Collective Action

- **Public Goods**
  - Public goods are "nonexcludable" (no one can be preventing from consuming the good).
    - e.g., national defense, law and order, public radio…lobbying by an interest group.
  - All collective action aims to produce public goods for a specific category of individuals.
- **Free-Rider problem**
  - Non-excludability creates incentives to free-ride.
  - When people free ride, the desired good is under-produced or not produced at all.

Solutions to the Free Rider Problem

- **1. Size matters:** The smaller the group the more likely it will overcome free-riding. Why?

    - Lower organizational costs
    - Bigger impact of an individual's contribution
    - Larger per-capita benefit.

- Hence small groups with few members are less likely to remain "latent" (plagued by free-riders) than large groups.

Other Solutions: privileged groups

- **2. Privileged Groups**
  – If benefits are **asymmetric** (some members benefit more than others), collective action is possible.
    - e.g., oligopolistic (concentrated) industries.
  – When benefits are concentrated, the members that gain most may provide the public good even if others free ride, thus “privileging” the entire group.

Other Solutions: selective incentives

- **3. Selective Incentives**
  - Why are some large groups organized?
    - e.g., farmers, doctors, lawyers, union workers
  - Their organizations offer "selective incentives" to members. These are **excludable benefits** (private goods) that can be obtained only by contributing.
    - e.g., professional journals, discounted insurance, specialized information.

Demand for Foreign Economic Policies

- Olson's "Logic" and Interest Group Politics
  - Government policies that benefit a group do not differentiate between individuals in that group. Policies are "public goods" for group members.
    - e.g., a tariff of steel imports or a subsidy to sugar growers.
- Relevance to politics
    - Explains why producers tend to be organized while consumers are not.
    - Explains why government faces strong pressure for protection from import-competing industries, but weak pressure from consumers (a latent group).

U.S. Sugar Program

- The U.S. provides a massive subsidy for domestic sugar growers. Sugar has sold for as high as **22 cents** a pound domestically when the world market price was only **4.5 cents**. Consumers bear the burden. Each 1 cent increase adds between $250 and $300 million to consumers' food bills.

Why does the policy exist and persist?

- **Group size and incentives to lobby**: There are 13,000 sugar farmers in the U.S. Assume the price of sugar is kept 10 cents above the world price. Consumers thus bear a cost of $2.5 to $3.0 billion. If everyone consumes the same amount, the cost to each consumer is about $10. Each producer gets $192,000 to $230,000 (assuming each farmer produces the same amount).

- It is obvious that producers have a much stronger incentive to act collectively (lobby) than consumers.

Sugar growers are a "privileged group"

- **Privileged groups**: If a group has some very large members with strong incentives to provide public goods unilaterally, it is privileged.
- We assumed that all sugar growers are of equal size and got a symmetrical benefit from the subsidy program. In fact, sugar is a highly **concentrated industry**: 17 huge sugar cane plantations in Florida produce > 50% of the sugar.

- **Do the math** to see the privileged group argument:
  - 17 plantations produce > 50%. The total benefit of the sugar program is $2.5 billion. Hence…

(2.5bil * .5)/17 = **$73.5 million**

- $73.5 million is the benefit going to <u>*each*</u> of the 17 large cane growers. Since this payoff is so large, big growers have strong incentives to lobby to keep the program going, even if the nation's other 12,983 sugar growers free-ride.

Mancur Olson's Obituary (from the University of Maryland website)

Mancur Olson, Chair and Principal Investigator of IRIS and Distinguished Professor of Economics at the University of Maryland at College Park, died on February 19, 1998 from a sudden heart attack. He was 66.

Professor Olson is recognized as one of a handful of scholars responsible for changing the field of economics to ensure that politics became an integral part of economic thinking and policy formation. His work emphasized that a country's economic policies and the quality of its legal institutions primarily determine its economic performance. The Center on Institutional Reform and the Informal Sector (IRIS) was launched under Olson's direction in 1990 with support of the US Agency for International Development to apply his thinking to the problems of developing countries and those undergoing the transition from communism. To build sustainable economic and democratic institutions, Olson worked closely with scholars, development practitioners, and policy-makers in Washington and capitals throughout the globe in efforts to promote the needed reforms. His research and hands-on assistance have been instrumental in assisting in Russia's transition to a market economy; in on-going economic liberalization in India; and in promoting employment opportunities for the poor in Bangladesh.

Mancur Olson's Obituary (cont.)

The breadth of his work is shown by its impact on reforms of laws, policies, and administrative procedures in areas ranging from contract law and business registration to consumer protection and tax policy, in countries ranging from Mongolia and Nepal to Poland and Egypt.

Upon learning of Olson's death, Yegor Gaidar--former Prime Minister of Russia and director of the Institute for the Economy in Transition--noted that "such persons as Professor Olson are, in our view, irreplaceable, and it will take some time to rightly estimate his invaluable contributions to the development of the economic sciences."

Two books by Olson, The Logic of Collective Action and The Rise and Decline of Nations, are considered seminal works in economics and political science. The former book showed that in most cases there is a divergence between what individuals want and what they are able to achieve as a group, while the latter book showed how the operation of interest groups can impede economic progress. His most recent work had addressed the origins of public-good-providing governments, the fiscal policies of democracies and autocracies, and the role of property and contract rights in economic development.

Photo of Mancur Olson

Recent publications include "The Secular Increase in European Unemployment Rates" in European Economic Review (1995), "The Devolution of the Nordic & Teutonic Economies" in AEA Papers and Proceedings (May 1995), "Why the Transition from Communism is So Difficult" in Eastern Economic Journal (Fall 1995), and "The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force," (with Martin C. McGuire) in The Journal of Economic Literature (March 1996).