Exit, Voice, and Loyalty

RESPONSES TO DECLINE IN FIRMS, ORGANIZATIONS, AND STATES

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A Special Difficulty in Combining Exit and Voice

The groundwork has now been laid for telling the reader about the empirical observation that was mentioned in the Preface as the origin of this essay. In a recent book, I tried to explain why the Nigerian railways had performed so poorly in the face of competition from trucks, even for such long-haul, bulky cargo as peanuts (which are grown in Northern Nigeria, some eight hundred miles from the ports of Lagos and Port d'Harcourt). Specific economic, socio-political, and organizational reasons could be found for the exceptional ability of the trucks to get the better of the railroads in the Nigerian environment; but having done so I still had to account for the prolonged incapacity of the railroad administration to correct some of its more glaring inefficiencies, *in spite of active competition,* and proposed the following explanation:

> The presence of a ready alternative to rail transport makes it less, rather than more, likely that the weaknesses of the railways will be fought rather than indulged. With truck and bus transportation available, a deterioration in rail service is not nearly so serious a matter as if the railways held a monopoly for long-distance transport—it can be lived with for a long time without arousing strong public pressures for the basic and politically difficult or even explosive reforms in administration and management that would be required. This may be the reason public enterprise, not only in Nigeria but in many other countries, has strangely been at its weakest in sectors such as transportation and education where it is subjected to competition: instead of stimulating improved or top performance, the presence of a ready and satisfactory substitute for the services public enterprise offers merely deprives it of a precious feedback mechanism that operates at its best when the customers are securely locked in. For the management

of public enterprise, always fairly confident that it will not be let down by the national treasury, may be less sensitive to the loss of revenue due to the switch of customers to a competing mode than to the protests of an aroused public that has a vital stake in the service, has no alternative, and will therefore "raise hell." [1]

In Nigeria, then, I had encountered a situation where the combination of exit and voice was particularly noxious for any recovery: exit did not have its usual attention-focusing effect because the loss of revenue was not a matter of the utmost gravity for management, while voice did not work as long as the most aroused and therefore the potentially most vocal customers were the first ones to abandon the railroads for the trucks. It is particularly this last phenomenon that must be looked at more closely, for if it has any generality, then the chances that voice will ever act in conjunction with exit would be poor and voice would be an effective recuperation mechanism only in conditions of full monopoly "when the customers are securely locked in."

As a preliminary to generalizing about this sort of situation, another example, closer to home, may be helpful. If public and private schools somewhere in the United States are substituted in the story for the railroads and lorries of Nigeria, a rather similar result follows. Suppose at some point, for whatever reason, the public schools deteriorate. Thereupon, increasing numbers of quality-education-conscious parents will send their children to private schools.[2] This "exit" may occasion some impulse toward an improvement of the public schools; but here again this im-

1. *Development Projects Observed* (Washington: Brookings Institution, 1967), pp. 146–147.

2. Private schools being costly and income distribution unequal, the public schools will of course be deserted primarily by the wealthier parents. Nevertheless, the willingness to make a financial sacrifice for the sake of improving the children's education differs widely within a given income class, especially at intermediate levels of income. In its pure form, the phenomenon here described is best visualized for a school district with many middle-class parents for whom

pulse is far less significant than the loss to the public schools of those member-customers who would be most motivated and determined to put up a fight against the deterioration if they did not have the alternative of the private schools.

In the preceding examples, insensitivity to exit is exhibited by public agencies that can draw on a variety of financial resources outside and independent of sales revenue. But situations in which exit is the predominant reaction to decline while voice might be more efficacious in arresting it can also be observed in the sphere of private business enterprise. The relation between corporate management and the stockholders is a case in point. When the management of a corporation deteriorates, the first reaction of the best-informed stockholders is to look around for the stock of better-managed companies. In thus orienting themselves toward exit, rather than toward voice, investors are said to follow the Wall Street rule that "if you do not like the management you should sell your stock." According to a well-known manual this rule "results in perpetuating bad management and bad policies." Naturally it is not so much the Wall Street rule that is at fault as the ready availability of alternative investment opportunities in the stock market which makes any resort to voice rather than to exit unthinkable for any but the most committed stockholder.[3]

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the decision to send the children to private school is a significant, yet tolerable burden.

3. The passages in quotes are from B. Graham and D. L. Dodd, *Security Analysis*, 3d ed. (New York: McGraw-Hill, 1951), p. 616. The argument is spelled out in some detail in ch. 50, "Stockholder-Management Controversies." In the fourth edition of this work (1962), the authors return only briefly to this argument, and seem to be aware that the institutional odds are heavily stacked against any substantial success of their exhortations: "In quixotic fashion perhaps," they say wistfully, "we wanted to combat the traditional but harmful notion that if a stockholder doesn't like the way his company is run he should sell his shares, no matter how low their price may be" (p. 674).

While it is most clearly revealed in the private-public school case, one characteristic is crucial in all of the foregoing situations: those customers who care *most* about the quality of the product and who, therefore, are those who would be the most active, reliable, and creative agents of voice are for that very reason also those who are apparently likely to exit first in case of deterioration.

One interest of this observation is that it could define a whole class of economic structures where a tight monopoly would be preferable, within the framework of the "slack" or "fallible" economy, to competition. But before jumping to this conclusion, we must take a closer look at the observation by translating it into the ordinary language of economic analysis.

In terms of that language, the situations just described have more than a faint odor of paradox. We all know that when the price of a commodity goes up, it is the *marginal* customer, the one with the smallest consumer surplus, the one, that is, who cares *least,* who drops out first. How is it then that with a decline in quality the opposite seems quite plausible: *Is it possible that the consumers who drop out first as price increases are not the same as those who exit first when quality declines?* [4] If this question were to be answered in the affirmative, it would be easier to understand why combining exit and voice is so troublesome in some situations.

The basic reason for our paradox lies in the still insufficiently explored role of quality (as contrasted with price) in economic life. Traditional demand analysis is overwhelmingly in terms of price and quantity, categories which have the immense advantage of being recorded, measurable, and finely divisible. Quality changes have usually been dealt with by economists and statisticians

4. Appendix C refers to this possibility as the "reversal phenomenon." The discussion in the following pages should be read in conjunction with Appendixes C and D by those who find diagrams clearer than language.

through the concept of the *equivalent* price or quantity change. An article of poor quality can often be considered to be simply less in quantity than the same article of standard quality; this is the case, for example, of the automobile tire which lasts on the average only half as long (in terms of mileage) as a high quality tire. Alternatively, poor quality can often be translated into higher costs and prices; for example, increased pilferage in the rendering of railroad freight service will result in higher insurance premiums. In the latter case, a large part of the quality deterioration can be described by the statement: "now everybody really pays more for the same railroad service than before." To the extent that this statement is correct, there would be no reason to expect the effect of quality deterioration on demand (that is, for who gets out first) to be any different from the effect of a uniform rise in price. In other words, if a quality decline can be fully expressed as an equivalent rise in price that is *uniform for all buyers* of the article, the effects on customer exit of the quality decline and of the equivalent rise in price would be identical.

The crucial point can now be made. For any one individual, a quality change can be translated into equivalent price change. But this equivalence *is frequently different for different customers of the article because appreciation of quality differs widely among them.* This is so to some extent even in the just mentioned case of automobile tires and of increased pilferage of freight sent by rail. Appreciation of the longer life of quality tires will depend on the time discount of each individual buyer. In the case of rail freight, the increase in the insurance premium fully offsets only the increase in average direct monetary costs which is occasioned to the shipper by the worsening in service. For some shippers this may be all they care about, but there will surely be others for whom the lessened reliability of rail service represents costs (in inconvenience,

reputation of their own reliability, and so forth) that cannot be fully made good through an insurance scheme. That appreciation of quality—of wine, cheese, or of education for one's children—differs widely among different groups of people is surely no great discovery. It implies, however, that a given deterioration in quality will inflict very different losses (that is, different equivalent price increases) on different customers; someone who had a very high consumer surplus before deterioration precisely because he is a connoisseur and would be willing to pay, say, twice the actual price of the article at its original quality, may drop out as a customer as soon as quality deteriorates, provided a nondeteriorated competing product is available, be it at a much higher price.

Here, then, is the rationale for our observation: in the case of "connoisseur goods"—and, as the example of education indicates, this category is by no means limited to quality wines—the consumers who drop out when quality declines are not necessarily the marginal consumers who would drop out if price increased, but may be intramarginal consumers with considerable consumer surplus; or, put more simply, the consumer who is rather insensitive to price increases is often likely to be highly sensitive to quality declines.

At the same time, consumers with a high consumer surplus are, for that very reason, those who have most to lose through a deterioration of the product's quality. Therefore, they are the ones who are most likely to make a fuss in case of deterioration until such time as they do exit. "You can actively flee, then, and you can actively stay put." This phrase of Erik Erikson [5] applies with full force to the choice that is typically made by the quality-conscious consumer or the member who cares deeply about the policies pursued by the organization to which he be-

5. *Insight and Responsibility* (New York: W. W. Norton & Co., Inc., 1964), p. 86.

longs. To make that kind of consumer and member "actively stay put" for a while should be a matter of considerable concern for many firms and organizations, and particularly for those, of course, that respond more readily to voice than to exit.

Before the varieties of consumer behavior in the case of connoisseur goods are further explored, a brief homage to the hoary concept of consumer surplus is in order, for it appears to have the useful property of measuring the potential for the exercise of influence on the part of different consumers. This potential is the counterpart of the concept's traditional content. Consumer surplus measures the gain to the consumer of being able to buy a product at its market price: the larger that gain the more likely is it that the consumer will be motivated to "do something" to have that gain safeguarded or restored. In this way it is possible to derive the chances for political action from a concept that has dwelt so far exclusively in the realm of economic theory.[6]

Evidently the nature of the available substitute has something to do with the question whether or not connoisseur goods will be rapidly forsaken, in case of deterioration, by the more quality-conscious customers. In the discussion of the exit and voice options in Chapter 3, it was assumed that the only available competing or substitute good was initially of inferior quality, but carried the same price tag. Usually, of course, many other combinations of price and quality exist: in particular, consumers may often have had some hesitation between the good they actually bought, a better-quality substitute with a higher price, and a poorer-quality substitute with a lower price. Suppose now that only the former type of substitute exists

6. For a similar transformation of a time-honored economic concept, the gain from trade, into a political category, namely the influence a trading partner may acquire in the gain-receiving country, see my *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945, rev. ed. 1969), ch. 2.

and that the quality of the connoisseur good normally bought by a group of consumers deteriorates. In this case it is immediately plausible that the consumers who valued the deteriorating good most will be the first ones to decide that it is worth their while to go over to the higher-quality, higher-price substitute. If only a lower-price, lower-quality good is available, on the other hand, these highly quality-conscious consumers, even though they suffer greatly as a result of quality deterioration, will stick with it longer than their less quality-conscious colleagues. These and similar propositions can be easily proved by indifference curve analysis.[7]

Hence the rapid exit of the highly quality-conscious customers—a situation which paralyzes voice by depriving it of its principal agents—is tied to the availability of better-quality substitutes at higher prices. Such a situation has, for example, been observed in the field of housing. When general conditions in a neighborhood deteriorate, those who value most highly neighborhood qualities such as safety, cleanliness, good schools, and so forth will be the first to move out; they will search for housing in somewhat more expensive neighborhoods or in the suburbs and will be lost to the citizens' groups and community action programs that would attempt to stem and reverse the tide of deterioration. Reverting to the public-private school case, it now appears that the "lower-priced" public schools have several strikes against them in their competition with private schools: first, if and when there is a deterioration in the quality of public school education these schools will lose the children of those highly quality-conscious parents who might otherwise have fought deterioration; second, if, thereafter, quality comes to decline in the private schools, then this type of parents will keep their children there for much longer than was the case

7. See Appendix D, which also discusses in more technical terms a number of other points made in this section.

when the public schools deteriorated. Hence, when public and private schools coexist, with the quality of education in the latter being higher, deterioration will be more strenuously fought "from within" in the case of the private than in that of the public schools. And because exit is not a particularly powerful recuperation mechanism in the case of public schools—it is far more so in that of private schools which have to make ends meet—the failure of one of our two mechanisms is here compounded by the inefficiency of the other.

The relevance of the foregoing observation is greatest in certain important discontinuous choices and decisions, such as between two kinds of educational institutions or two modes of transportation.[8] If one assumes a complete and continuous array of varieties, from cheap and poor-quality to expensive and high-quality, then deterioration of any but the top and bottom variety will rapidly lead to a combination of exits: the quality-conscious consumers move to the higher-price, higher-quality products and the price-conscious ones go over to the lower-price, lower-quality varieties; the former will still tend to get out first

8. In Appendix D it is shown that the reversal phenomenon can occur only when there are at least three goods: the intermediate variety which is the one that deteriorates or whose price increases, another variety that is higher-priced and higher-quality, and a third with the opposite characteristics. In this constellation the less demanding consumers will exit first (toward the lower-priced, lower-quality good) when the *price* of the intermediate good increases, whereas the quality-conscious consumer will exit first (toward the higher-priced, higher-quality good) when *quality* decreases. Even though in the above example only two goods are made explicit, namely public and private school education, the required third alternative on the "other side" of the normally bought good would be present if there were a price increase for public education, namely, informal education at home. This would no doubt be the alternative chosen by many of the less demanding consumers if public schools ceased being free. Hence the presence of the reversal phenomenon cannot be ruled out in this case. A similar reasoning applies to other seemingly dichotomous choices: upon looking more closely, it is usually found that a third alternative exists; some inferior commodity can be found in case the price of the usually bought good increases.

when it is quality that declines rather than price that rises, but the latter will not be far behind.

The proposition that voice is likely to play a more important role in opposing deterioration of high-quality products than of lower-quality products can nevertheless be maintained for the case of a good with many varieties, if these varieties can be assumed not to be spread with equal *density* over the whole quality range. If only because of economies of scale, it is plausible that density is lower in the upper ranges of quality than in the lower and middle ranges. If this is so then deterioration of a product in the upper quality ranges has to be fairly substantial before the quality-conscious will exit and switch to the next better variety. Hence the scope for, and resort to, the voice option will be greatest in these ranges; it will be comparatively slight in the medium- and low-quality ranges.

This finding permits two inferences. First, it can be related to the discussion of education which suggested that the role of voice in fending off deterioration is particularly important for a number of essential services largely defining what has come to be called the "quality of life." Hence, a disconcerting, though far from unrealistic, conclusion emerges: since, in the case of these services, resistance to deterioration requires voice and since voice will be forthcoming more readily at the upper than at the lower quality ranges, the cleavage between the quality of life at the top and at the middle or lower levels will tend to become more marked. This would be particularly the case in societies with upward social mobility. In societies which inhibit passage from one social stratum to another, resort to the voice option is automatically strengthened: everyone has a strong motivation to defend the quality of life at his own station. That cleavages between the upper and lower classes tend to widen and to become more rigid in upwardly mobile societies has become increasingly obvious;

but it has not been an easy observation to make in a culture in which it had long been taken for granted that equality of opportunity combined with upward social mobility would assure both efficiency and social justice.[9]

A rather different inference results if the assumption of a progressive thinning out of varieties at the upper end of the quality scale is brought into contact with the plausible notion that a combination of exit and voice is needed for best results. If this notion is accepted, then the recuperation mechanism may rely too much on exit at the lower end of the quality scale, *but suffer from a deficiency of exit at the upper end.* An illustration of the latter proposition will be found toward the end of the book.

9. The fallacies of this belief were laid bare in Michael Young's incisive satire *The Rise of Meritocracy* (1958, Penguin Edition 1968). See also below, pp. 108–112.

5

How Monopoly Can be Comforted by Competition *

The realization that a tight monopoly is preferable under certain circumstances to a looser arrangement in which competition is present comes hard to a Western economist. Nonetheless, the preceding argument compels recognition that a no-exit situation will be superior to a situation with some limited exit on two conditions:

(1) if exit is ineffective as a recuperation mechanism, but does succeed in draining from the firm or organization its more quality-conscious, alert, and potentially activist customer or members; and

(2) if voice could be made into an effective mechanism once these customers or members are securely locked in.

There are doubtless many situations in which the first condition applies—some additional examples will be given in this and later chapters. The second condition is a very large subject indeed: as was already pointed out, to develop "voice" within an organization is synonymous with the history of democratic control through the articulation and aggregation of opinions and interests.

By itself, the fact that the members or customers are locked in cannot therefore ensure that an effective volume of voice will be forthcoming. As will be argued below, one important way of bringing influence to bear on an organization is to threaten exit to the rival organization. But this threat cannot be made when there is no rival, so that voice is not only handicapped when exit is possible, but also, though in a quite different way, when it is not. Neverthe-

*In writing this chapter I inexcusably failed to refer to John Hicks's celebrated statement of 35 years ago: "The best of all monopoly profits is a quiet life." Had I remembered it, I would have been rather less critical about the economist's neglect of the "lazy monopolist." At the same time, I would have been able to express even more sharply the principal point of the chapter: On certain assumptions about the existence and intensity of voice, competition can afford an even quieter life than does monopoly.—A.O.H., September 30, 1971.

less, it is often possible to make probabilistic statements such as: considering the authority structure and responsiveness of organizations in a given society, and the general readiness of individuals and groups to assert their interests, it is likely that in this or that particular case, voice is going to do a more creditable job of maintaining efficiency when the customers or members are locked in than when some exit is available.[1]

Perhaps the best way of looking at the matter is to recognize that we face here a choice of two evils. Next to the traditional full-fledged monopoly whose dangers and possible abuses have long been exposed, attention should also be paid to those organizations whose monopoly powers are less complete, but who are characterized by sturdy, if undistinguished survival after exit of the more alert customers or members. Often there will be a real question which one of these two institutional varieties is the more unsatisfactory.

The point of view here adopted contrasts with the spirit

1. One may note an interesting symmetry here with the case of perfect competition. As pointed out in ch. 1, n. 1, the firm which produces for a perfectly competitive market finds out about its failings directly through increases in its costs rather than indirectly through customers' reactions because it cannot change either the price or the quality of its product. It will experience losses which will depend on the size of its lapse from efficiency. If the lapse is small, small too will be the losses and the firm will have an opportunity to recover. If one moves just a small step away from perfect competition, to a situation, that is, where the firm has some market power as a price- and quality-maker while demand remains very elastic, then one lands in a very different situation: a small lapse can produce a slightly deteriorated product which will lead to so large a loss of revenue that the firm immediately succumbs. It is now suggested that a similar situation may prevail at the other end of the spectrum. In some situations, a full monopoly may be preferable, from the point of view of the effectiveness of our recuperation mechanisms, to a monopoly just slightly hampered by competition. For this limited competition may result in revenue losses too small to alert management to its failings while it could weaken voice decisively by drawing away from the firm its most vocal customers. At both extremes of perfect competition and pure monopoly the recuperative mechanism may therefore work better than if only a *small step* were made from these extremes in the direction of market power and competitive structure, respectively.

that has long animated the concern over monopoly and the struggle against it. The monopolist has traditionally been expected to utilize to the utmost his ability to exploit the consumer and to maximize profits by restricting production. Public policies have been based primarily on this expectation. Even Galbraith, ordinarily so ready to repudiate the "conventional wisdom," takes this exploitative behavior to be the prime and perhaps only danger which must be guarded against. In his *American Capitalism* he merely pointed out that competition has become an unrealistic alternative to the monopolistic tendencies of advanced capitalist economies and extolled an alternative, already existing remedy, to wit, "countervailing power." But what if we have to worry, not only about the profit-maximizing exertions and exactions of the monopolist, but about his proneness to inefficiency, decay, and flabbiness? This may be, in the end, the more frequent danger: the monopolist sets a high price for his products not to amass super-profits, but because he is unable to keep his costs down; or, more typically, he allows the quality of the product or service he sells to deteriorate without gaining any pecuniary advantage in the process.[2]

In view of the spectacular nature of such phenomena as exploitation and profiteering, the nearly opposite failings which monopoly and market power allow, namely, laziness, flabbiness, and decay have come in for much less scrutiny. To find these problems recognized as public policy issues one has to look beyond the "Anglo-Saxon" world where economic thinking is usually carried on in terms of some maximizing or "taut economy" model. When, a few years ago, a prestigious French economic official put forward proposals for various public controls of business, he did single out incompetence and "abandon"

2. Compare the following remark of a student of Brazilian society: "The large Brazilian landholding is an evil not because it is inhuman and brutal, but because it is inefficient." Jacques Lambert, *Os dois Brasis* (Rio de Janeiro: INEP-Ministerio da Educação e Cultura, 1963), p. 120.

on the part of faltering corporate management as an important problem.[3]

Political power is very much like market power in that it permits the powerholder to indulge either his brutality or his flaccidity. But here again the dangers of abuse of power, of invasion of individuals' rights have—for very good reasons—stood in the center of attention, rather than those of maladministration and bureaucratic ineptitude. Accordingly, the original purpose of the now so widely discussed office of ombudsman was to help redress citizens' grievances against officials who had exceeded the constitutional limits of their power. Later, however, the institution experienced a "shift in its main purpose" which today "has become promotion of better administration," the correction of malpractices and the like.[4] This presumably means that the institution is now also used to correct and reprimand official *indolence* though it was originally devised for the purpose of stemming abuses of power on the part of overactive and overbearing officials.

Such versatility is admirable, but cannot be expected to be the rule. It would be surprising if every one of the safeguards against a monopolist's single-minded pursuit of profits turned out to do double duty as a cure of his propensity toward flabbiness and distraction. Exit-competition is a case in point. While of undoubted benefit in the case of the exploitative, profit-maximizing monopolist, the

3. François Bloch-Lainé, *Pour une réforme de l'entreprise* (Paris: Editions du Seuil, 1963), pp. 54–57, 76–77. "Anglo-Saxon" literature, particularly on trade unions, has paid some attention to the possible existence of "sleepy" or "lazy" monopolies. See, for example, Richard A. Lester, *As Unions Mature* (Princeton: Princeton University Press, 1958), pp. 56--60, and Lloyd G. Reynolds and Cynthia H. Taft, *The Evolution of Wage Structure* (New Haven: Yale University Press, 1956), p. 190. But the exploitative potential of the monopoly has always stood in the center of the discussion and it has been the exclusive motive for regulation and antitrust legislation.

4. Hing Yong Cheng, "The Emergence and Spread of the Ombudsman Institution," *The Annals*, special issue on "The Ombudsman or Citizen's Defender" (May 1968), p. 23.

presence of competition could do more harm than good when the main concern is to counteract the monopolist's tendency toward flaccidity and mediocrity. For, in that case, exit-competition could just fatally weaken voice along the lines of the preceding section, without creating a serious threat to the organization's survival. This was so for the Nigerian Railway Corporation because of the ease with which it could dip into the public treasury in case of deficit. But there are many other cases where competition does not restrain monopoly as it is supposed to, but *comforts and bolsters* it by unburdening it of its more troublesome customers. As a result, one can define an important and too little noticed type of monopoly-tyranny: a limited type, an oppression of the weak by the incompetent and an exploitation of the poor by the lazy which is the more durable and stifling as it is both *unambitious and escapable.* The contrast is stark indeed with totalitarian, expansionist tyrannies or the profit-maximizing, accumulation-minded monopolies which may have captured a disproportionate share of our attention.

In the economic sphere such "lazy" monopolies which "welcome competition" as a release from effort and criticism are frequently encountered when monopoly power rests on location and when mobility differs strongly from one group of local customers to another. If, as is likely, the mobile customers are those who are most sensitive to quality, their exit, caused by the poor performance of the local monopolist, permits him to persist in his comfortable mediocrity. This applies, for example, to small city or "ghetto" stores which lose their quality-conscious patrons to better stores elsewhere as well as to sluggish electric power utilities in developing countries whose more demanding customers will decide at some point that they can no longer afford the periodic breakdowns and will move out or install their own independent power supply.

The United States Post Office can serve as another

example of the lazy monopolist who thrives on the limited exit possibilities existing for its most fastidious and well-to-do customers. The availability of fast and reliable communications via telegraph and telephone makes the shortcomings of the mail service more tolerable; it also permits the Post Office to tyrannize the better over those of its customers who find exit to other communication modes impractical or too expensive.

Those who hold power in the lazy monopoly may actually have an interest in *creating* some limited opportunities for exit on the part of those whose voice might be uncomfortable. Here is a good illustration of the contrast between the profit-maximizing and the lazy monopolist: the former would engage, if he could, in discriminatory pricing so as to extract maximum revenue from its most avid customers, while the lazy monopolist would much rather price these customers out of the market entirely so as to be able to give up the strenuous and tiresome quest for excellence. For the most avid customers are not only willing to pay the highest prices, but are also likely to be most demanding and querulous, in case of any lowering of standards.[5]

Instances of such topsy-turvy (from the point of view of profit maximization) discrimination are not easy to document in economic life, in part perhaps because we have not looked for them very hard and in part simply because price discrimination in general is not easily practiced. But a closely analogous situation is familiar from politics. Latin American powerholders have long encouraged their political enemies and potential critics to remove themselves from the scene through voluntary exile. The

5. There is another way in which the lazy monopolist may be able to rid himself of the voice of these customers: he can extend *just to them* especially high-quality, "gold-plated" service. This would be discrimination with respect to quality rather than to price. The purpose, once again, is not to extract maximum revenue, but to buy "freedom to deteriorate."

right of asylum, so generously practiced by all Latin American republics, could almost be considered as a "conspiracy in restraint of voice." An even more straightforward illustration is supplied by a Colombian law that provided for paying former presidents as many U.S. dollars if they resided abroad as they would receive in Colombian pesos if they lived in their own country. With the U.S. dollar being worth from five to ten pesos while the law was in effect, the officially arranged incentive toward exit of these potential "trouble makers" was considerable.

Even without such special incentives, exit for disgruntled or defeated politicians has always been easier in some countries than in others. The following comparison between politics in Japan and in Latin America supplies another illustration of the corroding influence exit can have on vigorous and constructive political processes via voice:

> The isolation of Japan set rigid boundaries to the possibilities of political opposition. The absence of easy opportunities for tolerable exile was a powerful teacher of the virtues of compromise. The Argentinean newspaper editor in danger of arrest or assassination could slip across the river to Montevideo and still find himself a home, amid familiar sounds and faces and familiar books, easily able to find friends and a new job. (Nowadays, perhaps, he would arrange a refuge in one of the mushrooming international organizations beforehand.) But to all but a tiny fraction of Japanese only one place has ever been home.[6]

In this view, Japan gained an advantage from being a "no-exit" polity while the ever-beckoning opportunity to exit that was characteristic of Hispano-American societies contributed perhaps as much to the factionalism and *personalismo* typical of their politics as the Spanish national character, the *machismo* cult, and similar conventionally given reasons.

6. R. P. Dore, "Latin America and Japan Compared," in John J. Johnson, ed., *Continuity and Change in Latin America* (Stanford: Stanford University Press, 1964), p. 238.