collective action

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Abstract

The logic of collective action undermines the assumption that common interests are always promoted by their beneficiaries. Where the number of beneficiaries is large, the benefits of collective action are a public good: beneficiaries will gain whether or not they participate in promoting them, while their individual efforts cannot secure them. Small groups can use selective incentives to ensure that their members contribute to promoting their common interests. This typically results in the paradoxical 'exploitation of the great by the small'. The logic of collective action helps explain many notable examples of economic growth and stagnation since the Middle Ages.

Keywords

anarchy; bargaining; cartels; class conflict; collective action; collective bargaining; collusion; common interests; countervailing power; encompassing organizations; excess burden; exploitation; Galbraith, K.; group theory; industrial revolution; invisible hand; latent groups; lobbying; mercantilism; non-excludability; Olson, M.; patronage dividends; public choice; public goods; revelation of preferences; Samuelson, P.; selective incentives; Smith, A.; strategic behaviour; technical progress; trade unions; Wicksell, J.

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For a long while, economists, like specialists in other fields, often took it for granted that groups of individuals with common interests tended to act to further those common interests, much as individuals might be expected to further their own interests. If a group of rational and self-interested individuals realized that they would gain from political action of a particular kind, they could be expected to engage in such action; if a group of workers would gain from collective bargaining, they could be expected to organize a trade union; if a group of firms in an industry would profit by colluding to achieve a monopoly price, they would tend to do so; if the middle class or any other class in a country had the power to dominate, that class would strive to control the government and run the country in its own interest. The idea that there was some tendency for groups to act in their common interests was often merely taken for granted, but in some cases it played a central conceptual role, as in some early American theories of labour unions, in the 'group theory' of the 'pluralists' in political science, in J.K. Galbraith's concept of 'countervailing power', and in the Marxian theory of class conflict.

More recently, the explicit analysis of the logic of individual optimization in groups with common interests has led to a dramatically different view of collective action. If the individuals in some group really do share a common interest, the furtherance of that common interest will automatically benefit each individual in the group, whether or not he has borne any of the costs of collective action to further the common interest. Thus the existence of a common interest need not provide any incentive for individual action in the group interest. If the farmers who grow a given crop have a common interest in a tariff that limits the imports and raises the price of that commodity, it does not follow that it is rational for an individual farmer to pay dues to a farm organization working for such a tariff, for the farmer would get the benefit of such a tariff whether he had paid dues to the farm organization or not, and his dues alone would be most unlikely to determine whether or not the tariff passed. The higher price or wage that results from collective action to restrict the supply in a market is similarly available to any firm or worker that remains in that market, whether or not that firm or worker participated in the output restriction or other sacrifices that obtained the higher price or wage. Similarly, any gains to the capitalist class or to the working class from a government that runs a country in the interests of that class, will accrue to an individual in the class in question whether or not that individual has borne the costs of any collective action. This, in combination with the extreme improbability that a given individual's actions will determine whether his group or class wins or loses, entails that a typical individual, if rational and self-interested, would not engage in collective action in the interest of any large group or class.

Analytically speaking, the benefits of collective action in the interest of a group with a common interest are a public or collective good to that group; they are like the public goods of law and order, defence, and pollution abatement in that voluntary and spontaneous market mechanisms will not provide them. The fundamental reality that unifies the theory of public goods with the more general logic of collective action is that ordinary market or voluntary action fails to obtain the objective in question. It fails because the benefits of collective or public goods, whether provided by governments or non-governmental associations, are not subject to exclusion; if they are received by one individual in some group, they automatically also go to the others in that group (Olson, 1965).

Since many groups with common interests obviously do not have the power to tax or any comparable resource, the foregoing logic leads to the prediction that many groups that would gain from collective action will not in fact be organized to act in their common interests. This prediction is widely supported. Consumers have a common interest in opposing the legislation that gives various producer groups supra-competitive prices, and they would sometimes also have a common interest in buyers' coalitions that would countervail producer monopolies, but there is no major country where most consumers are members of any organization that works predominantly in the interest of consumers. The unemployed similarly share a common interest, but they are nowhere organized for collective action. Neither do most taxpayers, nor most of the poor, belong to organizations that act in their common interest (Austen-Smith, 1981; Brock and Magee, 1978; Chubb, 1983; Hardin, 1982; Moe, 1980; Olson, 1965).

Though some groups can never act collectively in their common interest, certain other groups can, if they have ingenious leadership, overcome the difficulties of collective action, though this usually takes quite some time. There are two conditions either of which is ultimately sufficient to make collective action possible. One condition is that the number of individuals or firms that would need to act collectively to further the common interest is sufficiently small; the other is that the groups should have access to ‘selective incentives’.

The way that small numbers can make collective action possible at times is most easily evident on the assumption that the individuals in a group with a common interest are identical. Suppose there are only two large firms in an industry and that each of these firms will gain equally from any government subsidy or tax loophole for the industry, or from any supra-competitive price for its output. Clearly each firm will tend to get the benefit of any lobbying it does on behalf of the industry, and this can provide an incentive for some unilateral action on behalf of the industry. Since each firm’s action will have an obvious impact on the profits of the other, the firms will have an incentive to interact strategically with and bargain with one another. There would be an incentive to continue this strategic interaction or bargaining until a joint maximization or ‘group optimal’ outcome had been achieved. This same logic obviously also applies to collective action in the form of collusion to obtain a supra-competitive price, and thus we obtain the well-known incentive for oligopolistic collusion in concentrated industries whenever there are significant obstacles to or costs of entry. As the number in a group increases, however, the incentive to act collectively diminishes; if there are ten identical members of a group with a common interest, each gets a tenth of the benefit of unilateral action in the common interest of the group, and if there are a million, each gets one millionth. In this last case, even if there were some incentive to act in the common interest, that incentive would cease long before a group-optimal amount of collective action had taken place. Strategic interaction or voluntary bargaining will not occur since no two individuals have an incentive to interact strategically or to bargain with one another. This is because the failure of one individual to support collective action will not them have any perceptible effect on the incentive any other individual faces so there is no incentive for strategic interaction or rational bargaining. Thus we obtain the result that, in time, sufficiently small groups can act collectively, but that this incentive for collective action decreases monotonically as the group gets larger and disappears entirely in sufficiently large or ‘latent’ groups.

When the parties that would profit from collective action have very different demand curves, the party with the highest absolute demand for collective action will have an incentive to engage in some amount of collective action when no other member of the group has such an interest. This leads to a paradoxical ‘exploitation of the great by the small’. This is true to a greater degree and is evident much more simply if income effects are ignored, as in the demand curves for a collective good depicted in the figure below. When the party with the highest demand curve for the collective good, D_h, has obtained the amount of the collective good, Q_1, that is in its interest unilaterally to provide, any and all parties with a lower demand curve, such as D_s, will automatically receive this same amount, and thus have no incentive to provide any amount at all! (Olson, 1965). When income effects and certain ‘private good’ aspects of some collective goods are taken into account the results are less extreme, but a distribution of burdens disproportionality unfavourable to the parties with the absolutely larger demands tends to remain. This disproportion has been evident, for example, in various military alliances and international organizations, in cartels, and in metropolitan areas in which metropolis-wide collective goods are provided by independent municipalities of greatly different size (Olson and Zeckhauser, 1966; Sandler, 1980) Figure 1.

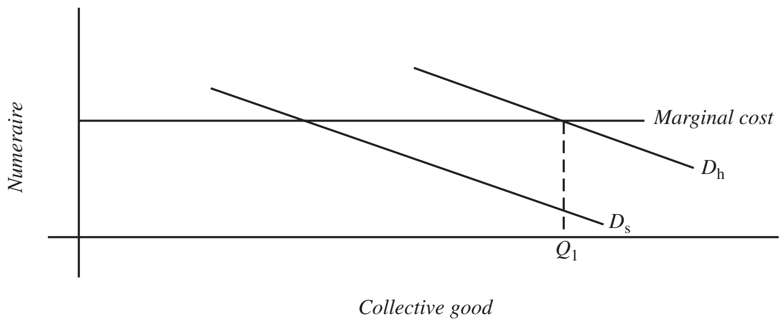

Figure 1

The other condition, besides small numbers, that can make collective action possible, is ‘selective incentives’. Those large groups that have been organized for collective action for any substantial period of time are regularly found to have worked out special devices, or selective incentives, that are functionally equivalent to the taxes that enable governments to provide public goods (Olson, 1965; Hardin, 1982). These selective incentives either punish or reward individuals depending on whether or not they have borne a share of the costs of collective action, and thus give the individual an incentive to contribute to collective action that no good that is or would be available to all could provide. The most obvious devices of this kind are the ‘closed shop’ and picket line arrangements of labour unions, which often make union membership a condition of employment and control the supply of labour during strikes (see, for example, McDonald, 1969; Gamson, 1975). Upon investigation it becomes clear that labour unions are not in this respect fundamentally different from other large organizations for collective action, which regularly have selective incentives that, though usually less conspicuous than the closed shop or the picket line, serve the same function.

Farm organizations in several countries, and quite notably in the United States, obtain most of their membership by deducting the dues in farm organizations from the ‘patronage dividends’ or rebates of farm cooperatives and insurance companies that are associated with the farm organizations. The professional associations representing such groups as physicians and lawyers characteristically have either relatively discreet forms of compulsion (such as the ‘closed bar’) or subtle individual rewards to association members, such as access to professional publications, certification, referrals, and insurance. In small groups, and sometimes in large ‘federal’ groups that are composed of many small groups, social pressure and social rewards are also important sources of selective incentives.

The selective incentives that are needed if large groups are to organize for collective action are less often available to potential entrants or those at the lower levels of the social order than to established and well-placed groups. The unemployed, for example, obviously do not have the option of making membership of an organization working in their interest a condition of employment, nor do they naturally congregate as the employed do at workplaces where picket lines may be established. Those who would profit from entering a cartelized industry or profession are similarly almost always without selective incentives. Experience in a variety of countries also confirms that those with higher levels of education and skill have better access to selective incentives than lower income workers; highly trained professionals such as physicians and attorneys usually come to be well organized before labour unions emerge, and the unions of skilled workers normally emerge before unions representing less skilled workers. The correlation between income and established status and access to selective incentives works in the same direction as the lesser difficulty of collective action of small groups of large firms in relatively concentrated industries explained above. Together these two factors generate a tendency for collective action to have, in the aggregate though not in all cases, a strong anti-egalitarian and pro-establishment impact (Olson, 1984).

The study of collective action goes back to the beginnings of economics, but then came to be strangely neglected during most of the rest of the history of the subject. Though this is not generally realized, the study of collective action, admittedly only in an inductive and intuitive way, was a crucial part of Adam Smith's analysis of the inefficiencies and inequities in the economies he observed (Smith, 1776). Smith even noted that the main beneficiaries of collective action in his time were by no means the poor or those of average means. He also emphasized the tendency for urban interests to profit from collective action at the expense of rural people, because the geographical dispersion of agricultural interests areas made it more difficult for them to combine to exert political influence or to fix prices; this emphasis presumably owed something to the poor transportation and communication systems in his day, which presumably obstructed the organization of rural interests more in his time than it does in developed countries now.

The label that Adam Smith gave to the set of public policies, monopolistic combinations, and ideas that he attacked was, after all, 'mercantilism', because the single most important source of the evils was the collective action of merchants, or merchants and 'masters', especially those organized into guilds or 'corporations'. In his discussions of the 'Inequalities Occasioned by the Policy of Europe' and of 'The Rent of Land' (Bk. I, ch. 10, pt. ii and ch. 11), Smith emphasized that 'whenever the legislature attempts to regulate the differences between masters and their workmen, its counsellors are always the Masters'. Similarly,

> it is everywhere much easier for a rich merchant to obtain the privilege of trading in a town corporate, than for a poor artificer to obtain that of working in it. . . Though the interest of the labourer is strictly connected with that of the society . . . his voice is little heard and less regarded.

The rural interests are similarly at a disadvantage, according to Smith, especially as compared with those in 'trade and manufacturers':

> The inhabitants of a town, being collected into one place, can easily combine together. The most insignificant trades carried on in towns have accordingly, in some place or another, been incorporated . . . voluntary associations and agreements prevent that free competition which they cannot prohibit. . .. The trades which employ but a small number of hands run most easily into such combinations. . .. People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.

By contrast, 'the inhabitants of the country, dispersed in distant places, cannot easily combine together'.

These passages, though not in the order they appear in Smith, nonetheless correctly convey his alertness to collective action. Though the handicap that rural interests face in organizing for collective action is far less in developed countries today than it was in Smith's time, even this part of his argument still generally holds true in the developing countries, where transportation and communication in the rural areas are poor, peasants are generally unrepresented, and agricultural commodities normally underpriced (Anderson and Hayami, 1986; Schultz, 1978; Olson, 1985).

Adam Smith's insights into collective action and its consequences were ignored until recent times. Presumably one reason is that most economists in the 19th and early 20th centuries were mainly interested in the logic of the case for competitive markets. The logic of collective action, by contrast, is really a general statement of the logic of market failure; it embodies the central insight of the theories of public goods and externalities, that markets and voluntary market-type arrangements do not generally work in those cases where the beneficiaries of any collective good or benefit cannot be excluded because they have not paid any purchase price or dues (Baumol, 1952). It was not until Knut Wicksell's New Principle of Just Taxation' was published in German in 1896 (Musgrave and Peacock, 1967) that any economist revealed a clear understanding of the nature of public goods, and only with the publication of Samuelson's articles in the 1950s (Samuelson, 1955) that this idea came to be generally understood in the English-speaking world.

A second obstacle to the development of the logic of collective action was that collective action by governments was normally taken for granted. Notwithstanding the difficulties of collective action, anarchy is relatively rare because a government that provides some sort of law and order quickly takes over. This in turn is due to conquerors and the gains they obtain in increased tax revenues from establishing some system of law and order and property rights. In the absence of the provision of these most elemental collective goods, there is not much for a conqueror to take, so the historic first movement of the invisible hand is evident in the incentive conquerors have to establish law and order. Those who lead the governments that succeed conquerors obviously must maintain a system of law and order if they are to continue collecting significant tax revenues. Since governments providing basic collective goods have been ubiquitous, the classic writers on public goods like Wicksell and Samuelson did not even ask how collective goods emerged in the first place. They focused instead on how to determine what was an appropriate sharing of the tax burdens and on the difficulty of determining what level of provision of public goods was Pareto-optimal. This in turn naturally led to Wicksell's recommendation that only those public expenditures that could, with an approximate allocation of the tax burdens, command approximate unanimity, should normally be permitted, and to Samuelson's and Musgrave's (1959) concern for the non-revelation of preferences for public goods. The difficulties of collective action and public good provision on a voluntary basis therefore naturally did not gain any theoretical attention.

When, as in the new political economy or public choice, the focus is also on the efforts of extra-governmental groups to obtain the gains from lobbying, cartelization, and collusion, and on private action to obtain collective benefits of other kinds, a more general conception becomes natural (Barry and Hardin, 1982; Olson, 1965; Taylor, 1976). It then becomes clear that the likelihood of voluntary collective action depends dramatically on the size of the group that would gain from collective action. When a group is sufficiently small and there is time for the needed bargaining, the desired collective goods will normally be obtained through voluntary cooperation (Frohlich, Oppenheimer, and Young, 1971). If there are substantial differences in the demands for the collective good at issue, there will be the aforementioned paradoxical 'exploitation of the great by the small'. When the number of beneficiaries of collective action is very large, voluntary and straightforward collective action is out of the question, and taxes or other selective incentives are indispensable. Selective incentives are available only to a subset of those extra-governmental groups that would gain from collective action. Even those extra-governmental groups that do have the potential of organizing through selective incentives will usually have great difficulty in working out these (often subtle) devices, and will normally succeed in overcoming the great difficulties of collective action only when they have relatively ingenious leadership and favourable circumstances.

If follows that it is only in long-stable societies that many extra-governmental organizations for collective action will exist. In societies where totalitarian repression, revolutionary upheavals, or unconditional defeat have lately destroyed organizations for collective action, few groups will have been able in the time available to have overcome the formidable difficulties of collective action. It has been shown elsewhere (Mueller, 1983; Olson, 1982), that (unless they are very 'encompassing') organizations for collective action have extraordinarily anti-social incentives; they engage in distributional struggles, even when the excess burden of such struggles is very great, rather than in production. They also will tend to make decisions slowly and thereby retard technological advance and adaptations to macroeconomic and monetary shocks. It follows that societies that have been through catastrophes that have destroyed organizations for collective action, such as Germany, Japan, and Italy, can be expected to enjoy 'economic miracles'. An understanding of collective action also makes it possible to understand how Great Britain, the country that with industrial revolution discovered modern economic growth and had for nearly a century the world's fastest rate of economic growth, could by now have fallen victim to the 'British disease'. The logic of collective action, in combination with other theories, also makes it possible to understand many of the other most notable examples of economic growth and stagnation since the Middle Ages, and also certain features of macroeconomic experience that contradict Keynesian, monetarist, and new classical macroeconomic theories (Balassa and Giersch, 1986).

See Also

- bargaining
- collective action (new perspectives)
- public choice
- social choice

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