

Reflections on the classics: 'Exit, Voice and Loyalty'



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I'm often asked by people embarking on a career in development, if my time spent at the LSE had any *relevance* to my current work. I generally find this question peculiar. For me, doing a master's degree was an opportunity to expand my horizons and to learn; it wasn't about furthering a career or whatnot.

Nonetheless, having spent the subsequent 17 years working in NGOs and think-tanks, I do occasionally reflect on my time in what was then known as DESTIN (now the Department of International Development). From our Friday evening lectures, to heated seminar debates, who and what I heard did ultimately have a great deal of influence on my

work.

One of the more profound contributions was being introduced by Teddy Brett, in the inaugural year of the Development Management course, to "**Exit, Voice and Loyalty**," a 1970's classic tome by then Harvard Economist, A.O. Hirschman. I don't know if development studies students cover it anymore, but if they don't, they should.

Hirschman's work essentially premised that our institutions, whether private or public, provide a consumer or citizen with two key choices: you can vote with your feet and go elsewhere, as in 'exit'; or you can 'voice' your dissent. What was particularly insightful about his work, was how either action may inspire loyalty, be it to a brand or a public institution. Far from advocating for efficiency through pure competition, which I've always found to be reductionist at best, he seemed to understand the complexity of human interactions with both market and state institutions.

Hirschman never stressed exit over voice. Instead, he urged that we need more voice, and ideally, the right balance between the two to achieve loyalty. Voice inspires reciprocity and civic engagement – necessary pre-requisites for well-functioning firms and institutions alike. Without 'voice' for example, even a private firm may find it too late to bounce back from loss of customers; for public institutions, like a school, exit fails to engender a sense of community needed to ensure a well-functioning school. If those who aren't price sensitive can exit, there is little incentive to improve for those that are stuck there. At the same time, too much voice, or protest, can render an institution unable to make decisions.

Whereas liberal economists traditionally talk about maximising profit and the value of economic choice, they often fail to understand the social impact of such choice. Not Hirschman; he understood perfectly well, and 18 years on from when I was first introduced to his work, his understanding still informs my thinking today.

Since DESTIN my working life has been dominated by advocating for public policy that generally favours public institutions over private, or at the very least a strongly regulated private sector, that includes more 'voice' and less 'exit.' For a time, I specialised in the issue of corporate accountability, and eventually set up **CORE**, which led a campaign that changed UK Company Law to ensure companies and their directors were responsible for managing and reporting their social and environmental impacts. Markets, in our analysis, actually favour a race to the bottom when it comes to ethical behaviour, and so voice – the act of feedback to enable improvement – has to come in the form of civil society stakeholders to inform a company's behaviour. You could argue that our campaign, in some ways, was a manifestation of Hirschman's thesis.



I moved to India last year, and it's here where Hirschman's analysis hit me starkly in the face once again. I see state schools at the lower end failing the population: a lack of basic services, where even in a relatively affluent city like Bangalore, people still defecate in the street and a person is forced to choose a hospital whose care is suspect simply because they can't afford to go elsewhere; a poor worker will work to the bone and save so they can send their child to a fee-paying school to improve their choices, even if it means sacrificing their own well-being; a wealthy individual simply opts out of public services altogether. They (and me for that matter) are fortunate to have that choice. I have running water, functioning electricity (thanks to a back-up generator), and my son goes to a decent private school.

So what choice does the state now have? Would better 'voice' and less 'exit' help these institutions? In the case of India, once the elite have opted out, there appears, at face value, to be little incentive to improve the status quo, as the system is, for the most part, acting in their interests. Greater 'voice' and less exit, however, may actually drive, at least some of the middle and working classes, back to public services. And it may soften Indian's resistance to taxation, which itself undermines the ability of the state to provide. I was struck recently by a quote from the Bogota mayor: "A developed country is not a place where the poor have cars. It's where the rich use public transportation."

I've increasingly heard from leaders of private firms that more investment in India's basic public services are needed if India is to have a better functioning economy in the long-run. Loyalty isn't just about competition between institutions either – India has long-suffered a brain drain that's only getting worse. When I spoke to a colleague the other day, he said that when he was educated in the 90's, well-educated people didn't leave the country for their first degree; now it's expected, regardless of the cost. And many don't come back.

I'm currently working with the **Fairtrade** movement, where we're trying to help Indian farmers grow the ethical market here in India, rather than relying solely on an export market. Loyalty is something **Fairtrade India** is trying to breed, and 'exit' and 'voice' are instruments that the Fairtrade movement has used in spades in the West, in a careful balancing act between the two. Supported by a movement of millions of activists, loyalty to the Fairtrade ethos and brand has driven sales to the billions of Euros over its 25-year history. Without that movement, who have a significant voice in its delivery, especially in the UK, which is the largest market for Fairtrade, there would be little impact. In fact, a perceived loss of voice by the movement in recent years has **led to concerns** that loyalty may recede. This is a threat to the farmers and the companies who have invested in Fairtrade over the years. The right amount of voice is critical for its success and so here in India, we're putting as much effort into growing a movement behind Fairtrade as we're aiming to grow direct sales in the marketplace, by working with communities, schools and civil society.

Studying development may not provide you with practical tools to do your job – filling out log-frames, or how to conduct a workshop – and nor should it, in my view. More importantly it has given me the necessary critical insight into what I'm trying to achieve. And Hirschman's framing, in different contexts, has always provided me with such insight. Like Marx, or Adam Smith, or Amartya Sen, it's imperative reading for anyone wanting to engage in the practice of development, whether it's via markets or states or both.

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