (EFW) index is designed to provide a measure of the level of economic freedom around the world—the degree to which people are free to engage in voluntary exchange with others and achieve mutual benefits. In this chapter, the EFW index is also used to measure the degree to which economic and political power are separated.

In chapter 11, Holcombe examines public opinion and the production of ideas as important factors for the separation of political from economic power. According to Holcombe, democracy can be viewed in two main ways. One view of democracy is as a mechanism for determining who holds political power and enables citizens to peacefully replace those who exercise the power of the state, if they desire to do so. Another view, expressed by Jean Jacques Rousseau, depicts democracy as a revealing the public interest. According to Holcombe, this second view

of democracy depicts the actions of a democratic government as carrying out the will of its citizens and justifies government redistributive policies that impose costs on some for the benefit of others.

In chapter 12, Holcombe examines the tendencies of those with political power to try to use it to gain economic power, and vice versa. Public choice theory provides the details of the mechanisms through which the recombination of economic and political can occur. One key point here is that regulation does not only constrain but solidifies the position of those with substantial economic power by protecting them against competition. Over time, profit becomes increasingly dependent on political connections rather than the production of goods and services for consumers. Another important idea borrowed from public choice theory is that those with economic power can effectively organize to gain benefits for themselves. They can gain benefits by entering a low transaction costs group that negotiates with those that have political power. These groups tend to be small because the economic benefits to each individual group member are larger and the transaction costs to organize into such a group are lower.

The last chapter of the book (chapter 13) summarizes the main arguments developed in the previous chapters and applies the new insights to contemporary societies. According to Holcombe, political and economic power can remain separated if political power rests with the positions and not the personal characteristics of those that hold those positions. Moreover, institutions that create checks and balances can constrain the abuse of power while those socialist ideas that advocate the recombination of economic and political power have to be treated as a threat to economic prosperity. In this chapter, Holcombe also applies the Fraser Institute's EFW index, a measure of the degree to which people are able to exercise economic power independent of political power. It is argued that many countries, such as Singapore and Georgia, conform to the main claim of the book that separating economic power from political power results in economic progress. In contrast, the case of Venezuela demonstrates that when those with political power confiscate economic power the result is economic stagnation.

There are issues with the specifics of some of the arguments developed in the book that I will examine below. However, the analysis that Holcombe promotes is relevant and novel. An examination of the institutional sources of power is not typically undertaken by economists. Moreover, Holcombe's arguments on the separation of political and eco-

economic power can be fruitfully applied to examine many developed societies. For example, Holcombe's analysis can be used to explore the interaction between those with political and economic power in countries like Greece. One can find here a long history of co-dependence between political dynasties and families with economic power that goes all the way back to the days of the Ottoman Empire. Although this phenomenon is not unique to Greece, or other Balkan countries, the case of Greece provides a clear example where political and economic power are combined and can be used for the application of Holcombe's analysis.

While acknowledging Holcombe's important contribution, this book also has its shortcomings. The first weakness involves some of the empirical research presented in the book. The discussion of past societies in the second part is well-informed by the latest historical and anthropological evidence, and Holcombe puts forward some thought-provoking conjectures about power which appear to be consistent with the historical development of economic and political institutions. However, in the third part of the book, it is argued that the EFW index can be also viewed as a possible measure of the degree of independence between economic and political power. Leaving aside the definition of economic freedom on which this index is based upon, the results—when the index is applied in the last chapter to examine power relations in Asian countries—are far from satisfying. As Holcombe admits, countries such as China demonstrate that there is evidence that economic progress can occur even if economic and political power is combined. Among many factors, what explains the economic prosperity of countries that are ranked low according to the index is the low cost of labor and the import and further development of technology from other countries. Holcombe suggests that these advantages are temporary, and the result will end up being stagnation. However, at best this is a conjecture, and Holcombe does not provide any evidence for establishing its veracity. It is, I think, more plausible to suggest that research on economic growth and the variability of political systems demonstrates that there is no evidence for linearity in the origins and development of economic prosperity. Different societies appear to be on their own path to economic progress and the main claim of the book—that the combination of economic and political power leads to economic stagnation—does not appear to be correct for all developing countries.

Another problematic aspect of the book is that, despite Holcombe's work of clarification, power remains a contested term in the literature.

While it is important to account for the role of power in a way that is fruitful for political economy, there are also limits in the research presented in the book to advance unified theories. To his credit, Holcombe points out that his definitions and analysis does not suggest that other ways of understanding power are problematic. One theoretically productive way to examine power is to explore in depth the structure and influence of elites as they are presented in sociology and political science.

To be more specific, Holcombe argues that public choice theories discussed in the book explain how it is that some people are able to use the political process to gain economic power. Theories developed by sociologists and political scientists explain who benefits from the political bargaining process. Among others, Holcombe cites Charles Wright Mills' *elite theory* (see, for example, Mills 1956). According to Mills, the elite is composed of individuals in government, corporations, and the military, which together constitute a unified group that works for its own interests. The circulation of members of the elite group ensures that economic and political power is combined. There are, however, pluralist accounts in sociology and political science that dispute elite theories. According to prominent researchers, such as Robert Dahl (1956), power is not concentrated in a unified group but is distributed across a number of individuals and groups. In relation to these theories, it is not clear where exactly Holcombe's analysis of power stands. For example, in chapters 2 and 4 of the book he appears to accept elite theories regarding the composition of the elite group while he also assumes that economic power in market economies is dispersed among different people that compete for economic resources and political influence. This suggests the need to revisit and refine Holcombe's account from the vantage point of elite and pluralist accounts.

A third issue with the analysis of this book is Holcombe's examination of democratic institutions. He argues that the idea that voters determine and influence public policy is an illusion. The main purpose of democratic institutions is to provide a peaceful mechanism for replacing those who have political power. This pessimistic view on the role of democratic institutions invites the following question: What kind of institutions allows people with no power to control those with political power? For Holcombe, the idea that democratic institutions can have significant influence on public policy is questionable. Individual voters are typically uninformed on political issues and choose from the options offered by the elite group. However, one can also examine whether

forms of direct democracy, such as participatory and deliberative democracy, can contribute to the setting and funding of public policy. This alternative proposal is too big to be fully addressed in one book review, and many issues related to accountability, composition, and competence have to be examined in detail. But it is worth mentioning that in practice, citizens' assemblies have recently discussed questions related to new constitutions (Landemore 2020) and have been used to consider possible policy responses to climate change (Duvic-Paoli 2022). Given this, one could re-examine whether democratic oversight can be also an effective check on the abuse of political power.

Despite these concerns, Holcombe's book offers a thorough treatment of the concept of power, and it is an important resource for scholars of political economy and public choice theory. Moreover, the material is presented in a way that is accessible to those that do not have a strong background in the social sciences. The book can also be a valuable reference for graduate and undergraduate courses since it provides the students with a good understanding of some of the theoretical challenges faced by political economists that study the role institutions in different societies.

REFERENCES

- Dahl, Robert A. 1956. *A Preface to Democratic Theory*. Chicago, IL: University of Chicago Press.
- Duvic-Paoli, Leaslie-Anne. 2022. "Re-Imagining the Making of Climate Law and Policy in Citizens' Assemblies." *Transnational Environmental Law* 1–27.
- Landemore, Hélène. 2020. *Open Democracy: Reinventing Popular Rule for the Twenty-First Century*. Princeton, NJ: Princeton University Press.
- Mills, C. Wright. 1956. *The Power Elite*. New York, NY: Oxford University Press.

Vaios Koliototis is a lecturer at Eindhoven University of Technology and The Hague University of Applied Sciences. His research focuses on philosophy of science, evolutionary ethics, decision and game theory, and behavioral economics. He has published his research in journals such as *Studies in History and Philosophy of Science*, *Journal of Evolutionary Economics*, and *History and Philosophy of the Life Sciences*.
Contact e-mail: <v.koliototis@tue.nl>