

THE LOGIC OF
COLLECTIVE ACTION

Public Goods
and the
Theory of Groups

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Harvard University Press
Cambridge • Massachusetts
London • England

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B. PUBLIC GOODS AND LARGE GROUPS

The combination of individual interests and common interests in an organization suggests an analogy with a competitive market. The firms in a perfectly competitive industry, for example, have a common interest in a higher price for the industry's product. Since a uniform price must prevail in such a market, a firm cannot expect a higher price for itself unless all of the other firms in the industry also have this higher price. But a firm in a competitive market also has an interest in selling as much as it can, until the cost of producing another unit exceeds the price of that unit. In this there is no common interest; each firm's interest is directly opposed to that of every other firm, for the more other firms sell, the lower the price and income for any given firm. In short, while all firms have a common interest in a higher price, they have antagonistic interests where output is concerned. This can be illustrated with a simple supply-and-demand model. For the sake of a simple argument, assume that a perfectly competitive industry is momentarily in a disequilibrium position, with price exceeding marginal cost for all firms at their present output. Suppose, too, that all of the adjustments will be made by the firms already in the industry rather than by new entrants, and that the industry is on an inelastic portion of its demand curve. Since price exceeds marginal cost for all firms, output will increase. But as all firms increase production, the price falls; indeed, since the industry demand curve is by assumption inelastic, the total revenue of the industry will decline. Apparently each firm finds that with price exceeding marginal cost, it pays to increase its output, but the result is that each firm gets a smaller profit. Some economists in an earlier day may have questioned this result,¹² but the fact that profit-maximizing firms in a perfectly competitive industry can act contrary to their interests as a group is now widely understood and accepted.¹³ A group of profit-maximizing firms can act to reduce their aggregate profits because in perfect competition each firm is, by definition, so small that it can ignore the effect of its output on price. Each firm finds it to its advantage to increase output to the point where mar-

12. See J. M. Clark, *The Economics of Overhead Costs* (Chicago: University of Chicago Press, 1923), p. 417, and Frank H. Knight, *Risk, Uncertainty and Profit* (Boston: Houghton Mifflin, 1921), p. 193.

13. Edward H. Chamberlin, *Monopolistic Competition*, 6th ed. (Cambridge, Mass.: Harvard University Press, 1950), p. 4.

ginal cost equals price and to ignore the effects of its extra output on the position of the industry. It is true that the net result is that all firms are worse off, but this does not mean that every firm has not maximized its profits. If a firm, foreseeing the fall in price resulting from the increase in industry output, were to restrict its own output, it would lose more than ever, for its price would fall quite as much in any case and it would have a smaller output as well. A firm in a perfectly competitive market gets only a small part of the benefit (or a small share of the industry's extra revenue) resulting from a reduction in that firm's output.

For these reasons it is now generally understood that if the firms in an industry are maximizing profits, the profits for the industry as a whole will be less than they might otherwise be.¹⁴ And almost everyone would agree that this theoretical conclusion fits the facts for markets characterized by pure competition. The important point is that this is true because, though all the firms have a common interest in a higher price for the industry's product, it is in the interest of each firm that the other firms pay the cost—in terms of the necessary reduction in output—needed to obtain a higher price.

About the only thing that keeps prices from falling in accordance with the process just described in perfectly competitive markets is outside intervention. Government price supports, tariffs, cartel agreements, and the like may keep the firms in a competitive market from acting contrary to their interests. Such aid or intervention is quite common. It is then important to ask how it comes about. How does a competitive industry obtain government assistance in maintaining the price of its product?

Consider a hypothetical, competitive industry, and suppose that most of the producers in that industry desire a tariff, a price-support program, or some other government intervention to increase the price for their product. To obtain any such assistance from the government, the producers in this industry will presumably have to organize a lobbying organization; they will have to become an active pressure group.¹⁵ This lobbying organization may have to conduct a con-

14. For a fuller discussion of this question see Mancur Olson, Jr., and David McFarland, "The Restoration of Pure Monopoly and the Concept of the Industry," *Quarterly Journal of Economics*, LXXVI (November 1962), 613-631.

15. Robert Michels contends in his classic study that "democracy is inconceivable without organization," and that "the principle of organization is an absolutely essential condition for the political struggle of the masses." See his *Political Parties*,

siderable campaign. If significant resistance is encountered, a great amount of money will be required.¹⁶ Public relations experts will be needed to influence the newspapers, and some advertising may be necessary. Professional organizers will probably be needed to organize "spontaneous grass roots" meetings among the distressed producers in the industry, and to get those in the industry to write letters to their congressmen.¹⁷ The campaign for the government assistance will take the time of some of the producers in the industry, as well as their money.

There is a striking parallel between the problem the perfectly competitive industry faces as it strives to obtain government assistance, and the problem it faces in the marketplace when the firms increase output and bring about a fall in price. *Just as it was not rational for a particular producer to restrict his output in order that there might be a higher price for the product of his industry, so it would not be rational for him to sacrifice his time and money to support a lobbying organization to obtain government assistance for the industry. In neither case would it be in the interest of the individual producer to assume any of the costs himself. A lobbying organization, or indeed a labor union or any other organization, working in the interest of a large group of firms or workers in some industry, would get no assistance from the rational, self-interested individuals in that industry.* This would be true even if everyone in the industry were absolutely convinced that the proposed program was in their interest (though in fact some might think otherwise and make the organization's task yet more difficult).¹⁸

Although the lobbying organization is only one example of the logical analogy between the organization and the market, it is of

trans. Eden and Cedar Paul (New York: Dover Publications, 1959), pp. 21-22. See also Robert A. Brady, *Business as a System of Power* (New York: Columbia University Press, 1943), p. 193.

16. Alexander Heard, *The Costs of Democracy* (Chapel Hill: University of North Carolina Press, 1960), especially note 1, pp. 95-96. For example, in 1947 the National Association of Manufacturers spent over \$4.6 million, and over a somewhat longer period the American Medical Association spent as much on a campaign against compulsory health insurance.

17. "If the full truth were ever known . . . lobbying, in all its ramifications, would prove to be a billion dollar industry." U.S. Congress, House, Select Committee on Lobbying Activities, *Report*, 81st Cong., 2nd Sess. (1950), as quoted in the *Congressional Quarterly Almanac*, 81st Cong., 2nd Sess., VI, 764-765.

18. For a logically possible but practically meaningless exception to the conclusion of this paragraph, see footnote 68 in this chapter.

some practical importance. There are many powerful and well-financed lobbies with mass support in existence now, but these lobbying organizations do not get that support because of their legislative achievements. The most powerful lobbying organizations now obtain their funds and their following for other reasons, as later parts of this study will show.

Some critics may argue that the rational person will, indeed, support a large organization, like a lobbying organization, that works in his interest, because he knows that if he does not, others will not do so either, and then the organization will fail, and he will be without the benefit that the organization could have provided. This argument shows the need for the analogy with the perfectly competitive market. For it would be quite as reasonable to argue that prices will never fall below the levels a monopoly would have charged in a perfectly competitive market, because if one firm increased its output, other firms would also, and the price would fall; but each firm could foresee this, so it would not start a chain of price-destroying increases in output. In fact, it does not work out this way in a competitive market; nor in a large organization. When the number of firms involved is large, no one will notice the effect on price if one firm increases its output, and so no one will change his plans because of it. Similarly, in a large organization, the loss of one dues payer will not noticeably increase the burden for any other one dues payer, and so a rational person would not believe that if he were to withdraw from an organization he would drive others to do so.

The foregoing argument must at the least have some relevance to economic organizations that are mainly means through which individuals attempt to obtain the same things they obtain through their activities in the market. Labor unions, for example, are organizations through which workers strive to get the same things they get with their individual efforts in the market—higher wages, better working conditions, and the like. It would be strange indeed if the workers did not confront some of the same problems in the union that they meet in the market, since their efforts in both places have some of the same purposes.

However similar the purposes may be, critics may object that attitudes in organizations are not at all like those in markets. In organizations, an emotional or ideological element is often also involved. Does this make the argument offered here practically irrelevant?

A most important type of organization—the national state—will serve to test this objection. Patriotism is probably the strongest non-economic motive for organizational allegiance in modern times. This age is sometimes called the age of nationalism. Many nations draw additional strength and unity from some powerful ideology, such as democracy or communism, as well as from a common religion, language, or cultural inheritance. The state not only has many such powerful sources of support; it also is very important economically. Almost any government is economically beneficial to its citizens, in that the law and order it provides is a prerequisite of all civilized economic activity. But despite the force of patriotism, the appeal of the national ideology, the bond of a common culture, and the indispensability of the system of law and order, no major state in modern history has been able to support itself through voluntary dues or contributions. Philanthropic contributions are not even a significant source of revenue for most countries. Taxes, *compulsory* payments by definition, are needed. Indeed, as the old saying indicates, their necessity is as certain as death itself.

If the state, with all of the emotional resources at its command, cannot finance its most basic and vital activities without resort to compulsion, it would seem that large private organizations might also have difficulty in getting the individuals in the groups whose interests they attempt to advance to make the necessary contributions voluntarily.¹⁹

The reason the state cannot survive on voluntary dues or payments,

19. Sociologists as well as economists have observed that ideological motives alone are not sufficient to bring forth the continuing effort of large masses of people. Max Weber provides a notable example:

"All economic activity in a market economy is undertaken and carried through by individuals for their own ideal or material interests. This is naturally just as true when economic activity is oriented to the patterns of order of corporate groups . . .

"Even if an economic system were organized on a socialistic basis, there would be no fundamental difference in this respect . . . The structure of interests and the relevant situation might change; there would be other means of pursuing interests, but this fundamental factor would remain just as relevant as before. It is of course true that economic action which is oriented on purely ideological grounds to the interest of others does exist. But it is even more certain that the mass of men do not act in this way, and it is an induction from experience that they cannot do so and never will . . .

"In a market economy the interest in the maximization of income is necessarily the driving force of all economic activity." (Weber, pp. 319–320.)

Talcott Parsons and Neil Smelser go even further in postulating that "performance" throughout society is proportional to the "rewards" and "sanctions" involved. See their *Economy and Society* (Glencoe, Ill.: Free Press, 1954), pp. 50–69.

but must rely on taxation, is that the most fundamental services a nation-state provides are, in one important respect,²⁰ like the higher price in a competitive market: they must be available to everyone if they are available to anyone. The basic and most elementary goods or services provided by government, like defense and police protection, and the system of law and order generally, are such that they go to everyone or practically everyone in the nation. It would obviously not be feasible, if indeed it were possible, to deny the protection provided by the military services, the police, and the courts to those who did not voluntarily pay their share of the costs of government, and taxation is accordingly necessary. The common or collective benefits provided by governments are usually called "public goods" by economists, and the concept of public goods is one of the oldest and most important ideas in the study of public finance. A common, collective, or public good is here defined as any good such that, if any person X_i in a group $X_1, \dots, X_i, \dots, X_n$ consumes it, it cannot feasibly be withheld from the others in that group.²¹ In

20. See, however, section E of this chapter, on "exclusive" and "inclusive" groups.

21. This simple definition focuses upon two points that are important in the present context. The first point is that most collective goods can only be defined with respect to some specific group. One collective good goes to one group of people, another collective good to another group; one may benefit the whole world, another only two specific people. Moreover, some goods are collective goods to those in one group and at the same time private goods to those in another, because some individuals can be kept from consuming them and others can't. Take for example the parade that is a collective good to all those who live in tall buildings overlooking the parade route, but which appears to be a private good to those who can see it only by buying tickets for a seat in the stands along the way. The second point is that once the relevant group has been defined, the definition used here, like Musgrave's, distinguishes collective good in terms of infeasibility of excluding potential consumers of the good. This approach is used because collective goods produced by organizations of all kinds seem to be such that exclusion is normally not feasible. To be sure, for some collective goods it is physically possible to practice exclusion. But, as Head has shown, it is not necessary that exclusion be technically impossible; it is only necessary that it be infeasible or uneconomic. Head has also shown most clearly that nonexcludability is only one of two basic elements in the traditional understanding of public goods. The other, he points out, is "jointness of supply." A good has "jointness" if making it available to one individual means that it can be easily or freely supplied to others as well. The polar case of jointness would be Samuelson's pure public good, which is a good such that additional consumption of it by one individual does not diminish the amount available to others. By the definition used here, jointness is not a necessary attribute of a public good. As later parts of this chapter will show, at least one type of collective good considered here exhibits no jointness whatever, and few if any would have the degree of jointness needed to qualify as pure public goods. Nonetheless, most of the collective goods to be studied here do display a large measure of jointness. On the definition and importance of public goods, see John G. Head,

other words, those who do not purchase or pay for any of the public or collective good cannot be excluded or kept from sharing in the consumption of the good, as they can where noncollective goods are concerned.

Students of public finance have, however, neglected the fact that *the achievement of any common goal or the satisfaction of any common interest means that a public or collective good has been provided for that group.*²² The very fact that a goal or purpose is *common* to a group means that no one in the group is excluded from the benefit or satisfaction brought about by its achievement. As the opening paragraphs of this chapter indicated, almost all groups and organizations have the purpose of serving the common interests of their members. As R. M. MacIver puts it, "Persons . . . have common interests in the degree to which they participate in a cause . . . which indivisibly embraces them all."²³ It is of the essence of an organization that it provides an inseparable, generalized benefit. It follows that the provision of public or collective goods is the fundamental function of organizations generally. A state is first of all an organization that provides public goods for its members, the citizens; and other types of organizations similarly provide collective goods for their members.

And just as a state cannot support itself by voluntary contributions, or by selling its basic services on the market, neither can other large organizations support themselves without providing some sanction,

"Public Goods and Public Policy," *Public Finance*, vol. XVII, no. 3 (1962), 197-219; Richard Musgrave, *The Theory of Public Finance* (New York: McGraw-Hill, 1959); Paul A. Samuelson, "The Pure Theory of Public Expenditure," "Diagrammatic Exposition of A Theory of Public Expenditure," and "Aspects of Public Expenditure Theories," in *Review of Economics and Statistics*, XXXVI (November 1954), 387-390, XXXVII (November 1955), 350-356, and XL (November 1958), 332-338. For somewhat different opinions about the usefulness of the concept of public goods, see Julius Margolis, "A Comment on the Pure Theory of Public Expenditure," *Review of Economics and Statistics*, XXXVII (November 1955), 347-349, and Gerhard Colm, "Theory of Public Expenditures," *Annals of the American Academy of Political and Social Science*, CLXXXIII (January 1936), 1-11.

22. There is no necessity that a public good to one group in a society is necessarily in the interest of the society as a whole. Just as a tariff could be a public good to the industry that sought it, so the removal of the tariff could be a public good to those who consumed the industry's product. This is equally true when the public-good concept is applied only to governments; for a military expenditure, or a tariff, or an immigration restriction that is a public good to one country could be a "public bad" to another country, and harmful to world society as a whole.

23. R. M. MacIver in *Encyclopaedia of the Social Sciences*, VII, 147.

or some attraction distinct from the public good itself, that will lead individuals to help bear the burdens of maintaining the organization. The individual member of the typical large organization is in a position analogous to that of the firm in a perfectly competitive market, or the taxpayer in the state: his own efforts will not have a noticeable effect on the situation of his organization, and he can enjoy any improvements brought about by others whether or not he has worked in support of his organization.

There is no suggestion here that states or other organizations provide *only* public or collective goods. Governments often provide noncollective goods like electric power, for example, and they usually sell such goods on the market much as private firms would do. Moreover, as later parts of this study will argue, large organizations that are not able to make membership compulsory *must also* provide some noncollective goods in order to give potential members an incentive to join. Still, collective goods are the characteristic organizational goods, for ordinary noncollective goods can always be provided by individual action, and only where common purposes or collective goods are concerned is organization or group action ever indispensable.²⁴

C. THE TRADITIONAL THEORY OF GROUPS

There is a traditional theory of group behavior that implicitly assumes that private groups and associations operate according to principles entirely different from those that govern the relationships among firms in the marketplace or between taxpayers and the state. This "group theory" appears to be one of the principal concerns of many political scientists in the United States, as well as a major preoccupation of many sociologists and social psychologists.²⁵ This traditional theory of groups, like most other theories, has been developed by different writers with varying views, and there is accordingly an inevitable injustice in any attempt to give a common

24. It does not, however, follow that organized or coordinated group action is *always* necessary to obtain a collective good. See section D of this chapter, "Small Groups."

25. For a discussion of the importance of "groups" of various sorts and sizes for the theory of politics, see Verba, *Small Groups and Political Behavior*; Truman, *Governmental Process*; and Bentley, *Process of Government*. For examples of the type of research and theory about groups in social psychology and sociology, see *Group Dynamics*, ed. Cartwright and Zander, and *Small Groups*, ed. Hare, Borgatta, and Bales.