Mancur Olson:

How Bright are the Northern Lights?
Some Questions about Sweden

Chapter 4

"Rational Ignorance" and the Bias of Collective Action

No analysis of the social costs of redistributions can capture the essence of the matter unless it faces up to a sad and inescapable reality: "rational ignorance." The seemingly oxymoronic phrase "rational ignorance" is *not,* in fact, a contradiction in terms. In many circumstances, the typical citizen serves his or her individual interests best by allocating little or no time to the study of public affairs, even though this leaves the citizen ignorant of many matters that are important for the country and thus also for his or her own well-being.

The paradox becomes clear when one examines the situation of an average citizen who is deciding how much time to devote to studying the public policy choices facing the country. The more time the citizen spends studying public affairs, the greater the likelihood that his or her vote will be cast in favor of rational policies. The typical citizen will, however, receive only a small share of the gain from more effective policies and leadership; if there are a million citizens, an average citizen will get only one-millionth of the total gain. Yet that citizen bears the whole cost of whatever he or she does to become better informed about public affairs. Thus each citizen would be better off if all citizens spent more time finding out how to vote to make the country better serve their common interests.

The gain to a voter from studying public issues to determine the vote that is truly in his or her interest is the value to that *one* individual of the "right" election outcome, multiplied by the *probability* that a change in this one individual's vote will *change the outcome* of the election. Since the probability that a typical voter will change the outcome of the election is minuscule, the typical citizen, whether a physician or a taxi driver, is usually rationally ignorant about public affairs. This point was made, albeit less starkly, in Anthony Downs's classic 1957 book, *An Economic Theory of*

Democracy,[1] and in recent years its extraordinary practical importance is coming to be realized.

Occasionally information about public affairs is so interesting or entertaining that it pays to acquire it for these reasons alone. Similarly, individuals in a few special vocations can receive considerable rewards in private goods if they acquire exceptional knowledge of public goods. Politicians, lobbyists, journalists, and social scientists, for example, may earn more money, power, or prestige from a knowledge of the public's business. Sometimes exceptional knowledge of public policy can generate exceptional profits in stock exchanges or other markets. Nevertheless, the typical citizen finds that his or her income and life chances are not improved by the zealous study of public affairs. Most people are not, of course, totally self-interested, and their altruistic motives make many of them study public affairs somewhat more than self-interest alone would justify, but the evidence nonetheless reveals that rational ignorance is undoubtedly the norm.

This fact - that the benefits of individual enlightenment about public goods are usually dispersed throughout a group or nation, rather than concentrated upon the individual who bears the costs of becoming enlightened - illuminates many other phenomena as well. It explains, for example, the "man bites dog" criterion of what is newsworthy. If the television newscasts were watched or newspapers were read solely to obtain the most important information about public affairs, aberrant events of little public importance would be ignored and typical patterns of quantitative significance would be emphasized. Since the news is, by contrast, largely an alternative to other forms of diversion or entertainment, intriguing oddities and human-interest items are commonplace. Similarly, events that unfold in a suspenseful way or sex scandals among public figures are fully covered by the media, whereas the complexities of economic policy or quantitative analyses of public problems receive only minimal attention. Public officials, often able to thrive without giving the citizens good value for their taxes, may fall from power because of an exceptional mistake that is simple and striking enough to be newsworthy. Extravagant statements, picturesque protests, and unruly demonstrations that offend much of the public are also explicable in this way: they make gripping news and thus call attention to interests and arguments that might otherwise be ignored. Even some acts of terrorism that are described as senseless can, from this perspective, be explained as effective means of obtaining the riveted attention of a public to demands about which they otherwise would remain rationally ignorant.

In part because of rational ignorance, there is much more implicit redistribution than explicit redistribution in most democratic societies. These implicit redistributions, moreover, normally are not efficient redistributions. The prevalence of implicit and exceptionally inefficient redistributions is due to the way that rational ignorance interacts with a bias in the pattern of collective action, to which we now turn.

[1] New York: Harper & Row.

The Difficulties of Collective Action

The rational ignorance of the typical voter is an example of the general logic of collective action. This logic is readily evident in organizations that lobby a government for special-interest legislation or that cooperate in the marketplace to obtain higher prices or wages. Some examples are professional associations of physicians or lawyers, labor unions, trade associations of firms in individual industries, farm organizations, or oligopolistic collusions.

Such organizations can only be understood if we are aware of how difficult collective action is for large groups. It is difficult because the benefits of collective action go automatically to everyone in some group or category. If an association of firms wins a tariff, that raises the price for every firm that sells the commodity or product in question, regardless of whether the firm contributed to the effort to win the tariff. Similarly, if one group of workers strikes to bring a higher wage in some factory or mine, all the workers in the relevant factory or mine receive the benefit of the higher wage, regardless of whether they paid dues to the union or walked in the picket lines that made the strike successful. The same reasoning applies to the firms or workers attempting to raise prices or wages by combining to restrict the quantity supplied.

Because the benefits of collective action go to everyone in a category or group, it is not rational for an individual in a large group or class to make any voluntary sacrifices in the interests of the group. The individual citizen or firm will get the benefits of whatever actions others undertake whether or not he contributes anything and, in large groups, the single individual or firm is not able to bring about the desired results single-handedly. The precise logic and the empirical evidence validating this point are set out in my book on *The Logic of Collective Action,* and in the literature that has grown out of that book, so it should not be necessary to go into any detail on this matter here.

It is, however, essential to note that the individuals in large groups do not voluntarily, in the absence of special arrangements I will consider below, contribute time and money to organizations that would lobby or fix prices or wages for exactly the *same* reason that the typical citizen remains rationally ignorant about many aspects of public affairs. An individual receives only a minuscule share of the return from any sacrifice he or she makes in the interest of a group, whether the sacrifice takes the form of dues paid to a lobbying or cartelistic organization, or research into what political outcomes are best for individuals like oneself. Thus many groups with common interests - such as consumers, taxpayers, the unemployed, and the poor - are not organized for collective action, and most people have only the haziest knowledge of public affairs.

Those large organizations to lobby the government or fix prices and wages that have managed to survive have special arrangements that mainly explain why they are able to attract dues-paying members. There are in all large and lasting organizations for collective action some special gimmicks, which I call "selective incentives," that account for most of the membership. The selective incentives are individualized benefits or punishments that induce firms or people to participate in, or help pay the costs of, collective action. One example of a selective incentive is the element of compulsion inherent in the closed shop, the union shop, and the coercive picket line, but this is only the most obvious example. All large organizations for collective action that survive have some analogous arrangements. These arrangements are usually very subtle and often provide individual benefits to those who contribute to the organization for collective action, while denying the benefits to those who do not.

When the beneficiaries of collective action are few, there may be voluntary rational action to obtain collective goods without selective incentives. Consider the small number of large firms in a relatively concentrated industry. If there are, say, three large firms of about the same size in an industry, each firm will obtain about a third of the benefits of any action to get governmental favors or higher prices for the industry. This third of the benefits will usually be a sufficient incentive for considerable action in the interest of the industry. When the numbers in a group are small, it will also be true that each participant will have a noticeable effect on how well the common interest of the small group is served, and this will affect the likelihood that the others will contribute. Thus small groups will often bargain until they agree to act in their group interest to a complete or "group optimal" extent. This organizational advantage of small groups, and particularly of small groups of large firms has, as will be shown below, important implications for the pattern of redistributions that emerges in most societies.

Since collective action is difficult and problematical, it normally takes quite some time before a group can overcome the difficulties of collective action, even if it has the small numbers or the access to selective incentives that are needed. The bargaining that can make it possible for a small group to organize or collude to an optimal extent usually takes some time, since unanimous consent is needed for full-scale cooperation. Organizing large groups is incomparably more difficult and time-consuming. Selective incentives, even if potentially available, are hard to arrange. If the selective incentives are to be positive rewards to those who participate, there has to be some surplus profit or advantage somewhere that can be used as the source of the rewards, and this surplus will normally be devoted to the collective action only if there is a complementarity between the activity that generates the surplus and the collective action (as is the case when a lobby gets favorable legislation for the enterprise that provides the resources for its selective incentives). If the selective incentive is the punishment of those who do not share in the costs of the collective action, this punishment has to be organized and the resistance to it overcome.

The time it takes to get collective action going was illustrated when Jimmy Hoffa, who ultimately became a powerful American union leader, was a youth working in a warehouse in Michigan. On a hot June day, the warehouse company received a large shipment of strawberries and other fresh produce that would become valueless unless it reached consumers before it spoiled. Jimmy Hoffa and his collaborators chose that moment to organize a strike and a union, and the management, rather than lose the fresh produce, gave in. It is only in the fullness of time that many groups will have had the able leadership and the favorable circumstances needed to organize for collective action. As we shall see, this fact has important implications for economic growth.

The Inegalitarian Bias of Collective Action

If my theory of collective action is correct, the capacity for collective action is most common among the relatively established and prosperous interests in society and is virtually absent among the poorest and most insecure elements in the population. As we have seen, collective action is less difficult with small numbers, and this favors the organization and collusion of such groups as the large firms in concentrated industries. Selective incentives are also more often available to "insiders" - incumbent workers and well-established people - than to prospective entrants and those on the lowest rangs of the social ladder. I have shown elsewhere that the learned professions often have the widest array of selective incentives.[2] Incumbent workers in an enterprise have already assembled for work and, if they have worked together long enough to have established a social network, they have a good chance to organize a union. By contrast, the unemployed are not automatically assembled or associated in ways that make selective incentives available through social interaction. Normally, all of the poor and marginal parts of the population are without access to selective incentives. It is not, however, poverty or insecurity themselves that prevent collective action. Consumers - even consumers of luxury goods - are also not organized; they do not have the advantage of small numbers, and they make their purchases at so many scattered locations that the selective incentives of picket lines and social interaction available to some workers are also unattainable.

Some people may wonder whether my hypothesis that the well-established and economically powerful elements in society are usually best able to overcome the difficulties of collective action fits the facts. We can test this hypothesis by examining how long it took different groups to overcome the difficulties of collective action. If well-established and well-off groups are, in fact, able to organize more readily than humbler groups, then the first organizations for collective would have represented those groups, and the poorest and least secure parts of the population should not even now be organized.

Adam Smith's *Wealth of Nations,* published in 1776, is a superb source of information about some of the first groups that were able to organize for collective action. This book is mainly an attack on "mercantilism," or on government policies and collusive prices that result from the combined action of "merchants" and master-manufacturers. In Adam Smith's time and before, merchants and manufacturers were often organized in guilds. Smith emphasized how often merchants and master

[2] Olson, *Collective Action.*

manufacturers colluded to fix prices or to influence government; he said that they rarely gathered, even for merriment or diversion, without conspiring to fix prices. He also argued that ordinary laborers, the poor, and those in agricultural pursuits were usually *not* organized and had relatively little influence. Adam Smith's observations, as well as a good deal of other evidence, support the deduction earlier in this essay that small groups, such as the merchants or manufacturers in a particular industry or town, find it less difficult to organize than large groups do.

The selective incentives that large groups need to organize are also more often available to those with established positions and higher incomes than to poorer and less secure individuals. The historical record in country after country shows that the learned professions tended to organize long before workers of lesser income and status. Similarly, skilled workers organized unions long before unskilled workers did. The first unions represented skilled workers in England. During the first half century of organized labor in the United States, unionized workers were called the "aristocracy of labor." Even among unskilled workers, it is mainly those who already have jobs, and almost never the unemployed or new entrants, that are organized. Men are also more often organized than women and individuals in relatively well-placed ethnic and social groups more often organized than those and those in disadvantaged groups. Most important of all, there is no society anywhere in which the poorest people or the unemployed are organized.

Experience therefore confirms the hypothesis that the capacity for collective action is positively correlated with income and established position. We must now go on to examine how this reality, in combination with rational ignorance, comes in time to generate large implicit redistributions, most of which are far indeed from being efficient redistributions.