Lobbying and Growth: Explaining Differences among OECD Countries

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Abstract

The paper is an attempt to observe the effects of the development of rent-seeking or lobbying groups on the growth pace of a number of countries. The relationship between the policy suggestions of competing interest groups, and economic policies implemented both at micro and macro level after the 1980s revealed the importance of lobbying effect on policies fostering or inhibiting most of the developing countries' long-run growth levels. In addition to the vast literature on the positive theory of regulation and the theories of competition among the pressure groups, the current study is to provide some examples of the literature on lobbying and its effects on growth. Taking from Mancur Olson's inspiring book, *The Rise and Decline of Nations*, this paper reviews the following literature and discussions with special emphasis on Gary Becker and Kevin M. Murphy's works while adding an empirical component whether it is a panel or cross-country data analysis. Availability of the relevant data is a major concern due to the inconsistencies in measuring the size and effect of lobbying for each country. A set of countries including only the OECD members will constitute the subject of the empirical investigation. The dataset on the special interest groups is provided from K.G. Saur's *World Guide to Trade Associations* as do the previous studies. For the purpose of the further research, some derivations and proposals would be provided to solve the puzzle. The study has the intuition that the development of lobbying powers is closely related to other political factors effective on growth rates such as democracy, civil society. Overall, the paper is to investigate the role of lobbying on growth rates on a multi-country level while implying the effects to change relatively in accordance with country specific effects. Thus the conclusion will state that depending on the country specific patterns, each OECD member exhibits slightly different effects of the relative size –by proxies- and number of business interest groups on growth due to the country specific effects. This work specifically focuses on Turkey which is shown to have negligible effect on the overall club members in terms of special interest groups on growth.

Keywords: Economic Policy, Growth, Development, Lobbying, Interest-group, Rent-seeking, Government Regulation

JEL Classification: F13, F43, L51, O25, O39

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I. Introduction

Theory of special interest groups and clubs is in essence the subject of multiple sub-disciplines under the economic theory. Under the industrial organization literature for instance, there is a wide consensus on the positive externalities of lower costs of forming special interest groups that serve their members' interests at best. The political economy of clubs has also been a subject of dispute on the grounds of their welfare effects and class mobilization. The vast literature on explaining growth dynamics on the other hand still promises different aspects of explaining differences among countries, whether based on political or economic structures. The main question and discussions in the growth literature has long been on the dynamics and the mechanism through which different economic and social structures affect it. Emergence of political, economic or other social action groups deserves a multi-dimensional approach for analysis since it has micro and macro foundations at the same time. This preliminary study aims to bring up new arguments on the differences among countries' experiences in terms of the special interest groups. The current study however due to its limitations will take two basic aspects of the 'special interest groups' or the 'collective action groups' as the pioneering economist Mancur Olson (1965, 1982) states: the formation and the logic of operation of such groups and their indispensible relationship with the countries' long-term economic performance. As Olson (1982) states, the theories of social classes and rigidities effective on relative growth are debatable and the empirical facts vary over time and country whether they are in line with the theories or not. Possibility of multi-causal cases is yet another concern regarding the relationship between growth and interest groups. Last not the least, problem of testing is important as multi-casual diversity may imply the same empirical result while having different reasoning and interpretations.

Theory of 'collective actions' as Olson (1965) puts it or the 'clubs' as Buchanan (1965) refers, have two basic dimensions to be reviewed and analyzed in this work: the formation and determinants of special interest groups or lobbying powers and their relationship with the growth performance under a multi-country and time variant scheme. Taking from the long-debated arguments that Olson (1965 and 1982) put forward, along with that of Buchanan's (1965) regarding the theory of interest groups, the paper will provide a short intuition on the factors leading to formation of successful interest groups and the distinction on pure private and public goods. After the brief theoretic introduction of different arguments and counter-perspectives, second section will reflect insights on the empirical evidences in the literature, factual or counter-factual to Olson's (1982) arguments on the relationship between relative growth performances of different countries in different time spans. The literature however provides contrary examples of empirical evidence depending on the sample set and the existence of time sensitive data analysis. Therefore, it is evident that Olson's (1982) arguments on the negative effects of special pressure groups on growth rates could be refuted in specific cases.

This study aims at indicating different empirical results stem from different social and political structures along with the strength of pressure groups in a country within a relevant time span in the third section. The most evident empirical differences are observed among the OECD countries

which include a diversified set of countries such as the Nordic, former Soviet and developing nations like Mexico and Turkey. The empirical section for now only includes a set of data on social and economic indicators along with the number of special interest groups which enable the data analysis and some correlation matrices. Nevertheless, it is an intuitive section that could yield further insight for data analysis in order to track the path for understanding the dynamics of interest groups. Third section will also address the question of possibility of multi-casual relationship along with the issues related to panel data analysis such as endogeneity. Last and the concluding section will imply at least at the descriptive level that the effects of special pressure or interest groups would differ on growth rates depending on the country and time specific effects along with the relevant dummy variables such as the economic freedom and political stability and quality indicators.

II. Literature Review: Formation of Interest Groups and Effects on Growth

In an effort to understand the formation process and the structure of interest groups, Olson's pioneering work; *The Logic of Collective Action* (1965) should be counted with Buchanan's leading paper on the *Economic theory of Clubs* (1965) in order to provide some insight at structural level. In his dissertation thesis, Olson (1965) makes use of the basic postulates for individual action that presumes self-interest maximizing behavior while answering the question of interest group structures in a society. Accordingly, a successful and prolonged interest group should be smaller in size yielding positive gaining for its members that is the group actions to create an average level of benefits exceeding the costs. The problem of 'free-riding' however may emerge under the condition that there is no *selective incentive*. The larger the group size, the more the number of 'free-riders', implies the theory. This is mostly due to the misalignment of interests among the group members and the very trivial share of average benefit to the members in a very large group. Therefore, Olson (1982) argues that smaller the group size, effective and successful is the lobbying activity. The same is argued within the theory of clubs, by Buchanan (1965), who puts forward the conclusion that given the set of adjustable property rights, the optimal group size tends to be smaller when the average real income increases. Such a mechanism however would only work if the goods provided by the group (i.e. privileges) are considered as exclusive in order to avoid the 'free-rider' problem seen very common in public good provision. *Selective incentives*, as Olson (1982) puts it are not always positive but sometimes occur at negative margins such as being excluded from the 'club'. Therefore, overall are five basic conditions for the formation and success of an interest group, according to Olson's (1982) theory:

i) Positive gains from lobbying
ii) Existence of selective incentives
iii) Exclusive goods (i.e. perfect market information on the specific good) that create negative and/or positive externalities
iv) Homogeneity of the group members/ alignment of interests
v) Existence of property rights regime or low cost of bargaining for collective action

Olson's (1965, 1982); Buchanan's (1965); Peltzman (1976) and Becker's (1983) arguments all point the theoretical fact that the smaller the size of and the bigger is the net benefit to the pressure group, the more incentive that the individual has in joining and contributing the group. The following set of equations –adapted from Olson (1982) - is to explain the mechanism:

$C = f(T)$ where *(C)* is the cost of collective action as a function of the level *(T)* at which the good is provided

$V_g = TS_g$ where V_g represents the value of the good to the group; while S_g is the 'size' therefore number of the members of the group

$V_{i=}value\ of\ the\ good\ to\ individual\ i$ while $F_{i=V_i/V_g}$ is the fraction

$A_i = V_i - C$ where A_i is the net benefit to the individual that depends on the level of individual expenditure

$$dA_i/d\,T = dV_i/dT - dC/dT$$

Under the maximization assumptions, first-order conditions should yield the following:

$dA_i/dT = 0$ since $V_i = F_i S_g T$ while F_i and S_g are constants. Replacing V_i into the preceding equation yields the following:

$F_i\left(\frac{dV_g}{dT}\right) = \frac{dC}{dT}$. Therefore, the smaller the individual share, F_i is, the less the individual is eager to take part in the group as the average benefit gets smaller while the group size increases.

Following the above logical line, Olson (1982) argues that there will be no countries that attain symmetrical organization of all groups with a common interest and thereby attain optimal outcomes through comprehensive bargaining. Relatively more stable countries will tend to create more organizations for collective action over time while members of 'small' groups have incredibly higher organizational power, lowering the costs while that power is to diminish over time. And last not the least, he argues that emergence and persistence of such interest groups overall reduces efficiency and aggregate income in the society since they are divisive in nature. Two basic points that both Tullock (1983) and North (1983) pay attention are: testing and refutability of Olson's theoretical and semi-empirical conclusions in a wider range of countries; and the position of the 'statecraft' as the main interest group.

Empirical evidence from the literature however exhibits significant variation as Coates et al. (2007) derive the conclusion that the multi-year and cross-country empirical tests of Olson's (1982) arguments support that the interest group activity exerts a sclerotic effect on growth, capital accumulation, and technological advance. The results however should only be interpreted as partial success as Heckelman (2000) refers to Murrell's (1984) counter-factual results. The most striking feature of Coates et al. (2007a and 2007b) and Heckelman (2000) is the use of number of special interest groups to proxy with how effective is the organization of such pressure groups in a society. Their distinctive analysis however covers the non-OECD countries contrary to other works which take the data-rich OECD countries as empirical samples. Coates et al. (2007a) focus on the determinants of interest group formation as they analyze a set of 140 countries with some 618 observations in order to provide a more robust analysis and reconcile conflicting previous works'

results. Six hypotheses are tested with a broader sample: stability, development, political system, nation size, government size, diversity while different panel data and cross-country setup tests are utilized (1973 and 1999): natural log of number of groups function as the dependent variable along with the other independent determinants. Their findings support Olson's hypothesis that stability fosters group formation; political system, nation size and societal diversity positively related to the number of groups. Coates et al. (2007b) however directly focus on testing the relative effects of interest-group activity on the GDP growth (in annual real terms); capital stock growth and productivity growth, two channels of impact on the growth performance. A total of 86 countries with 169 number of observations under a panel and two cross-country settings constitute the data set for empirical part in their analysis. In order to avoid possible endogeneity problem, Coates et al. make use of initial values of potentially endogenous explanatory variables as instruments, along with latitude, a dummy variable for OECD membership, and a dummy variable for majority Muslim population. They find that interest groups variable has clearly a negative sign while simple correlation between interest groups and growth is positive although it takes a negative sign when initial GDP, schooling, volatility and population are included. The instrumental variable (IV) regressions clearly exert a more significant and negative impact of the interest groups on growth, compared to that of simple OLS regressions. In their sensitivity analysis, Coates et al. consider the possible differences among the developed and developing nations and conclude that there is not a significant difference regarding the effects of interest groups on GDP and productivity growth.

Heckelman (2000) builds up his empirical work on the shoulders of the literature came after Olson's book while using a direct test methodology with relevant instruments, unlike the preceding works, by Murrell (1984) who finds that the length of stability has a strong impact on the formation of interest groups, for instance. As Heckelman (2000) puts forward, most of the studies have not shown a strong correlation between interest groups and growth while in his empirical analysis, the use of instruments increase the estimated impact of special interest groups on the economy. Heckelman (2000) includes 22 OECD member and 20 other countries as the sample data set for his analysis while instruments the strength of special interest groups by their numbers for each country. Using the growth data for the 42 relevant countries between 1970 and 1980 from the World Bank's (1994) list, Heckelman analyzes the effects of the special interest groups on the economic growth along with the uncorrelated error term, in is model. His instrument for the strength of the special interest groups is their number as in Murrell (1984). After running several bivariate regressions using IV (instrumental variable) method, Heckelman (2000) concludes that Olson's hypothesis is coherent given the soundness of the IV. In several other regressions run, where the initial level of GDP; ratio of the gross domestic investment to GDP; the ratio of government spending to GDP; total population and the ratio of the urban population to the total are included, Heckelman (2000) indicates that the high correlation between the strength of special interest groups and growth rates remain persistent. Even though, it is not so clear from inconsistent estimates of the lobbying power effect on growth rates, the relationship could be said to carry a non-zero coefficient at least.

Providing a business perspective on the issue, another work focusing on East Asian countries, Doner and Schneider (2000) find that the business associations contribute to the economic growth in several ways such as macroeconomic stabilization and reform; horizontal coordination (like quota allocation and capacity reduction); vertical coordination (upstream-downstream); lowering information costs; setting standards and quality upgrading. According to their study, business

groups contribute to the economy mainly or under certain conditions solely by pursuing their own interests. Two broad categories of contribution are described as 'market-supporting' and 'market complementing' activities in the sense of interest groups' contribution. Doner and Schneider (2000) conclude that the well-functioning and contributing interest groups are the ones with higher member densities; that provide valuable resources to their members and have adequate internal mechanisms for mediating member interests.

Mork's (1993) argument on the impact of lobbyists however may be even positive compared to the non-lobbyist case. His basic intuition is that the growth rate would be higher in the case of lobbying compared to the situation where lobbying activities are strictly banned such as in the former-Soviet countries. In line with Olson's (1982) arguments, Mork (1993) notes that lobbying activities have bigger marginal effects at lower levels (i.e. # of the groups) and are subject to diminishing returns in time. Murphy et al. (1991) however provide a different perspective on how easy a rent-seeking society could develop interest groups and conclude that rent-seeking activity is subject to very natural increasing returns thus having more returns at higher levels and second is it could afflict innovative activity in the society and therefore hinder economic growth. Maitland (1985) on the other hand concludes that Olson's (1982) theory tested by the effects of business and labor groups is empirically true under relevant circumstances such as the higher correlation between the overall direction of the group and the members' incentives. A series of empirical papers is subject to a comparative analysis in the below table (following pages):

Table 1- Relationship between Special Interest Groups and Growth

Theoretical and Descriptive: Maitland (1985)	*Theoretical and Modeling: Mork (1993)*	*Theoretical and Descriptive: Doner and Schneider (2000)*	*Empirical: Heckelman (2000)*	*Empirical: Coates et al. (2007a)*	*Empirical: Coates et al. (2007b)*
"Encompassing" Political Action Committee (PAC) analysis; based on campaign contributions	**An endogenous growth model with lobbying like Romer's (1986); based on knowledge accumulation and imperfect acquisition**	**Business associations contribute to the economic growth in several ways such as macroeconomic stabilization and reform; horizontal coordination (like quota allocation and capacity reduction); vertical coordination (upstream-downstream); lowering information costs; setting standards and quality upgrading**	**Includes 22 OECD member and 20 other countries as the sample data set; instruments the strength of special interest groups by their numbers for each country**	**Determinants of interest group formation under the light of investigation**	**Relationship between special-interest groups and economic growth questioned**
Three level of PACs: Business-Industry (BIPAC), National Federation of Independent Business (NFIB PAC), the National Chamber Alliance and on the labor side: AFL-CIO	**Firms rent capital; allowed to lobby for a subsidy on the capital use; no collusion among firms**	**Business groups contribute to the economy mainly or under certain conditions solely by pursuing their own interests**	**Use of growth data for the 42 relevant countries between 1970 and 1980 from the World Bank (1994)**	**Builds on Murrell (1984) and Bischoff (2003)**	**Includes a total of 169 observations of 86 countries as the sample data set**
Measures of PAC strategy: share of contributions to challengers; and the share went to Republicans or Democrats in the case of labor PACs (high score: ideological- low score: pragmatic) and partisanship measure	**Cost of lobbying specified as a percentage of the firms' output for a given level of lobbying effort**	**Two broad categories of contribution: 'market-supporting' and 'market complementing'**	**Analyzes the effects of the special interest groups on the economic growth along with the uncorrelated error term, in his model**	**Primary objective: to provide more reliable and thorough tests of interest group formation theories; second objective: reconcile the conflicting findings of Murrell and Bischoff**	**Referring to Olson's (1982) previous test that found negative relationship between income growth and union membership, paper claims that the group activity is not well-reflected and there is a lack of control for other growth determinants**
The size of the PACs and their measure of partisanship is effective on the amount of	**The subsidy for capital use through lobbying efforts is financed by lump-sum tax**		**Instrument for the strength of the special interest groups is their number**	**Murrell (1984) finds support for Olson's hypothesis that more groups form in stable environments by freedom to organize**	**Coates and Heckelman (2003a and 2003b) find negative relation between interest group activity and growth and investment in a cross-country setting**
	"Technology of production" modeled in a response function form (subsidy in		**Runs several bivariate regressions using IV (instrumental variable) method**	**Bischoff (2003) finds no support at all**	**Attempt to directly test the relationship between interest group activity and**
			Concludes that Olson's hypothesis is coherent given the	**Coates et al. include a panel of 140 countries, 618 observations as the sample data set for his analysis**	
				Six hypotheses tested with a broader	

contribution under certain circumstances (i.e. structure of interest organization)	**terms of lobbying effort)** **Equilibrium level of lobbying constant over time; growth rate constant over time** **Three results derived: i) equilibrium growth rate is higher in the case of lobbying compared to non-lobbying and policy ban case; ii) if the subjective discount rate is low enough, welfare improves; iii) equilibrium approaches the first-best solution if the response function for lobbying is initially very steep while flatten outs so quickly**	**activities in the sense of interest groups' contribution** **Well-functioning and contributing interest groups are the ones with higher member densities; that provide valuable resources to their members and have adequate internal mechanisms for mediating member interests**	**soundness of the IV** **Several other regressions run, where the initial level of GDP; ratio of the gross domestic investment to GDP; the ratio of government spending to GDP; total population and the ratio of the urban population to the total are included** **Indicates that the high correlation between the strength of special interest groups and growth rates remain persistent**	**sample: stability, development, political system, nation size, government size, diversity** **Panel data and cross-country setup tests (1973 and 1999): natural log of number of groups as the dependent variable** **Findings support Olson's hypothesis that stability fosters group formation; political system, nation size and societal diversity positively related to the number of groups** **Support for the group formation hypothesis tested by Murrell (1984) and Bischoff (2003) with exception of larger government encourages interest group formation**	**growth with other determinants of growth in a panel setting w/ two time periods (1985 and 1995)** **Accuracy of data problematic for developing nations; groups assumed to possess equal power; no data on group strength** **Coates and Heckelman (2003) focus on groups per capita; find that a given # of group in a smaller country will have more sclerotic effect** **A log-linear regression; OECD membership proxy for development** **GDP growth (annual average real growth: 1985-1994 and 1995-2004) with control variables initial GDP, schooling, volatility and population** **Find negative relation between growth and interest groups**

III. Lobbying Power and Growth: A Counter-factual Relationship? Example from OECD Countries

Empirical evidence is essential for crossing lines between growth performance of a specific country as well as set of countries under the light of existing theoretical debates. Such a test should provide a solid ground for contesting theories from different perspectives supported with different results. In this study, a panel data set of the OECD countries has been worked on while inconsistencies among the time intervals and lack of relevant information for the former-Soviet countries put the data analysis under the limits of explanatory data analysis. In this preliminary format, we will provide a general sense of the relative growth performances of the OECD countries depending on the country and time-specific conditions. Many of the empirical studies such as Heckelman (2000); Coates et al. (2007a and 2007b) focus on increasing the diversity among the sample countries thus see the applicability of Olson's (1982) theory on different set of countries such as the OECD and non-OECD. The major problem they face is also a limitation here: the inconsistency in the *World Guide to Trade Associations* data for the number of interest groups. Therefore our analysis will only provide two similar samples which belong to the 3rd, 5th and the 6th versions that include both the business associations and chambers of commerce.

The dataset used here also comes from the *Guide* (eds. 1985, 1995 and 1999) while other limitations come from the *democracy* variable which is proxied by Freedom House index of FIW 2001-2002; economic freedom index by The Heritage Foundation for only 1995, 1999 and 2002. Growth rates are from the OECD's website along with the data from World Development Indicators (WDI) 2008 of the World Bank Group and Penn World Table 6.2 edition. The simple data summary provided below suggest that there is a clear relationship between the included 'exogenous' variables while there is still a high possibility of 'endogeneity' due to the theoretically strong relationship between economic and political freedom and the development of special interest groups. The dataset is composed of 30 OECD nations with 90 observations in three different points in time (1985, 1999 and 2002). The number of interest groups is measured with the total of special interest organizations and chamber of commerce in a specific country, while entering into the regression with its per capita value.

Table 2- Number of Special Interest Groups (1985, 1999 and 2002) in the OECD members

	Year					
	1985		**1999**		**2002**	
OECD Member Country	# of SIO	# of COC	# of SIO	# of COC	# of SIO	# of COC
Australia (1971)	*196*	*182*	*339*	*136*	*302*	*143*
Austria (1961)	*1717*	*1695*	*1596*	*1575*	*1646*	*1636*
Belgium (1961)	*816*	*790*	*588*	*525*	*722*	*692*

Canada (1961)	*1228*	*1215*	*772*	*123*	*758*	*149*
Czech Republic (1995)	*43*	*41*	*103*	*10*	*117*	*47*
Denmark (1961)	*691*	*686*	*329*	*321*	*267*	*262*
Finland (1969)	*369*	*349*	*208*	*182*	*162*	*138*
France (1961)	*2860*	*2798*	*2215*	*1788*	*2137*	*1766*
Germany (1961)	*5058*	*5000*	*5965*	*5773*	*5279*	*5113*
Greece (1961)	*120*	*103*	*159*	*79*	*124*	*71*
Hungary (1996)	*38*	*37*	*55*	*30*	*40*	*20*
Iceland (1961)	*63*	*62*	*40*	*39*	*20*	*19*
Ireland (1961)	*215*	*199*	*210*	*144*	*259*	*197*
Italy (1962)	*905*	*804*	*394*	*259*	*449*	*213*
Japan (1964)	*867*	*847*	*868*	*800*	*713*	*667*
Korea (1996)	*64*	*58*	*117*	*64*	*166*	*125*
Luxembourg (1961)	*112*	*110*	*78*	*71*	*76*	*75*
Mexico (1994)	*255*	*214*	*263*	*209*	*190*	*146*
Netherlands (1961)	*1125*	*1098*	*647*	*587*	*562*	*527*
New Zealand (1973)	*54*	*52*	*102*	*79*	*100*	*79*
Norway (1961)	*660*	*655*	*400*	*381*	*375*	*362*
Poland (1996)	*108*	*108*	*73*	*5*	*71*	*27*
Portugal (1961)	*75*	*67*	*80*	*58*	*97*	*93*
Slovak Republic (2000)	*0*	*0*	*21*	*14*	*28*	*24*
Spain (1961)	*603*	*521*	*466*	*347*	*472*	*380*
Sweden (1961)	*528*	*512*	*362*	*343*	*362*	*337*
Switzerland (1961)	*1160*	*1126*	*1110*	*1059*	*1040*	*1021*
Turkey (1961)	*92*	*78*	*315*	*65*	*295*	*56*
United Kingdom (1961)	*2539*	*2497*	*2022*	*1841*	*2067*	*1910*
United States (1961)	*3383*	*3316*	*11519*	*3796*	*10526*	*4012*

Source: *World Guide to Trade Associations (ed. 3, 5 and 6)*

Table 3- Cross-Country OECD Growth Rates (1985, 1999 and 2002)

	1985	**1999**	**2002**
OECD Member Country	Real GDP growth	Real GDP growth	Real GDP growth

Australia (1971)	*4,4*	*4*	*3,2*
Austria (1961)	*2,6*	*3,3*	*0,9*
Belgium (1961)	*1,7*	*3,4*	*1,5*
Canada (1961)	*4,8*	*5,5*	*2,9*
Czech Republic (1995)	*-11,7*[1]	*1,3*	*1,9*
Denmark (1961)	*4*	*2,6*	*0,5*
Finland (1969)	*3,3*	*3,9*	*1,6*
France (1961)	*1,7*	*3,3*	*1*
Germany (1961)	*2,3*	*2*	*0*[2]
Greece (1961)	*2,5*	*3,4*	*3,9*
Hungary (1996)	*0*[3]	*4,2*	*4,4*
Iceland (1961)	*3,3*	*4,1*	*-0,1*
Ireland (1961)	*3,1*	*10,4*	*6,6*
Italy (1962)	*2,8*	*1,9*	*0,3*
Japan (1964)	*5,1*	*-0,1*	*0,3*
Korea (1996)	*6,8*	*9,5*	*7*
Luxembourg (1961)	*2,8*	*8,4*	*4,1*
Mexico (1994)	*2,8*	*3,8*	*0,8*
Netherlands (1961)	*2,3*	*4,7*	*0,1*
New Zealand (1973)	*0,8*	*5,3*	*4,6*
Norway (1961)	*5,4*	*2*	*1,5*
Poland (1996)	*4 (app.)*[4]	*4,5*	*1,4*
Portugal (1961)	*2,8*	*3,8*	*0,8*
Slovak Republic (2000)	*3*	*0,3*	*4,1*
Spain (1961)	*2,3*	*4,7*	*2,7*
Sweden (1961)	*2,2*	*4,6*	*2,4*
Switzerland (1961)	*3,5*	*1,3*	*0,4*
Turkey (1961)	*4,2*	*-4,7*	*7,9*
United Kingdom (1961)	*3,5*	*3*	*2,1*
United States (1961)	*4,1*	*4,5*	*1,6*

Source: *OECD (2008); WDI (2008) and Penn World Table 6.2*

[1] Real GDP growth own calculation: Based on Penn World Table 6.2- year first available 1991.
[2] World Development Indicators (WDI) 2008- GDP growth.
[3] WDI 2008- GDP growth.
[4] Own calculation for 1986 Based on WDI 2008- GDP growth.

The average growth rates of five-year and 10-year periods almost yield the same results since the real GDP growth rates are used in logarithmic terms in order to avoid any negative or zero relationship for the growth rate data. The simple correlation statistics in a cross-country analysis for the three points in time exhibit a close relationship between the number and persistence of special interest groups developed in a country while economic and political freedom has also distinctive effects in the cases of former-Soviet countries along with Turkey. Countries such as Greece, Spain and Portugal which witnessed military coups have become a relatively more stable and democratic by 1985 already so that they exhibit more or less the same result: generation and prolonged existence of special interest groups could hinder economic growth rates –of course explanatory only in part. One important factor that limits the analysis is on the special interest group power which seems to be best measured through their size which the dataset available lacks in the cross-country sense. Adding that variable is expected to increase the explanatory power of the foremost exogenous variables dramatically.

Table 4- Summary Statistics

	Mean	Standard Deviation	Min.	Max.	Obs.
Independent Variable					
Full Sample (OECD)					
Number of Interest Groups	*1700.133*	*2978.608*	*0*	*15315*	*90*
Ex-Soviet Countries[5]					
Number of Interest Groups	*88.33333*	*57.05712*	*0*	*216*	*12*
Turkey					
Number of Interest Groups	*300.3333*	*113.7995*	*170*	*380*	*3*
Dependent Variable					
Full Sample (OECD)					
Real GDP Growth	*2.885556*	*2.721143*	*-11.7*	*10.4*	*90*
Ex-Soviet Countries					
Real GDP Growth	*1.45*	*4.452476*	*-11.7*	*4.5*	*12*
Turkey					
Real GDP Growth	*2.466667*	*6.476367*	*-4.7*	*7.9*	*3*

Notes: In average/annual terms; real GDP growth rates replaced with GDP growth rates; where not available.

[5] Czech Republic, Hungary, Poland and Slovak Republic.

The simple OLS estimation and a 2SLS procedure imply that the per capita number of special interest organizations has little impact on the cross-country real GDP growth for the OECD sample size for the years 1985, 1999 and 2002. It is crystal clear that the number of observations –which is limited to 28 in our analysis- along with the yearly data, will have important effects in a more advanced research. Due to the limitations however, we will content with the comparative results of the two procedures cited above. The OLS estimation with the political freedom index causes the number of observations decline to 28 while any regression leaving the political freedom index out yields some 56 observations due to the missing data on economic freedom index and partly the real GDP numbers for the given years. Below is a simple OLS regression with the political freedom index variable, for the whole OECD countries, including Turkey.

Table 5- Real GDP Growth and Interest Groups

Dependent Variable	Real GDP Growth
Full Sample (OECD)	(OLS)
Independent Variable	
Per capita SIO number (log)	-0.066
	(0.871)
Economic Freedom	0.123
	(0.081)
Political Freedom	1.989
	(0.010)
Late Join dummy index	0.420
	(0.735)
R-squared	0.30
Observations	28

Notes: Inside the parentheses are the p-values. The coefficients are for the whole OECD countries sample data set.

Omitting the political freedom index variable to increase the number of observations for a more powerful analysis yields the per capita number of special interest organizations posing a positive relation with the real GDP growth unlike in the previous regression. It is quite normal to have increased explanatory power for the rest of the independent variables once there is an omitted variable while the quality of results tends to decrease.

Table 6- Real GDP Growth and Interest Groups

Dependent Variable	Real GDP Growth
Full Sample (OECD)	(OLS)
Independent Variable	
Per capita SIO number (log)	0.186
	(0.580)
Economic Freedom	0.027
	(0.611)
Late Join dummy index	0.523
	(0.649)
R-squared	0.017
Observations	56

Notes: Inside the parentheses are the p-values. The coefficients are for the whole OECD countries sample data set. The political freedom index variable is omitted.

Below table represents the regression results when Turkey, the only Muslim country and one of the OECD members with the worst economic freedom index as of 2002, is excluded from the sample data set. The coefficient of the per capita number of special interest groups do not vary much once an OECD member country is removed while the effect of economic freedom gains more importance in explaining the real GDP rates. Overall, the results do not change much with the removal of Turkey while the coefficient does change its sign once the political freedom index is removed. The relationship between the per capita number of special interest organizations and the real GDP growth rates in the years 1985, 1999 and 2002 for OECD countries –either Turkey excluded or not- however still remains as a puzzle.

Table 7- Real GDP Growth and Interest Groups

Dependent Variable	Real GDP Growth

Turkey excluded (OECD)	(OLS)
Independent Variable	
Per capita SIO number (log)	0.146
	(0.644)
Economic Freedom	0.039
	(0.427)
Late Join dummy index	0.504
	(0.648)
R-squared	0.022
Observations	54

Note: Inside the parentheses are the p-values. The coefficients are for the whole OECD countries, excluding Turkey for the given years.

IV. Conclusion

The present paper aims to see if the number of special interest groups has a strong effect on countries' growth rates and sees severe dilemmas and limitations when it comes to empirical analysis. Two more steps are taken to improve the analysis: to use the log of average/single annual real GDP growth rates and make use of the number of special interest group divided by the population of countries. Using averages and percentages certainly improved the quality of the empirical part even though a lot is still missing. The theory however could be refuted under different country and time-specific characteristics that the past works have suggested so far. Next steps for more robust results should include a strikingly powerful data set and approach of empirical analysis to provide more robust intuition on Olson's (1982) theory in practice. So far however, Turkey is shown to have a negligible impact regarding the change on the effects of special interest groups on growth performances.

Annex: Definition of Variables

Number of the SIOs: # of special interest groups as of five different cross-sectional datasets from 1973 (first), 1985 (third), 1995 (fourth), 1999 (fifth) and 2002 (sixth) editions of the *World Guide to Trade Associations (Zils and Verrel)*, by K. G. Saur:

Year	Edition of WTG	Includes chambers
1973	1st	yes
1985	3rd	both
1995	4th	no
1999	5th	both
2002	6th	both

Average real GDP growth rates: OECD data since 1960; *Penn World Table 6.2* and *World Development Indicators (WDI) 2008* by the World Bank

Data on former-Soviet countries: *WDI 2008* and the *Penn World Table 6.2*

Data on political rights and civil liberties: *FIW 2001-2002* of the Freedom House (1: Free; 7: Not Free)

Economic freedom index (1 to 100): *The Heritage Foundation & The Wall Street Journal (1995, 1999 and 2002)*

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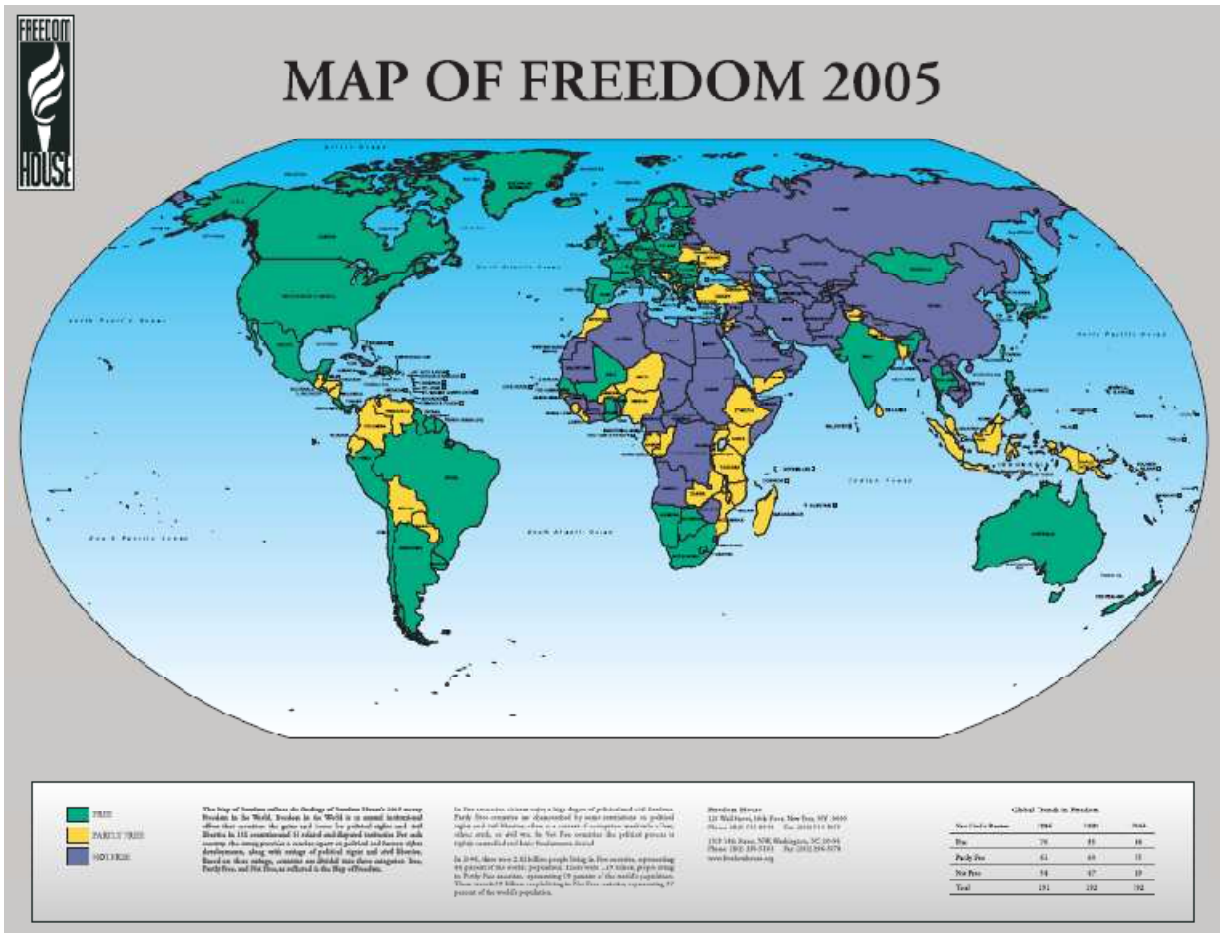
Appendix

A. List of the OECD Countries with Entrance Dates

Australia / Australie (1971)
Austria / Autriche (1961)
Belgium / Belgique (1961)
Canada / Canada (1961)
Czech Republic / République tchèque (1995)
Denmark / Danemark (1961)
Finland / Finlande (1969)
France / France (1961)
Germany / Allemagne (1961)
Greece / Grèce (1961)
Hungary / Hongrie (1996)
Iceland / Islande (1961)
Ireland / Irlande (1961)
Italy / Italie (1962)
Japan / Japon (1964)
Korea / Corée (1996)
Luxembourg / Luxembourg (1961)
Mexico / Mexique (1994)
Netherlands / Pays-Bas (1961)
New Zealand / Nouvelle-Zélande (1973)
Norway / Norvège (1961)
Poland / Pologne (1996)
Portugal / Portugal (1961)
Slovak Republic / République slovaque (2000)
Spain / Espagne (1961)
Sweden / Suède (1961)
Switzerland / Suisse (1961)
Turkey / Turquie (1961)
United Kingdom / Royaume-Uni (1961)
United States / États-Unis (1961)

Source: OECD website, 2009.

B. Freedom House Map (2005)



Source: Freedom House, 2008.