Industry characteristics and interest group formation: An empirical study*

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Abstract. The role of interest groups in the political process has been the subject of much analysis in both political science and economics. However, few studies have examined directly the factors which influence the variation in interest group formation across industrial sectors and between countries. Using data on 75 industrial sectors in 10 countries, we examine the way in which variations in interest group formation are explained by variations in industrial and political characteristics. In cross-sectional empirical relationships we test for the significance of a variety of industry and political variables. Our results indicate that industry characteristics such as the proportion of total demand purchased by households and the concentration ratio are related to variations in interest group formation. We discuss the implications that our results have for recent theoretical work on the effect of interest groups on economic policy.

1. Introduction

There is a long tradition in political science of studies examining the role of interest groups in the political process. This tradition still plays a central part in the analysis of the political system. With the development of the field of public choice, economists have shown increasing interest in the impact of interest groups on political and economic outcomes. Such studies immediately suggest questions that must be addressed in understanding the ultimate determinants of government policies. One must ask which factors affect the distribution of political power across different sectors of society and what circumstances confer advantages on particular groups engaged in the competition for political benefits.

These are large questions and no single study can provide any more than a

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small part of the answer. Here, we focus on the manufacturing sectors of industrialized democracies. Studies examining policy formation often invoke strong assumptions about the sectoral distribution of political power. But these assumptions are usually made on the basis of *ad hoc* observations or *a priori* reasoning. No study has been able to base its theorizing on a multivariate empirical examination of the factors influencing the variation in collective action across industrial sectors and between countries.⁴ Hence, the need for empirical studies on the extent of interest group formation has been frequently recognized (Schlozman and Tierney, 1986: xi).

Using data on 75 industrial sectors in 10 countries, we examine how variations in interest group formation can be explained by variations in industrial and political characteristics. Among the questions that we address are whether increases in industrial concentration spur the formation of interest groups, whether foreign-trade interactions influence group formation, and whether higher government spending leads to more groups.

In Section 2 we develop a systematic categorization of the variables that explain the sources of collective action. That section also examines the properties of our dependent variable, the number of interest groups, particularly its use in measuring interest group activity. Theoretical arguments underlying the explanatory variables follow in Section 3. Section 4 describes the data and the estimation procedures. The results follow in Section 5. Their implications are discussed in Section 6.

2. Categorizing the variables affecting interest group formation

The interest groups examined here represent economic agents within specific sectors of manufacturing industry: they are trade associations. These groups are predominantly the type that Salisbury (1975: 182) calls “sectional” — formed primarily to promote the narrow economic interests of members engaging in similar activities. The absence of labor unions and other groups from our study is dictated by the data source and the aspiration to collect sufficient information to conduct a meaningful cross-sectoral, cross-national study.

Our focus is on the material benefits⁵ that can be obtained through interest group formation.⁶ In this framework, constituent firms support a group only if the group’s actions are within their narrow economic interest. For the groups included here, collective action is the continuation of profit-maximization by other means.

The level of interest group activity will be a function of the benefits that can be obtained through the political process and the obstacles that any group must overcome to obtain these benefits. In the political context, these obstacles include the level of political organization of those groups that are harmed by any