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PUBLIC GOODS AND THE THEORY OF GROUPS

MANGUR OLSON

# THE LOGIC OF COLLECTIVE ACTION

Public Goods and the Theory of Groups

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### Preface, 1971

Since both the hardcover and paperback editions of this book are being reprinted at about the same time, this is a good occasion to consider making changes. It would be possible to amend the argument of the book, to add several ideas that have occurred to me since it was written, and to consider related work others have recently done. But I have decided against any such major revision. There has been no change in my views to justify rewriting the present text. Some of the ideas I would add to any new edition have already appeared in articles. It would take too long to deal adequately with what others have written. Accordingly, what I have done instead is to prepare a short Appendix. It provides any interested reader a guide to the articles I have done on the subject of this book and discusses an intriguing idea for further work that commentators on the book have proposed. This Appendix begins on page 169.

Though the memory of most favors fades in a short time, that has not been the case with my gratitude to the critics who helped me when the book was being written. I often have occasion to see that the reaction to the book would have been less generous (or more reserved) had early drafts not been criticized so well. The critic who was most helpful of all was Thomas Schelling of Harvard University. Though neither he nor my other critics are responsible for the faults of the book, much of whatever use it has had is due particularly to his criticisms. Edward C. Banfield and Otto Eckstein also criticized this study most helpfully when it was a draft of a Ph.D. thesis at Harvard. When the undertaking was in the prospectus stage, I benefited greatly from the criticisms of Samuel Beer, John Kenneth Galbraith, Carl Kaysen, and Talcott Parsons. As I began to revise the thesis for publication, I received uncommonly helpful comments from Alan Holmans, Dale Jorgenson, John Kain, Douglas Keare, Richard Lester, and George von Furstenberg. Also, at various stages in the process of making this book, William Baumol, David Bayley, Arthur Benavie, James Buchanan, Edward Claiborn, Aldrich Finegan, Louis Fourt, Gerald Garvey, Mohammed Guessous, W. E. Hamilton, Wolfram Hanrieder, Stanley Kelley, Roland McKean, Richard Musgrave, Robert Reichardt, Jerome Rothenberg, Craig Stubblebine, Gordon Tullock, Alan Williams, and Richard Zeckhauser made notable and constructive criticisms. Finally, I hope the dedication to my wife indicates how much I appreciate her help and encouragement. In addition to all of the other things she has done for me and for our three children, she helped with both the style and substance of this book.

I am also thankful that Professor F. A. von Hayek took the initiative in arranging for the translation of this book into German and in contributing a foreword to the German translation.

My work on this book was generously supported by the Social Science Research Council, the Shinner Foundation, and the Center for International Studies at Princeton University. I am also thankful to the Brookings Institution, whose hospitality greatly furthered my work on this and on a previous book.

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#### Introduction

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 behavior 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 labor 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 wellknown 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 behavior 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 premise of rational, self-interested behavior. In other words, if the members of some group have a common interest or objective, and if they would all be better off if tnat 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 premise of rational and selfinterested behavior. 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 proofs of all of the logical statements that have been made above are contained in Chapter I, which develops a logical or theoretical explanation of certain aspects of group and organizational behavior. Chapter II examines the implications of this analysis for groups of different size, and illustrates the conclusion that in many cases small groups are more efficient and viable than large ones. Chapter III considers the implications of the argument for labor unions, and draws the conclusion that some form of compulsory membership is, in most circumstances, indispensable to union survival. The fourth chapter uses the approach developed in this study to examine Marx's theory of social classes and to analyze the theories of the state developed by some other economists. The fifth analyzes the "group theory" used by many political scientists in the light of the logic elaborated in this study, and argues that that theory as usually understood is logically inconsistent. The final chapter develops a new theory of pressure groups which is consistent with the logical relationships outlined in the first chapter, and which suggests that the membership and power of large pressure-group organizations does not derive from their lobbying achievements, but is rather a byproduct of their other activities.

Though I am an economist, and the tools of analysis used in this book are drawn from economic theory, the conclusions of the study are as relevant to the sociologist and the political scientist as they are to the economist. I have, therefore, avoided using the diagrammatic-mathematical language of economics whenever feasible. Unfortunately, many noneconomists will find one or two brief parts of the first chapter expressed in an obscure and uncongenial way, but all of the rest of the book should be perfectly clear, whatever the reader's disciplinary background.

## I

# A Theory of Groups and Organizations

#### A. THE PURPOSE OF ORGANIZATION

Since most (though by no means all) of the action taken by or on behalf of groups of individuals is taken through organizations, it will be helpful to consider organizations in a general or theoretical way. The logical place to begin any systematic study of organizations is with their purpose. But there are all types and shapes and sizes of organizations, even of economic organizations, and there is then some question whether there is any single purpose that would be characteristic of organizations generally. One purpose that is nonetheless characteristic of most organizations, and surely of practically all organizations with an important economic aspect, is the furtherance of the interests of their members. That would seem obvious, at least from the economist's perspective. To be sure, some organizations may out of ignorance fail to further their members' interests, and others may be enticed into serving only the ends of the leadership.

<sup>1.</sup> Economists have for the most part neglected to develop theories of organizations, but there are a few works from an economic point of view on the subject. See, for example, three papers by Jacob Marschak, "Elements for a Theory of Teams," Management Science, I (January 1955), 127-137, "Towards an Economic Theory of Organization and Information," in Decision Processes, ed. R. M. Thrall, C. H. Combs, and R. L. Davis (New York: John Wiley, 1954), pp. 187-220, and "Efficient and Viable Organization Forms," in Modern Organization Theory, ed. Mason Haire (New York: John Wiley, 1959), pp. 307-320; two papers by R. Radner, "Application of Linear Programming to Team Decision Problems," Management Science, V (January 1959), 143-150, and "Team Decision Problems," Annals of Mathematical Statistics, XXXIII (September 1962), 857-881; C. B. McGuire, "Some Team Models of a Sales Organization," Management Science, VII (January 1961), 101-130; Oskar Morgenstern, Prolegomena to a Theory of Organization (Santa Monica, Calif.: RAND Research Memorandum 734, 1951); James G. March and Herbert A. Simon, Organizations (New York: John Wiley, 1958); Kenneth Boulding, The Organizational Revolution (New York: Harper, 1953).

<sup>2.</sup> Max Weber called attention to the case where an organization continues to exist for some time after it has become meaningless because some official is making a living out of it. See his *Theory of Social and Economic Organization*, trans. Talcott Parsons and A. M. Henderson (New York: Oxford University Press, 1947), p. 318.

But organizations often perish if they do nothing to further the interests of their members, and this factor must severely limit the number of organizations that fail to serve their members.

The idea that organizations or associations exist to further the interests of their members is hardly novel, nor peculiar to economics; it goes back at least to Aristotle, who wrote, "Men journey together with a view to particular advantage, and by way of providing some particular thing needed for the purposes of life, and similarly the political association seems to have come together originally, and to continue in existence, for the sake of the *general* advantages it brings." More recently Professor Leon Festinger, a social psychologist, pointed out that "the attraction of group membership is not so much in sheer belonging, but rather in attaining something by means of this membership." The late Harold Laski, a political scientist, took it for granted that "associations exist to fulfill purposes which a group of men have in common." <sup>5</sup>

The kinds of organizations that are the focus of this study are expected to further the interests of their members. Labor unions are expected to strive for higher wages and better working conditions for their members; farm organizations are expected to strive for favorable 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; and the state is expected

- 3. Ethics viii.9.1160a.
- 4. Leon Festinger, "Group Attraction and Membership," in *Group Dynamics*, ed. Dorwin Cartwright and Alvin Zander (Evanston, Ill.: Row, Peterson, 1953), p. 93.
- 5. A Grammar of Politics, 4th ed. (London: George Allen & Unwin, 1939), p. 67.
  6. 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 centered on personal affection, erotic relationships, etc., like the family. (See Weber, pp. 136–139, and Grace Coyle, Social Process in Organized Groups, New York: Richard Smith, Inc., 1930, pp. 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. See my pp. 61n17, 159–162.
- 7. 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

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 farmers' common interest in favorable 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.

The assumption that organizations typically exist to further the common interests of groups of people is implicit in most of the literature about organizations, and two of the writers already cited make this assumption explicit: Harold Laski emphasized that organizations exist to achieve purposes or interests which "a group of men have in common," and Aristotle apparently had a similar notion in mind when he argued that political associations are created and maintained because of the "general advantages" they bring. R. M.

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.

MacIver also made this point explicitly when he said that "every organization presupposes an interest which its members all share." 8

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 most discussions of group behavior 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." The social psychologist Raymond Cattell was equally explicit, and stated that "every group has its interest." 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, 11 so they obviously also have purely individual interests, different from those of the others in the organization or group. All of the members of a labor 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.

- 8. R. M. MacIver, "Interests," Encyclopaedia of the Social Sciences, VII (New York: Macmillan, 1932), 147.
- 9. Arthur Bentley, *The Process of Government* (Evanston, Ill.: Principia Press, 1949), p. 211. David B. Truman takes a similar approach; see his *The Governmental Process* (New York: Alfred A. Knopf, 1958), pp. 33–35. See also Sidney Verba, *Small Groups and Political Behavior* (Princeton, N.J.: Princeton University Press, 1961), pp. 12–13.
- 10. 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), p. 115.
- 11. 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 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 analyze the factional strife.

#### 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 profitmaximizing 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-

<sup>12.</sup> 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.

<sup>13.</sup> 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. <sup>14</sup> 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.<sup>16</sup> This lobbying organization may have to conduct a con-

<sup>14.</sup> 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.

<sup>15.</sup> 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*,