Chapter 1
Designing Institutions

1-1

from *The Logic of Collective Action*

Mancur Olson Jr.

With the publication of The Logic of Collective Action *in 1965, Mancur Olson Jr. introduced the fundamental dilemma of collective action to all who study politics. When members of a group agree to work together to achieve a collective goal, each member as an individual faces powerful disincentives, Olson showed, that can frustrate the efforts of the group as a whole. For example, when each can foresee that his or her relatively small contribution to a collective enterprise will not affect its overall success, many will fail to contribute—a phenomenon known as free riding—and leave to everyone else the burden of supplying the collective good. As a consequence, collective enterprises based on cooperation, and supported by the entire collectivity, nevertheless often fail.*

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

Source: Mancur Olson Jr., *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1971), 1–19.

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 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 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 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 premise of rational and self-interested behavior. It does *not* follow . . . 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. . . .

A Theory of Groups and Organizations

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.[1] 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.[2] 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."[3] 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."[4] 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."[5]

The kinds of organizations that are the focus of this study are *expected* to further the interests of their members.[6] 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;[7] 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 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. . . . As Arthur Bentley, the founder of the "group theory" of modern political science, put it, "there is no group without its interest."[8] The social psychologist Raymond Cattell was equally explicit, and stated that "every group has its interest."[9] 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,[10] 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.

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. . . .

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.[11] 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.[12] This lobbying organization may have to conduct a considerable campaign. If significant resistance is encountered, a great amount of money will be required.[13] 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.[14] 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).

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. . . .

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.[15]

The reason the state cannot survive on voluntary dues or payments, but must rely on taxation, is that the most fundamental services a nation-state provides are, in one important respect, 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 $X_1, \ldots, X_i, \ldots, X_n$ consumes it, it cannot feasibly be withheld from the others in that group.[16] In 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.[17] 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."[18] 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, 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 . . . 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.[19]

NOTES

1. 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).

2. 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.

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 Olson, pp. 61*n*17, 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 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.

8. 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.

9. Raymond Cattell, "Concepts and Methods in the Measurement of Group Syntality," in *Small Groups,* eds. A. Paul Hare, Edgard F. Borgatta, and Robert F. Bales (New York: Alfred A. Knopf, 1955), p. 115.

10. 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.

11. 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.

12. 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*, 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.

13. 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.

14. "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.

15. 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 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.

16. 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, "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.

17. 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.

18. R. M. MacIver in *Encyclopaedia of the Social Sciences*, VII (New York: Macmillan, 1932), 147.

19. It does not, however, follow that organized or coordinated group action is *always* necessary to obtain a collective goal.