

# **The *Logic of Collective Action* and Beyond**

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**Abstract:** This article provides an overview of Mancur Olson’s *Logic of Collective Action* and its impact on Olson’s subsequent work. It also suggests that the implications of his simple, elegant, theory have not yet been fully worked out. To illustrate this point, the second half of the essay demonstrates that the number of privileged and latent groups and their costs in a given society are not entirely determined by economic factors or group size alone. Politics, technology, and culture also matter.

## **1. Introduction**

Mancur Olson was the master of what might be called the one idea book. This is not to say that his books had only one idea, but that each had one grand idea that motivated all the rest. In the case of the *Logic of Collective Action*, the central idea was that collective action is itself often a pure public good. Thus, collective action cannot be relied upon to solve public goods and coordination problems in large unorganized groups. This idea was applied to the grand issues of his day: to labor unions, to the Marxist theory of class action, and to interest group politics of various kinds such as those associated with the labor and Grange movements. As I once heard Mancur say, “to a young man with a new hammer, the whole world looks like a nail.” Yet, Olson’s applications of the core idea of the *Logic* were by no means a matter of blunt force. His arguments were fine grained as he contrasted his theory with others available at the time he wrote and as he applied his ideas in numerous case studies. This general approach was a hallmark of his two other big books as well.

This paper provides an overview of Olson’s classic work and suggests further extensions somewhat in the spirit of Wagner’s (1966) review of the *Logic*. Section 2 provides

an overview of Olson's core model of collective action and of his first applications of that idea. Section 3 suggests that his other two very influential books (Olson 1982, 2000) were also grounded in the *Logic* and can be regarded as further applications of his analysis of collective action.

Sections 4 and 5 argue that the line of research begun in the *Logic* has not yet been exhausted. Section 4 suggests that the costs of mobilizing a group can be explored in more detail and are at least partly endogenous. Section 5 suggests that his model can be extended to account for cultural determinants of both privileged and latent groups. It also notes that the motivating ideas for collective action may be encompassing rather than narrow, which implies that not all interest group activity by small groups has negative effects on political and economic systems.

## **2. A short overview of the *Logic of Collective Action***

Although the *Logic* has been cited thousands of times, it is mainly the central idea that gets mentioned, rather than the framework supporting it. Thus, it is useful to review the main elements of Olson's schema for thinking about group action before revisiting his applications of his model and before suggesting ways in which his analysis can be extended. The purpose of this section is to remind readers of the logic behind the *Logic*. His framework is arguably more general and flexible than are some of his conclusions.

Olson begins by assuming that men and women are mainly self-interested and so focus on their own costs and benefits when engaging in collective action. Next, he assumes that the relevant private costs and benefits are affected by group size and the nature of the interests that characterize a "group." Olson considers two types of ends that groups may attempt to promote through collective action. These, in turn, have implications for a group's natural size. "Inclusive" groups attempt to advance ends for which the "more the merrier" rule holds. Groups focused on such interests benefit from increases in membership because costs fall as they are shared and/or because the effectiveness of collective action increases with numbers. In contrast, "exclusive" groups attempt to advance aims for which average benefits fall as the

number of group members increases. Such groups tend to include the smallest number of members sufficient to advance their ends.<sup>1</sup>

With respect to membership, he divides groups into three rough categories: small groups (privileged), intermediate groups, and large groups (latent). In privileged groups, the members have private interests greatly exceed their private costs for collective action, and so they are each inclined to pursue those interests even without a formal organization. An intermediate group is one in which no member has sufficient private interests to advance the collective interest on his or her own, although the group is small enough that any contributions made by others can easily be recognized. Intermediate groups require an organization to advance shared interests, but their organizations have relatively low monitoring and enforcement costs. Large groups tend to remain unorganized (and thus “latent”) because they require a more sophisticated organization to advance shared interests. Individual contributions have essentially undetectable effects on average costs and benefits. Members of latent groups therefore are difficult to organize even when their aggregate net benefits from collective action are far larger than their aggregate organization costs.<sup>2</sup>

With respect to intermediate and latent groups, Olson argues that collective action requires organizing private rewards and/or punishments sufficient to motivate individual members. These are referred to as “selective” incentives. In the absence of selective incentives, members of an intermediate or latent group would not contribute voluntarily to their group’s efforts to advance collective ends, whether this be the direct production of a service or lobbying for mutually advantageous policy reforms. In this, Olson anticipates much of the microeconomics of contracts and theory-of-the firm literatures that emerged in the following decades.

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<sup>1</sup> The relationship between group size and organizational possibilities is also discussed in Buchanan and Tullock (1962, chs. 14 and 19), but their analysis is limited to decision costs and the design of an organization’s constitutional framework. Riker (1962) develops an idea related to Olson’s exclusive groups in his analysis of political coalitions. The *Logic* may be said to have generalized these ideas. Olson’s characterization of the aims of “inclusive” and “exclusive” groups was largely displaced by the spectrum of good types suggested by Buchanan (1965).

<sup>2</sup> Olson refers to a large group that somehow manages to organize as a “mobilized latent” group, a somewhat awkward term of expression, which is fairly rare in his writing.

Most of Olson's attention in the *Logic* is focused on latent groups with inclusive interests, although the other cases are also discussed. In subsequent work, the behavior of privileged groups with exclusive interests shifts to center stage.<sup>3</sup>

From this very spare characterization of individual incentives and group types, Olson deduces a number of broad conclusions, which are used to analyze several major issues of his day, some of which have largely disappeared from public discourse a half century later—arguably in part because of his penetrating analysis. Among his conclusions is the most mentioned: other things being equal, the larger the group and smaller the average benefits associated with membership, the less likely a group is to be organized or effective at advancing shared interests. Conversely, the smaller the group and larger average member interests, the more likely it is to organize and advance its shared interests. A secondary implication is that all active groups, except a few “privileged” groups, have formal organizations of some kind that dispense rewards, punishments, or combinations of the two sufficient to induce members to advance their group's interests. Privileged groups may also organize to increase their effectiveness.

Olson uses his schema to analyze (i) the pluralist public interest theory of collective action (Bentley 1908; Truman 1951), (ii) the Marxist theory of class, (iii) the organizational structures of labor unions, and (iv) the effectiveness of several other large, politically active groups. Both public interest and Marxist theories are argued to be inconsistent with rationality on the part of a group's members. In both cases, members, whether advancing general or class interests, would free ride rather than participate in or support the group activities that advance those interests. Broad policy interests are public goods freely available to all group members, whereas participation in the activities to secure them is costly and borne by each active member of a group. In the absence of a group organization armed with selective incentives, no “public interest” or “class” promoting activities would occur. Neither public interest nor class movements are likely to arise spontaneously.

This is not to say that large interest groups are never observed. However, an organization of some kind is required to advance the shared interests of most groups. Labor unions, for example, are formal organizations that use a variety of selective incentives to

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<sup>3</sup>See Sandler (1992) and Cornes and Sandler (1996) for somewhat more fine-grained classifications of collective ends and types of groups.

motivate the group activities necessary to obtain higher wages or improve working conditions for their members. These often include some degree of control over employment, job descriptions, and wages. Moreover, unions tend to be most effective in industries that have monopoly power. In such cases, the number of firms whose labor has to be organized is relatively small and wage increases can more easily be passed on to consumers. Unions are also more likely to be organized when membership requirements are supported by government policies (and coercion), as with rights to adopt “closed shops” by a majority vote of union members and rules against firing labor organizers.

The *Logic* also has implications for the manner in which large organizations tend to be organized. Large organizations tend to have federal structures. A federal structure is used to create national, regional, and local privileged subgroups with sufficient interest in their organization’s objectives to invest their time and energy in advancing collective interests. A handful of “privileged” persons direct the organization as a whole, and similar “privileged” groups direct the regional and local subunits. In this manner, the *Logic* can be used to explain the emergence of hierarchical organizational structures. Privileged subgroups throughout such organizations (e.g., leaders, activists, and coordinators) are encouraged with selective incentives to call forth the efforts of other less motivated members.

Although large organizations are possible, in general, the groups that are most likely to obtain special privileges from governments are not latent groups, but small privileged groups. They can more easily organize to lobby governments for preferential laws and regulations than larger groups. To the extent that latent groups do organize, as with labor unions, their organizations will provide a variety of services that are available only to members. They may secure discounts for useful services or inputs (as with insurance or healthcare), provide useful information through magazines and journals, and sponsor social events of interest to members. Lobbying by such groups is often simply icing on the cake of private services available to dues-paying members.

### **3. Olsonian extensions of the *Logic* to prosperity, growth, and the emergence of civilization**

As a project, the *Logic* was simple enough to be summarized with a sentence or two, but insightful enough to open vast new avenues for research on a host of topics previously

unknown or thought settled in sociology, political science, economics, and biology. In retrospect, it seems natural that it was an influential book. The book includes an excellent model, which is supported by fine writing and erudition. The latter clearly added credibility to this young scholar's simple, elegant theory. Olson was just 33 years old when he published the *Logic*.<sup>4</sup>

Originally written as his doctoral dissertation, the *Logic* continued to ground Olson's work for the rest of his life. His next influential book, *The Rise and Decline of Nations* (Olson 1982), uses the exclusive interest group model developed in the *Logic* to account for differences in national incomes, growth rates, inequality, unemployment, and susceptibility to business cycles. Again the arguments are fine grained and well crafted. Again the main points are easy to summarize and case studies are used to support his theory. Again his analysis sheds light on mainstream topics in the daily newspapers and from economic history.

In *Rise and Decline*, Olson notes that differences in the interests and relative effectiveness of privileged and latent groups can account for many of the problems associated with life in society. Privileged groups have relatively narrow and limited interests, which make them more effective at lobbying government for preferential policies. Privileged groups expect to capture most of the benefits of the policies lobbied for—often simply additional profits or higher salaries. However, they will bear only a very small portion of any deadweight losses associated with their tax, trade, and regulatory privileges. Latent groups bear most of those costs through higher prices, transaction costs, and taxes.

As the number of politically active groups increases, more and more special privileges are created (and defended). As time passes, distributive politics therefore tends to increase the associated complexity and rigidity of entry barriers, tax codes, tariff schedules, regulatory law, and other policies creating group privileges. That rigidity, in turn, makes the economic and political systems less adaptable and less innovative. Inequality increases as privileges proliferate and economic growth falls because of the deadweight losses from regulation and

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<sup>4</sup>McGuire's (1998) memorial essay on Olson notes that Olson's first book was actually a book on economic history, Olson (1963), written while an assistant professor at the U.S. Air Force Academy. The *Logic* was Olson's first important book. The book manuscript for the *Logic* was finished while an assistant professor at Princeton University. It was published two years before he left Princeton for the University of Maryland in 1967. McGuire notes, however, that the *Logic* was not immediately influential. Rowley (2014) provides excerpts from several early reviews of Olson's most famous book that affirms that conclusion.

increased rigidity. The members of well-organized groups become relatively richer, while members of latent groups, who bear the costs without associated benefits, become relatively poorer. Unemployment rises and the amplitude of business cycles increases, because of the market's reduced ability to adjust to micro- and macroeconomic shocks. Olson's analysis of politically active interest groups is very different from the benign one developed by Becker (1983) who, like Bentley (1908), ignores differences between privileged and latent groups.

Olson's analysis provides a microeconomic explanation for the correlation between growth rates and inequality found in contemporary empirical international research that is largely absent from that research.<sup>5</sup> According to Olson's theory, merely reducing inequality through tax and transfer policies (were this politically possible) would not solve slow-growth problems, unless legislation creating privileges and competition-free zones is also repealed, and new legislation to encourage open competitive markets is adopted.

However, the inability of latent groups to organize makes such reforms unlikely. Only great shocks that cut through the Gordian knot generated by the lobbying activities of privileged groups is likely to restore an economy to a high growth path.

World War II is an example of such a great shock, and economies whose polities were disrupted by that war generally grew much faster after the war than before it. Exceptions to this general rule occur in cases in which the most powerful groups have "encompassing interests," which in *Rise and Decline* occur only when the distributional coalitions include a large fraction of the total population of persons affected by their policies. The members of very large groups bear a substantial fraction of the costs associated with their privileges. Insofar as the costs of privilege are more fully accounted for (internalized) by group decisionmaking, fewer privileges are sought and deadweight losses tend to be lower.<sup>6</sup>

In contrast to the rent-seeking literature, Olson stresses the "Harberger" losses associated with interest group activities rather than the resources consumed by the process of obtaining privileges. Adding such losses to his analysis would simply strengthen many of his conclusions, as argued below in section 4.

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<sup>5</sup>Olson, for example is not cited in the widely read book by Piketty (2014).

<sup>6</sup>The existence of encompassing groups is used in *How Bright are the Northern Lights* (Olson 1990) to account for Scandinavian success relative to much of the rest of Europe.

In his last major book, *Power and Prosperity* (2000), interest groups play only a cameo role but still implicitly provide its logical foundation. Although the language of *Power and Prosperity* (2000) tends to rely upon singular nouns for the most part, Olson is again analyzing the incentives of privileged exclusive groups. Both roving and stationary bandits are privileged in the sense that they are relatively small groups with well-defined interests and so able to overcome their organizational problems. Their collective aims require the organization of coercive force. Creating that force allows them to steal from large latent groups, whose latency implies that the bandits face only unorganized opposition. The same organization of force allows stationary bandits to impose rules and taxes on their unorganized subjects. The powers that stationary bandits and roving bandits are presumed to exercise are clearly not available to single men or women acting alone.

Both roving and stationary bandits are exclusive groups in the typography of the *Logic*, because they “extract” personal income (private goods) from unorganized (latent) groups and thus member shares of the plunder fall as the group size increases. Such groups will be as small as consistent with the necessary production of force. In contrast, those subject to their power are large groups whose aggregate interests are greater, but who cannot organize to defend themselves. The oppressed remain latent groups.<sup>7</sup>

Interpreted in this way, *Power and Prosperity*, like *Rise and Decline*, is simply another extended application of the *Logic of Collective Action*. Roving bandit gangs, as true of the privileged groups of the previous books, benefit from “theft” without bearing a significant fraction of the costs associated with their actions. Stationary bandit gangs, in contrast, bear a larger portion of the cost of their actions, because rates of present-day plunder substantially determine opportunities for future harvests. The latter provides a stationary bandit organization such as the Mafia or a ruling Junta with reasons to restrain their “annual harvests” (confiscations, taxation, fees, and regulatory policies) that roving bandits lack.

As with home gardeners, stationary bandits may also provide services and infrastructure that increase the size of the “crop” to be harvested in the future. These include

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<sup>7</sup>Of course, such life and death threats might induce latent groups to mobilize. For example, the Netherlands, Switzerland, and the United States all arguably began as defense alliances. In this manner, the threat of roving bandits can provide a social-compact-based explanation for the emergence of productive states, although one neglected in *Power and Prosperity*.



law, order, and highways as well as national defense (to exclude roving bandits from their territories). The existence of control over more or less fixed territories thus provides an explanation for the services that nearly all stable autocracies “freely” provide their citizens. Such states are productive, although not benevolent. The services provided are only those that increase their long-run tax base or otherwise advance the interests of government office holders.

In this manner, Olson demonstrates that the encompassing interests of stationary bandits provides a plausible explanation for the emergence of civilizations grounded in conquest and taxation, rather than social contract and public goods.<sup>8</sup> The subjects are better off under stationary bandits than they would be without the services provided, but are directly and indirectly taxed at long-term net-revenue maximizing rates.

*Power and Prosperity* also provides a new, non-numerical, foundation for encompassing interests. Stationary bandit states have encompassing interests because of their ability to impose and collect taxes during long periods of time, rather than because of the size of their group.

Majority coalitions in democracies tend to have somewhat more encompassing interests than dictators because of their numbers, which normally represent approximately half of the voting members of their societies. Nonetheless, in Olson’s analysis it is possible that a democracy will have a smaller GNP than a stable autocracy if the revenue-maximizing marginal tax rates under dictatorship exceed 50%. Such a ruling junta would capture more than half of the social surplus and so have a more encompassing interest than a ruling majority coalition.<sup>9</sup> Nonetheless, the typical resident of a democracy will live a better life, because the fruits of power have to be more widely shared and public services other than those that increase the tax base are provided.

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<sup>8</sup>Congleton (2011, ch. 4) argues that formal agreements on taxation between a stationary bandit gang and the communities to be expropriated may also increase future harvests. Thus, constitutional governance can also emerge within a stationary bandit model of the state.

<sup>9</sup>This point conflicts somewhat with Olson’s discussion of political parties in the *Logic*, where he argues that “Political machines are able to develop well-articulated organizational structures, then, because they strive mainly for benefits that accrue to particular individuals, rather than for the common interests of any large group” (Olson 1965, p. 165). It also bears noting that political parties are rather odd groups, because they have an inclusive range up to 50%, but become exclusive groups shortly beyond that insofar as transfers or other privileges can be targeted at its own members.

In this final extension of the *Logic*, Olson demonstrates that it can explain much of human history, as well as differences among contemporary societies and their rates of economic development. It is a powerful, encompassing theory.

#### 4. Extending the *Logic*: Endogenous organizational costs and the extent of collective action

In the half century since the *Logic* was first published, many other scholars have used Olson's core ideas in their work. Refinements added new rigor to some of his main arguments; extensions applied Olson's model of collective action to new circumstances. Statistical tests of its implications have been carried out (with mixed success as usual for such theories), and critical assessments provided. See McGuire (1998), Cornes and Sandler (1996), Heckelman and Coates (2007), and Pecorino (2015) for overviews and examples of such efforts. The *Logic* is among the most influential works in social science in large part because it has influenced so many other high-impact research projects.

In this and the following section of this paper, I suggest that further refinements and extensions remain possible even after a half century of active, productive, research.

In most applications and extensions of the *Logic*, organizational costs are assumed to be exogenous. Organizational costs are presumed to be of the technological variety, analogous to those used in economic analyses of production by organized groups that economists refer to as "firms." And, as in most economic analysis, technology is usually assumed to be constant during the period of interest. Nonetheless, technological innovations clearly can affect organizational costs, privilege and latency, and thereby the extent of collective action. Relevant innovations include those associated with communication, as with writing, paper, the printing press, telegraph, Internet, cell phones, and tweets. In addition, managerial and contracting innovations may reduce the cost of organizing or increase the effectiveness of collective action. Olson's analysis implies that as organizational marginal costs fall, the number of groups and extent of collective action tend to rise, other things being equal.

It bears noting, however, that organizational costs are not entirely technological. Public policies also affect organization costs. Standing rules that regulate the dissemination of ideas or limit association also affect organizational costs. Groups may have to obtain permission to meet, register their members, face restrictions on venue, and/or pay special fees. Such rules often favor some forms of collective action over others and some groups over others. For example, peacefully lobbying for economic reform may be tolerated, but not for political

reform. The standing rules may exempt some groups from fees and taxes while regulating entry by rival groups as, for example, laws against blasphemy favor existing churches by punishing rivals promoting other doctrines.

All this implies that “privilege” and “latency” are partly matters of public policy. The *Logic*, in turn, implies that these policies are partly the result of the past efforts of interest groups. The public policies and constitutional provisions obtained by previous generations of interest groups thus partly determine the extent of and deadweight losses from collective action in the present.

#### **4.1. Politics, policies, and long run economic development**

Olson’s analysis in the *Rise and Decline* suggests that organizational cost-increasing policies can increase average income and growth rates, while reducing inequality, because they reduce the number or influence of distributional coalitions. For example, rules that make cartels more difficult to organize tend to have this effect. Other rules may promote distributional politics that reduce average income and growth rates and increase inequality.

Standing rules and procedures that favor a subset of potential interest groups over others tend to increase the preferred groups' relative effectiveness and thereby the degree to which they are likely to obtain their desired public policies. Thus policies favoring a subset of privileged groups tends to be associated with fewer entry barriers and other privileges, but stronger ones, because the opposition remains unorganized and is more likely to be ignored. For example, the producers of steel and sugar may acquire more restrictive trade barriers if consumers of steel and sugar are not permitted to organize an opposition.

The rules privileging particular interest groups will be defended by those same groups, whose privileges provide them with the resources for doing so. This "lock in" effect of privileges provides a possible microeconomic explanation for the long-term stability of relative incomes and growth rates found in empirical work on long-term economic development. Standing rules and procedures partly determine the mix of privileged and latent groups and the losses associated with their action and inaction, respectively.

## 4.2. Constitutional political economy and the cost of interest groups

To the extent that such rules include, or may be regarded as, constitutional rules, Olson's analysis has implications for constitutional design. Losses produced by distributional coalitions will be important considerations at constitutional conventions whenever the interests of latent groups are expected to be better represented in constitutional negotiations than in subsequent day-to-day politics. In such cases, constitutional provisions may attempt to discourage or limit distributive politics through "takings" clauses and electoral competition. Rights of association, press, and political speech may also be protected. Such rules provide a partial explanation for differences in the average income, growth rates, and extent of inequality in liberal democracies and dictatorships grounded in effects on distributional politics.

Interest group activities tend to be more common in liberal democracies than in illiberal authoritarian ones, because bills of rights and similar constraints prohibit democracies from interfering with freedom of association and political speech. To the extent that distributional interest groups may operate behind the scenes (e.g., in a manner not noticeable to the average voter) large numbers of distributional groups are likely to form and advocate economic privileges of various kinds. Indeed, there may be so many of these that even moderately informed voters are aware of only a small fraction of those groups and their privileges. However, in democracies these "smoke-filled-room" effects are countered to some extent by the greater influence of groups with encompassing interests.

Only groups with encompassing interests are likely to influence enough voters to have an impact on elections and thereby on broad public policies.<sup>10</sup> Because of that influence, rights of political speech and association together with elective offices of governance indirectly promote the formation of groups with encompassing interests. Their efforts tend to reduce the deadweight losses associated with the policies advocated by privileged groups. Examples include the deregulation campaigns of the late 1970s and early 1980s, and free-trade lobbying groups. Opposition to economic privileges is often part of the informational campaigns for elective office in democracies.

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<sup>10</sup> Such groups could, of course, receive support from distributional coalitions, who expect to benefit from more encompassing policies. See Congleton (1991) for an analysis of the efforts of ideological and economic interest groups on public policies.

In authoritarian regimes, rights of association are more limited, which tends to reduce the ability of all sorts of groups to form, but often does so in a manner that promotes the formation of distributive coalitions relative to encompassing ones. The activities of groups favoring broad policy reforms, especially political reforms, are often aggressively discouraged by punishing the advocates of reform under rules of censorship and sedition. Efforts to modestly change economic policies are, in contrast, often tolerated. Indeed, they may be encouraged insofar as they tend to generate government revenue (Congleton and Lee 2009) or increase loyalty to the regime (Wintrobe 1998). Together these policies tend to encourage the formation of distributive groups and discourage the formation of encompassing groups.

That fewer interest groups with encompassing aims form in authoritarian regimes implies that losses associated with distributive group activities tend to be larger in authoritarian states than in democratic ones, because opposition to privilege is more limited and less likely to be decisive.

Moreover, the rotation of political parties elected to high office tends to promote generalized policies rather than extractive ones (Buchanan and Congleton 1998; Besley and Persson 2009). That policymaking authority routinely shifts among parties and elected officials tends to reduce the returns from interest group activities because any “rents” obtained are uncertain. Privileges may be in place only until the next election.

#### **4.3. Additional losses from collective action: Does the Olsonian world need Tullock losses?**

In *Rise and Decline*, Olson argues that losses associated with the public policies promoted by distributive coalitions include lower long-run growth rates, business cycles with greater amplitudes, and increased inequality. These aggregate losses are larger than the benefits realized by successful privilege seekers, as implied by ordinary static deadweight loss analysis. In the very long run, Olson suggests that such effects can make the consequent tradition-bound, inflexible society susceptible to conquest or dissolution. There are major costs associated with policies that create privileges.

Olson’s accounting, however, neglects costs of the variety focused on by the rent-seeking literature. That literature emerged shortly after the publication of the *Logic* and is for the most part complementary to the conclusions of the *Rise and Decline* and *Power and*

*Prosperity*. The Tullock approach simply adds another source of loss to Olson's analysis, namely those associated with the processes through which privileges or rents are obtained.

In order to obtain privileges (rents), resources are invested in the privilege-seeking industry that could have been used to produce new net benefits rather than deadweight losses for society (Tullock 1967, Krueger 1974). Insofar as rents may be unevenly distributed within those groups, conflict within the organizations seeking rents may also occur (Hillman and Katz 1987). The rent-seeking literature demonstrates that the use of resources in conflict over social and group surplus are another significant source of loss (Congleton and Hillman 2015). Both the resources used in the pursuit of privilege and those drawn into the privileged industries by their higher profits could have been more productively utilized elsewhere in the economy (Tullock 1967; Murphy et al. 1993).

Combining these effects with Olson's analysis provides a more complete assessment of the unfortunate economic and social effects of distributional (rent-seeking) coalitions. The resources consumed in conflict over privilege and the resources drawn into the rent-seeking and privileged sectors of the economy also contribute to slower growth and increased inequality.

## **5. On the nature of human interests and collective action, a further extension**

In addition to extending Olson's analysis of the costs of collective action, useful insights can also be garnered by extending his analysis of the interests advanced through collective action. For example, the *homo economicus* assumption can be softened to provide new insights into the organization and scope of group activities. Such a refinement would simply extend his line of reasoning by accounting for a more complete representation of human interests, although some of the new implications conflict with conclusions developed in Olson's analysis.

Olson's theory of collective action rests firmly on the economist's useful caricature of human nature, *homo economicus*. *Homo economicus* has only narrow and for the most part pecuniary interests. Olson mentions in passing that broader interests are possible, but for the

most part he assumes that the typical member of a group has quite narrow interests.<sup>11</sup> This allows deduction to be used to develop several sharp conclusions. Among these is Olson's essentially numerical characterization of the three types of interest groups: privileged, intermediate, and latent.

However, if only a subset of intermediate and latent groups mobilize, factors other than numbers and average pecuniary interests must have been decisive. If so, a more complete characterization of member interests may account for differences among organized and unorganized groups of approximately the same size. Well-organized effective groups are not always small and unorganized ineffective groups are not always large. If the narrow self-interest assumption is dropped, other explanations for mobilized groups emerge.

### **5.1 Propensities to cooperate**

To illustrate the effect that culture may have, suppose that all groups are the same size and that group members have similar pecuniary benefits at stake. In this case, according to Olson's model the groups are equally likely to be able to organize and engage in collective activity. Suppose, however, that group members differ with respect to their propensities to cooperate or engage in group enterprises. Such dispositions may reflect genetically transmitted behaviors or cultural ones, either of which may emerge if evolution favors individuals who are likely to assemble into effective groups. Such dispositions, at least within limits, may have survival advantages for groups and individuals.<sup>12</sup>

Suppose that both cooperative and homo-economicus types of persons exist in the population of interest. If the two types of individuals are randomly distributed among the groups of interest, higher than average densities will be found in some groups and lower than average densities in others. Those with the highest concentrations of members predisposed to cooperate are most likely to solve their collective action problems, because weaker selective incentives are required to motivate collective action by such groups. The groups with highest

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<sup>11</sup>Olson (1965, p. 161) discusses such possibilities but considers such cases to be instances of irrational behavior, beyond the scope of his analysis (and not very important).

<sup>12</sup>The appendix of Wilson (2014) provides an accessible overview of rival biological theories of group selection. Biologists have recognized the existence of several social species, including humanity, for which group selection evidently has been important.



densities of members with predispositions to cooperate are thus “privileged” relative to those with those with greater densities of more narrowly self interested members.

Note that the groups that engage in collective action are “privileged” not because of their numbers or power to tax, but because of the internalized norms of their members. Other equal-sized but less-fortunate groups lack sufficient numbers of persons predisposed to cooperate and so remain latent.

Privileged groups, of course, need not be composed mostly of cooperators. In large groups, cooperative subgroups may serve as the “mobilizers” or “formeteurs” of organizations that promote shared interests. Small clusters of cooperators may attempt to direct and incentivize their fellow group members in order to realize economies associated with collective action. These mobilizers may adopt rules that attempt to align member interests with those of their organization and to reduce a variety of coordination and PDE (prisoner dilemma with exit) problems. Selective incentives will be created to encourage conformity to the organization’s rules.

In this manner, an organizational structure may emerge in which the most highly motivated serve as leaders, the next easiest to motivate provide a cadre of activists, and other members modestly support the aims of collective action through participation in demonstrations or casting votes. Such organizational structures are common for religious and ideological groups, and are consistent with Olson’s description of the labor and Grange movements of the late nineteenth century.

Taking account of differences in predispositions and internalized norms implies that “privilege” is only partly a consequence of the size and average pecuniary reward of the groups that might profitably undertake collective action. The strength and density of group member propensities to cooperate also matter.

When those propensities are independently and randomly distributed, Olson’s numerical characterization of group latency remains correct on average. Interests that can be advanced by small groups are more likely to organize than those that involve large groups, because fewer cooperators are required in the former than in the latter to initiate collective action. There will be exceptions, however, because of random variation in group member norms. Some small groups will not organize and other larger groups will.

Groups would be even harder to organize than postulated by Olson if free riding or contrariness are also genetically or culturally favored in a given natural setting or society, as would be the case when evolution generates a hawk-dove equilibrium.<sup>13</sup>

If propensities to cooperate are correlated with particular goals for collective action, some interests may be said to be privileged because organized groups are more likely to emerge for those interests than others. For example, firms and other private organizations profit by attracting “team players” to their employ, because it makes team production less costly and more efficient. Thus, industrial and other firm-level coalitions such as local chambers of commerce may be privileged in Olson’s sense because of their membership’s day-to-day recruiting strategies, rather than from the number of members in a given chamber or the magnitude of their pecuniary interests.

In some cases, correlation between propensities to cooperate and particular reform agendas can reduce organizational costs to trivial levels. Here one may note the variety of mass protests that take place in the Mall in Washington D.C. every year. Although not every collective enterprise can succeed by providing mobilizing rhetoric and a venue for speeches and picnics, a surprising range of collective actions can be so motivated.<sup>14</sup>

In general, the effects of propensities to cooperate are most obvious whenever such norms are correlated with particular collective objectives.

## **5.2 Narrow norms that promote collective action**

Collective action is not merely a matter of “cooperation” per se, but the undertaking of particular tasks at particular times in a manner that advances shared interests.<sup>15</sup> Generalized propensities to cooperate may not be sufficient to advance collective goals, because they fail to

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<sup>13</sup> That only a few social species have been identified by biologists suggests that team production is not always highly productive and/or that free riding on such teams is not always easy to identify and punish. Biological and social evolution may thus support a variety of context-specific dispositions, not all of which increase the likelihood of collective action. The simulation studies of Congleton and Vanberg (1992) demonstrate that a variety of strategies may coexist in an evolutionary equilibrium

<sup>14</sup> Game theory often implies mixed strategy equilibria in public goods and free riding games. Such strategies would generate random degrees of cooperation among group members, as with random attendance at events. Mixed strategies provide another source of residuals with respect to predictions about collective action, although one that could not be used to improve the fit of any estimated models of collective action.

<sup>15</sup> See Alchian and Demsetz (1972) for the classic discussion of team production.

motivate the kinds or intensities of effort required for effective collective action. Selective incentives may still be required in many, perhaps most, cases.

Cultural evolution, however, may also support more specific norms that increase the effectiveness or decrease the cost of collective action. Two such norms are sufficient to illustrate this point. An internalized “rule-following norm” makes a person predisposed to defer to the rules of their group or organization. If instructed to do “X if Y,” a “rule follower” will do X if Y without fail as long as X is possible in the situation at hand. Such persons do not need to be fully incentivized with complex contracts or monitoring regimes as long as their duties can be clearly described. As the density of rule-following persons in the latent groups of interest increases, the feasibility of collective action increases, because the cost of collective action decreases. Fewer resources have to be expended on monitoring, punishments, or conditional rewards to produce effective organizations.<sup>16</sup>

Similar effects are associated with what Max Weber (1905/2002) termed a “work ethic.” Persons with an internalized work ethic will tend to work hard and aspire for excellence at any task that the group leadership assigns.<sup>17</sup> Members with an internalized work ethic are self-directed in the sense that given a general task or objective they will devote themselves to advancing it in the best way they are able to. As true of rule followers, such persons need not be fully incentivized to advance shared ends; however, the instructions given to “self-starters” need not be as complete or detailed as for “rule followers.” Such group members simply have to be pointed in the “right” direction, which further reduces organizational costs.

Recruiting persons with useful internalized norms reduces contracting and monitoring costs, increases returns from collective action, and also increases individual member returns from investing in such propensities. As the density of such persons increases, team production becomes less costly, more productive, and so more profitable, which makes groups of all sizes more likely to become organized. Formateurs may also promote the development and strengthening of useful norms within the active membership of the organization and among the latent members of the group.

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<sup>16</sup>The effects of internalized norms can be represented in rational choice terms as an extra “ethical benefit” for engaging in collective action. These benefits reduce the magnitude of the selective incentive required to induce cooperation in a standard non-cooperative public goods game.

<sup>17</sup>Olson (1982, ch. 6) mentions Weber’s work in *Rise and Decline* as an alternative explanation for economic development, but one that he discounts.

### 5.3 Evolutionary support for norms that advance shared interests

The foregoing discussion implies that whether a group is “privileged” (easy to organize) or not is partly a matter of culture, as suggested by de Tocqueville (1835).<sup>18</sup> Groups that remain “latent” in some societies are “privileged” in others, not because of differences in size, but because of differences in propensities to support or advance group aims. A formal organization may still be required to mobilize latent groups, but weaker incentivizing devices are sufficient to do so in societies in which a large fraction of group members are cooperative rule followers, inclined to work effectively on teams.

The collective benefits associated with such norms provide a survivorship explanation for their existence. Insofar as persons with such norms can be identified, they are more likely to be associated with groups that secure benefits for their members. This makes such persons relatively more likely to survive nature’s various biological contests than those with fewer resources. It also implies that they are more likely to be supported in humanity’s social equivalents. They will be recruited for membership in organized groups, and so tend to have larger average incomes and more privileges than those lacking useful predispositions, who are consequently more likely to remain members of latent groups.

Simulation studies of population dynamics are consistent with this conclusion, as in Axelrod (1984) and Vanberg and Congleton (1992). Experimental evidence that such group-enhancing propensities exist is provided in Wilson et al. (2012). In their experiments, clusters of “civil-minded” group members tended to realize higher rewards than their less civil counterparts in otherwise similar circumstances.

Unfortunately, as pointed out in *Rise and Decline*, solutions to collective action problems do not always advance general interests. In many cases, the average member of society is better off (realizes greater net benefits or income) when less rather than more collective action is undertaken. For persons that are only members of latent groups, the effect of an increase in the number of effective distributional interest groups is a reduced standard of living.

Olson’s analysis suggests that predispositions to cooperate and norms that increase interest group productivity are likely to be problematic for society at large, even if they are

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<sup>18</sup>De Tocqueville (1835) argued that cultural differences between France and the United States affected propensities to join organizations. His travels and observations implied that Americans were more disposed to join clubs and political organizations than were the French.

advantageous for the members of politically active groups. There will be more privileged groups and so more distributional policies will be adopted. Complex regulatory and tax regimes will transfer more and more social surplus from unorganized to organized groups, reducing average income for persons that are only members of latent groups and economic growth rates for the society as a whole.

#### **5.4 Encompassing norms**

In a more optimistic vein, Olson also points out that an encompassing interest can reduce the counter-productive impacts of distributional politics. In the *Logic and Rise and Fall*, encompassing interests are produced by group size. In *Power and Prosperity*, encompassing interests are produced by authority. This subsection suggests that internalized norms can also create encompassing interests.

Examples of ethical systems that are inherently “encompassing” include those of contractarians and utilitarians, whose approach to institutions and life generally require adherents to take account of the effects of their actions on all others in the relevant society. Negative impacts on others are permissible within both these normative systems, but only if in the aggregate they generate sufficient benefits. For contractarians, this calculation takes place at the time of institutional choice and ratification of the social contract. Unanimous agreement implies that each person expects the institutions adopted to advance his or her interests net of any costs associated with them. For utilitarians, the calculation takes place in all acts of life, including choices to join interest groups and efforts to promote particular goals within and beyond such groups. The attraction of both these secular normative theories is arguably the fact that they produce fully encompassing interests.

As in any other collective activity, groups of contractarians and utilitarians face free rider problems. To organize, they must have a subset of members with sufficiently strong interests to form a privileged leadership subgroup. In the case of nineteenth century utilitarians, Jeremy Bentham’s research and organizational efforts helped to generate such leadership subgroups. His colleagues and admirers founded utilitarian policy-oriented

magazines and also engaged in lobbying activities.<sup>19</sup> As political systems became more election based, utilitarians subsequently attempted to persuade latent voter groups that their interests could be advanced through utilitarian policies.<sup>20</sup>

It bears noting that politically active “ethical societies” have existed throughout history and have had significant effects on public policies. However, not all ethical systems or the groups promoting them have encompassing interests. In many cases, there are conflicts between the material interests focused on by economists and utilitarians and those of other ethically motivated groups. For example, prohibition groups usually lobby for laws that reduce the sphere of choice, rather than enlarge it. Religious groups often promote salvation and spiritual development under antimaterialist doctrines that reduce choices for nonmembers. Their policy recommendations may further reduce the material quality of life on earth for their adherents (Mueller 2009), albeit with the aim of a more pleasant afterlife, which arguably is an encompassing interest if such possibilities exist.

History is replete with norm-based government regulation of private conduct and remains so.<sup>21</sup> However, efforts to promote ethical systems and ethical policies, unlike efforts to enhance personal income, tend to be inclusive, rather than exclusive. Such groups normally want to increase in size, and as they do so, their interests tend to become more encompassing, more pragmatic and less idealistic. They take greater account of the direct and indirect costs of their desired policies. In this manner, Olson’s logic predicts that the rhetoric and policy proposals of what might be called “anti-materialistic” groups tend to become more moderate as they succeed.

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<sup>19</sup>John Stuart Mill’s (1873) autobiography provides numerous anecdotes about the political activities of Bentham’s circle. These were continued by many others in the half century after Bentham’s death in 1832, including Mill himself.

<sup>20</sup>The same approach can be used by a variety of interest groups and public sector entrepreneurs as pointed out in Wagner’s (1966) review of the *Logic*. Sometimes, collective goals can be advanced without coordinated collective action.

<sup>21</sup> Many of these regulations were difficult to enforce, as with rules concerning religious beliefs, books, and sexual conduct. Many others, as with dress and sumptuary codes, rules of deference and etiquette, and marriage were relatively easy to enforce because they constrained behavior in public places. In both cases, the effects of the regulations imposed by normative groups are similar to those of economic interest groups: experimentation and innovation are inhibited, cultural flexibility reduced, and inequalities often enshrined. The changes in behavior induced also have economic effects on suppliers of services and goods that are encouraged or discouraged by the normative groups.

Nonetheless, normative systems that are explicitly encompassing are more likely to have beneficial effects on political and economic development than those that are not. When non-encompassing ethical groups are small they will realize most of the benefits from their preferred policies while others bear most of the costs, as early prohibitionists enjoyed their "dry" towns and states at the cost of recreational drinkers and alcohol producers. Interest groups with more encompassing interests take more of the benefits and costs of policies into account.

For example, interest groups that attempt to advance utilitarian ideas would undermine economic development only through errors in their understanding of political and economic relationships. Interest groups that rely upon contractarian reasoning will oppose any laws and reforms that fail to be universally beneficial or nearly so. Indeed, to the extent that utilitarian and contractarian essays of the early to mid-nineteenth century increased support for more open markets and expanded suffrage, these interest groups are partly responsible for the rise of modern open democratic market systems and for the end of privilege-based medieval systems. They also continue to provide the normative foundation for most public economics classes and their associated critiques of tax and trade preferences.

As suffrage became commonplace, elections allowed organized groups with broad normative interests to influence more people than truly members of their groups by disseminating their ideas, a point acknowledged in the second edition of the *Logic* (Olson, 1971). A neglected implication of Brennan and Hamlin's (1998) discussion of the logic of expressive voting is that ethical systems tend to have larger effects on election-based public policies than in private life, because it is often relatively less costly to vote ethically than to act ethically in one's own life.<sup>22</sup>

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<sup>22</sup>Olson (1982) argues that the laissez-faire policies advocated by most nineteenth century utilitarians were not by themselves sufficient to offset the effects of distributional coalitions. One could argue, however, that nineteenth century liberals were able to disrupt the distributive equilibrium of prior centuries and delay the associated decline in growth rates under the new social order for many decades.

## 5.5 Endogenous norms: Interest group activities and the distribution of norms

Just as organizational costs are partly endogenous in a complete political economy model, so are many aspects of perceived self-interest. Here one may note that the main line of argument in *Rise and Fall* promotes anti-interest group and free market norms. Insofar as readers take the book to heart, they will finish the book with stronger support for markets and greater opposition to the efforts of most interest groups. All books with normative agendas hope to have effects on the internalized norms of their readers.

In many cases, such books are promoted or subsidized by organized interest groups. The theories that individuals internalize are thus partly consequences of norm-promoting groups. Norm-promoting groups follow the predicted pattern of the *Logic* in most respects. They often have a federal structure. Their organizations rely upon selective incentives, persuasion, and coercion to organize and advance their ends. Norm-promoting interest groups often attempt to induce governments to vest their preferred norms with the force of law.

To the extent that the norms promoted are worldly and encompassing, as might be said of the normative theories of Aristotle, Locke, Franklin, Smith, and Bentham, the promotion of such norms has long-run effects that are similar to those of other encompassing interests analyzed in Olson's work. Their favored policies will tend to enhance economic welfare, growth, and equality. Insofar as they oppose privilege and favor productive work, they tend to oppose groups that attempt to advance narrow interests at the cost of broader ones.

The balance of influence among materialist and anti-materialist norm- and lifestyle-promoting groups may be said to produce the culture from which other groups draw their members. That balance may aid or undermine the activities of other interest groups as developed above.<sup>23</sup>

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<sup>23</sup>Both the *Logic* and *Rise and Decline* acknowledge as much. The *Logic* spends much of chapter 4 on Marx's theory of class action, and criticizes its lack of microeconomic foundations, namely that associated with free riding. The *Rise and Decline* spends a good deal of effort criticizing the ideology of laissez faire. In doing so, Olson clearly acknowledges that norm-motivated groups exist and may engage in a good deal of political activity, although he does not analyze it in detail. In his analysis, such groups are doomed to latency rather than effectiveness. To mobilize such latent groups requires



## 6. Conclusion: A Profound, Pregnant, and Propitious Line of Research

[The *Logic*] makes the general point intuitively obvious: other things being equal, the larger the number of individuals or firms that would benefit from a collective good, the smaller the share of the gains from action in the group interest that will accrue to the individual or firm that undertakes the action. Thus, in the absence of selective incentives, the incentive for group action diminishes as group size increases, so that large groups are less able to act in their common interest than small ones. (Olson 1982, p.31)

Mancur Olson's *Logic of Collective Action* begins with a simple point, namely that collective action has characteristics analogous to those of a pure public good. Taking account of that neglected property of collective action had far-reaching implications for social science. Olson's own efforts to understand its implications produced a series of influential books that demonstrated the power of his theory both as an organizing principle and source of new hypotheses. His *Logic* deepened our understanding of major policy issues of the late twentieth century, the origins and nature of organizations, economic development, and the origin of civilization itself. In addition to Olson's own work, the *Logic* also helped ground the work of Axelrod and Hamilton (1981), Giddens (1984), Ostrom (1990), North (1990), and Fukuyama (1995), several of whose books have even more citations than Olson's original contribution.

The *Logic* also played an important role as one of the classic works in Public Choice (a term attributed to Olson). It launched the interest group line of research, which has long been one of the three major strands of public choice research. In addition, its broad impact beyond public choice circles helped to elevate and define the public choice research program in the minds of those who did not participate in it. For all of these reasons, the *Logic* remains a foundational text for public choice research, and Mancur Olson remains one of the founders of the research program that came to be so named.

This paper suggests that the implications of Olson's *Logic* have not yet been fully worked out. Several major extensions were developed by Olson himself, and many others remain, even after a half century of active research. Two broad possibilities were sketched out

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selective incentives or irrationality on the part of group members, i.e., failure to recognize one's own personal advantages from free riding.

in the second half of this review article, but many more doubtless remain. As Olson (1996) noted in another context, there are many big bills (grand ideas) left on life's sidewalks.<sup>24</sup>

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