political—a part of the governing process of the country—and is to be studied specifically as such. Moreover, the corporation as activity will be represented through its members, along with other corporations, in various organizations, which operate in the political field; and the activity of all these organizations is part of government in the intermediate sense.

2

THE LOGIC OF COLLECTIVE ACTION

MANCUR OLSON

It is often taken for granted, at least where economic objectives are involved, that groups of individuals with common interests usually attempt to further those common interests. Groups of individuals with common interests are expected to act on behalf of their common interests much as single individuals are often expected to act on behalf of their personal interests. This opinion about group behaviour is frequently found not only in popular discussions but also in scholarly writings. Many economists of diverse methodological and ideological traditions have implicitly or explicitly accepted it. This view has, for example, been important in many theories of labour unions, in Marxian theories of class action, in concepts of 'countervailing power', and in various discussions of economic institutions. It has, in addition, occupied a prominent place in political science, at least in the United States, where the study of pressure groups has been dominated by a celebrated 'group theory' based on the idea that groups will act when necessary to further their common or group goals. Finally, it has played a significant role in many well-known sociological studies.

The view that groups act to serve their interests presumably is based upon the assumption that the individuals in groups act out of self-interest. If the individuals in a group altruistically disregarded their personal welfare, it would not be very likely that collectively they would seek some selfish common or group objective. Such altruism, is, however, considered exceptional, and self-interested behaviour is usually thought to be the rule, at least when economic issues are at stake; no one is surprised when individual businessmen seek higher profits, when individual workers seek higher wages, or when individual consumers seek lower prices. The idea that groups tend to act in support of their group interests is supposed to follow logically from this widely accepted premiss of rational, self-interested behaviour. In other words, if the members of some group

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have a common interest or objective, and if they would all be better off if that objective were achieved, it has been thought to follow logically that the individuals in that group would, if they were rational and self-interested, act to achieve that objective.

But it is not in fact true that the idea that groups will act in their self-interest follows logically from the premiss of rational and self-interested behaviour. It does not follow, because all of the individuals in a group would gain if they achieved their group objective, that they would act to achieve that objective, even if they were all rational and self-interested. Indeed, unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interests. In other words, even if all of the individuals in a large group are rational and self-interested, and would gain if, as a group, they acted to achieve their common interest or objective, they will still not voluntarily act to achieve that common or group interest. The notion that groups of individuals will act to achieve their common or group interests, far from being a logical implication of the assumption that the individuals in a group will rationally further their individual interests, is in fact inconsistent with that assumption. This inconsistency will be explained in the following chapter.

If the members of a large group rationally seek to maximize their personal welfare, they will not act to advance their common or group objectives unless there is coercion to force them to do so, or unless some separate incentive, distinct from the achievement of the common or group interest, is offered to the members of the group individually on the condition that they help bear the costs or burdens involved in the achievement of the group objectives. Nor will such large groups form organizations to further their common goals in the absence of the coercion or the separate incentives just mentioned. These points hold true even when there is unanimous agreement in a group about the common good and the methods of achieving it.

The widespread view, common throughout the social sciences, that groups tend to further their interests, is accordingly unjustified, at least when it is based, as it usually is, on the (sometimes implicit) assumption that groups act in their self-interest because individuals do. There is paradoxically the logical possibility that groups composed of either altruistic individuals or irrational individuals may sometimes act in their common or group interests. But, as later, empirical parts of this study will attempt to show, this logical possibility is usually of no practical importance. Thus the customary

view that groups of individuals with common interests tend to further those common interests appears to have little if any merit.

None of the statements made above fully applies to small groups, for the situation in small groups is much more complicated. In small groups there may very well be some voluntary action in support of the common purposes of the individuals in the group, but in most cases this action will cease before it reaches the optimal level for the members of the group as a whole. In the sharing of the costs of efforts to achieve a common goal in small groups, there is however a surprising tendency for the 'exploitation' of the great by the small....

The kinds of organizations that are the focus of this study are expected to further the interests of their members.[1] Labour unions are expected to strive for higher wages and better working conditions for their members; farm organizations are expected to strive for favourable legislation for their members; cartels are expected to strive for higher prices for participating firms; the corporation is expected to further the interests of its stockholders;[2] and the state is expected to further the common interests of its citizens (though in this nationalistic age the state often has interests and ambitions apart from those of its citizens).

Notice that the interests that all of these diverse types of organizations are expected to further are for the most part common interests: the union members' common interest in higher wages, the

[1] Philanthropic and religious organizations are not necessarily expected to serve only the interests of their members; such organizations have other purposes that are considered more important, however much their members 'need' to belong, or are improved or helped by belonging. But the complexity of such organizations need not be debated at length here, because this study will focus on organizations with a significant economic aspect. The emphasis here will have something in common with what Max Weber called the 'associative group'; he called a group associative if 'the orientation of social action with it rests on a rationally motivated agreement'. Weber contrasted his 'associative group' with the 'communal group' which was centred on personal affection, erotic relationships, etc., like the family. (See Max Weber (1947 translation), *Theory of Social and Economic Organisation*, trans. Parsons, Talcott, and Henderson (New York: Oxford University Press), 136–9, and Grace Coyle, *Social Process in Organized Groups* (New York: Richard Smith Inc., 1930), 7–9.) The logic of the theory developed here can be extended to cover communal, religious, and philanthropic organizations, but the theory is not particularly useful in studying such groups.

[2] That is, its members. This study does not follow the terminological usage of those organization theorists who describe employees as 'members' of the organization for which they work. Here it is more convenient to follow the language of everyday usage instead, and to distinguish the members of, say, a union from the employees of that union. Similarly, the members of the union will be considered employees of the corporation for which they work, whereas the members of the corporation are the common stockholders.

farmers' common interest in favourable legislation, the cartel members' common interest in higher prices, the stockholders' common interest in higher dividends and stock prices, the citizens' common interest in good government. It is not an accident that the diverse types of organizations listed are all supposed to work primarily for the common interests of their members. Purely personal or individual interests can be advanced, and usually advanced most efficiently, by individual, unorganized action. There is obviously no purpose in having an organization when individual, unorganized action can serve the interests of the individual as well as or better than an organization; there would, for example, be no point in forming an organization simply to play solitaire. But when a number of individuals have a common or collective interest—when they share a single purpose or objective—individual, unorganized action (as we shall soon see) will either not be able to advance that common interest at all, or will not be able to advance that interest adequately. Organizations can therefore perform a function when there are common or group interests, and though organizations often also serve purely personal, individual interests, their characteristic and primary function is to advance the common interests of groups of individuals. . . .

Even when unorganized groups are discussed, at least in treatments of 'pressure groups' and 'group theory', the word 'group' is used in such a way that it means 'a number of individuals with a common interest'. It would of course be reasonable to label even a number of people selected at random (and thus without any common interest or unifying characteristic) as a 'group'; but more discussions of group behaviour seem to deal mainly with groups that do have common interests. As Arthur Bentley, the founder of the 'group theory' of modern political science, put it, 'there is no group without its interest'.[3] The social psychologist Raymond Cattell was equally explicit, and stated that 'every group has its interest'.[4] This is also the way the word 'group' will be used here.

Just as those who belong to an organization or a group can be presumed to have a common interest,[5] so they obviously also have

[3] Arthur Bentley, *The Process of Government* (Evanston, Ill.: Principia Press, 1949), 211. David B. Truman takes a similar approach; see his *The Governmental Process* (New York: Alfred A. Knopf, 1958), 33–5. See also Sidney Verba, *Small Groups and Political Behaviour* (Princeton, NJ: Princeton University Press, 1961), 12–13.

[4] Raymond Cattell, 'Concepts and Methods in the Measurement of Group Syntality', in *Small Groups*, ed. A. Paul Hare, Edgard F. Borgatta, and Robert F. Bales (New York: Alfred A. Knopf, 1955), 115.

[5] Any organization or group will of course usually be divided into subgroups or factions that are opposed to one another. This fact does not weaken the assumption made here that organizations exist to serve the common interests of members, for the assumption does not imply that intragroup conflict is neglected. The opposing groups

purely individual interests, different from those of the others in the organization or group. All of the members of a labour union, for example, have a common interest in higher wages, but at the same time each worker has a unique interest in his personal income, which depends not only on the rate of wages but also on the length of time that he works.

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,[6] but the fact that profit-maximizing firms in a perfectly

within an organization ordinarily have some interest in common (if not, why would they maintain the organization?), and the members of any subgroup or faction also have a separate common interest of their own. They will indeed often have a common purpose in defeating some other subgroup or faction. The approach used here does not neglect the conflict within groups and organizations, then, because it considers each organization as a unit only to the extent that it does in fact attempt to serve a common interest, and considers the various subgroups as the relevant units with common interests to analyse the factional strife.

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

competitive industry can act contrary to their interests as a group is now widely understood and accepted.[7] 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 marginal 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.[8] 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 programme, 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.[9] This lobbying organization may have to conduct a

[7] Edward H. Chamberlin, *Monopolistic Competition*, 6th edn. (Cambridge, Mass.: Harvard University Press, 1950), 4.

[8] 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*, 76 (1962), 613–31.

[9] Robert Michels contends in his classic study that 'democracy is inconceivable without organization', and that 'the principle of organization is an absolutely

considerable campaign. If significant resistance is encountered, a great amount of money will be required.[10] 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.[11] 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 market-place 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 labour 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 programme was in their interest (though in fact some might think otherwise and make the organization's task yet more difficult).

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

essential condition for the political struggle of the masses'. See his *Political Parties*, trans. Eden Paul and Cedar Paul (New York: Dover Publications, 1959), 21–2. See also Robert A. Brady, *Business as a System of Power* (New York: Columbia University Press, 1943), 193.

[10] Alexander Heard, *The Costs of Democracy* (Chapel Hill, NC: University of North Carolina Press, 1960), esp. 95–6 n. 1. 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.

[11] 'If the full truth were ever known . . . lobbying, in all its ramifications, would prove to be a billion dollar industry.' US 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, 764–5.