

Class on Olson

1. Why is this important?

- **Central Thesis:** the existence of a common interest among a set of people—an interest that could be advanced through collective action—does not lead to voluntary collective action to advance the interest. More particularly, failures to advance common interests—to act in ways that make each person better off—are fully consistent with individually rational agency and good information.
- **Microfoundational Thesis:** Ideas about individual rational action (and relatedly, about incentives) that are understood to be relevant in thinking about economic activity are also relevant in thinking about collective action: more generally, that the distinction between economics and sociology (including political sociology) is a difference in domain of inquiry (a difference in the phenomena being studied), not in the nature or “logic” of individual action. More particularly, that a great deal of collective action (and failure of collective action) in society and in politics, can be understood in terms of a rational pursuit of goals (utility maximizing)—with action based on an assessment of the costs and benefits of an action—and does not involve either *norm-guided action* (action explained by reference to standards of right/wrong or appropriate/inappropriate conduct, perhaps associated with roles in an institution) or action animated by some form of group identification. In both these cases, the person decides what to do not simply by reference to the consequences of his/her conduct, but by references to considerations that apply to the action itself: its rightness, for example.
- **Political-Sociological Thesis:** Collective action problems are solved by hegemons (and other large players), who are sufficiently interested in a collective good to bear the costs of ensuring its provision; by smaller groups, whose members can identify their contribution to the provision of the good; and by the existence of (positive and negative) selective benefits, which lead people to contribute to the provision of a collective good in order to gain a private good or avoid a private bad.
- **Political Thesis:** Against a certain picture of pluralism and group politics: that even under fair conditions, with basic rights protected and a reasonable distribution of resources—even with a perfected political market—we can get a highly skewed political universe, with group organization and power unreflective of underlying levels of support, and political outcomes reflective of this skewed system of group bargaining.

2. **Central Thesis:** the existence of a common interest that could be advanced through collective action may well not lead to collective action, even among fully rational and informed actors.
- One way in which this is true is when actors are concerned about relative gains: (i) arguably true in the international case, where the concern about relative gains reflects the concern that an unequal distribution of the benefits of a cooperative activity may lead to threats to security; (ii) also true when we have envy and associated concerns about relative positions. But neither of these cases is really germane here, because in both cases, the potential cooperators would not really be, all things considered, better off if they were to pursue common action: there would be some gain, but the agents themselves would not regard the gain as, all things considered, worth it, as it would be overridden by the resulting security threat (in case (i)) or (in case (ii)) the resulting loss in relative position which may matter as much as absolute position. What we are looking for are cases in which acting collectively would make each person better off (by their own lights) than they will be in the absence of such action, but the agents nonetheless do not act collectively.
 - Most familiar case is the *one-shot prisoner's dilemma*: in this case, we have a unique, dominant strategy equilibrium (with both agents confessing), and the equilibrium is suboptimal. An outcome is an equilibrium just in case neither person has any incentive to shift choice, given the choice of the other; it is a dominant strategy equilibrium just in case each agent has a choice which is better no matter what the other person chooses (a dominant strategy); and the equilibrium is suboptimal in that each person could be better off (if both refused to confess).
 - A second, and distinct case in which rational agents may not be able to coordinate in a way that makes each better off is what is called "an assurance problem." In this case, we do not have a dominant strategy equilibrium. So if I am confident that you will do your part, then my best response is to do mine (reciprocity). But in the circumstances, I cannot rationally be confident that you will do your part: say, if you don't, things will work out very badly for me. So I rationally choose not to cooperate, because the harm from being suckered is so much greater than the loss from not cooperating. (Maybe I do not cooperate because I simply think you may not; or because I think that you may not because I think that you think I am not going to because you think I am going to protect myself from the possibility of your not cooperating).
 - Now both the one-shot PD and the one-shot assurance game are obviously highly artificial because they are abstracted from a larger, setting that is not itself "modeled." So what happens when we think of the PD as being played repeatedly. Do we still get a failure to cooperate for

mutual benefit among rational individuals? The standard answer is that repetition makes no difference if the game is played a definite number of times. The argument proceeds by backwards induction: each person sees that it is irrational to cooperate on round N, inasmuch as that last stage is equivalent to paying once. But then it is not rational to cooperate at stage N-1, because that is in effect the final stage, and so on back to the initial stage. Now notice that this backwards induction argument for universal defection assumes that there is common knowledge of rationality: each of us knows that the other is going to defect at the last stage, and that the other knows that I know that, etc. So suppose instead when I am anticipating the last stage, I can see that it is rational for me to defect, but I may not know whether you are rational or not. If you are not, then whether you defect or not may depend on what I did at round N-1 (tit for tat, or imitation, or cooperate until other has defected). So suppose in particular that I think that there is some chance that what you do at the last round depends on my conduct in the next to last round (that your strategy is to cooperate so long I cooperate). And suppose that you, while in fact fully rational and prepared to defect in the last round, think that there is some chance that I am not rational, and that I may cooperate at the last stage if you do at N-1. In this case, because of the imperfect information, we may get cooperation by rational players, uncertain of the rationality of others, until the final round (so long as the players care sufficiently about the future). Though we may also, despite the repetition, get defection from the start. So we have another case in which cooperation is possible and would be beneficial for each, but may not be achieved. Though as I just indicated, we may also get cooperation.

- When we shift to the indefinitely-repeated PD, cooperation may once more emerge, even with rational players, with common knowledge of rationality—depending on the nature of the payoffs and the rate of time discount (patience). Cooperation on every round is one equilibrium for patient players, but so is defection on every round: there is not, as in the one-shot case, a unique equilibrium. In this case, rational players need not end up failing to cooperate (as in the one-shot case, or the finite case with common knowledge of rationality), but they may fail to cooperate even in the face of possible gains for all. But it would be a mistake say that rationality dictates an expectation of non-cooperation.
- The final case to consider is the case of a collective good: some good such that if it is provided for any, it is provided for all (in some specified group). So **if** the good is available, then you benefit, even if you do not contribute. Then you will not contribute unless: (1) the good is sufficiently important and you have sufficient capacity, that it is worth it to you to provide the good on your own, even if others do not contribute (they exploit you); or (2) your contribution is needed (along with some others) in order to ensure the provision of the good: your contribution makes a

noticeable difference (most plausible when numbers are small); (3) you think that contribution (participation) itself is either desirable or obligatory (even if some or even all others abstain); or (4) you get some benefit or are subject to some cost causally contingent on your contributing (participating). So there are cases here, but dominance reasoning does not apply: whether it is rational to contribute depends on subtleties of circumstance, including strength of interest, visibility of contribution.

3. Case of Unions: contrast the Olson and Perlman theories

- What is the phenomenon to be explained? Two issues: (i) growth in numbers of unionized workers; (ii) focus of unions on “job-control,” that is, protecting wages and working conditions rather than on politics (part of a larger story about American exceptionalism—the absence of a strong socialist movement in the United States—an essential element of which is the particularly economic character of American unions. And the premise of the argument is that unions provide collective goods, in the form of wages, working conditions, and legislative benefits.
- Olson’s theory: (i) start with smaller unions (skilled workers, not because of some special sense of solidarity among the skilled, but because they are in smaller workplaces). Because the groups are small, worries about free riders are diminished (contributions of each are important to the provision of the good), and there are plausibly benefits to membership itself (social units); (ii) these unions have an incentive to expand in order to take wages out of competition (in effect, protecting wages of members by protecting firms from low-wage competition), protect themselves against strikebreakers, help members to navigate the broader labor market, expand their political strength (in dealing with legislature); (iii) once they grow, they need to hold members, and this requires a combination of compulsory unionism (closed shop), picket lines and other forms of forcible protection during strikes, and selective benefits (insurance, grievance protections, seniority); (iv) but it is hard to sustain larger unions with positive selective benefits, esp. with public insurance programs in a welfare state; (v) so you end up with an emphasis on compulsory unionism (closed shop) as a strategy by an organization to preserve members, who would rationally prefer to get the collective benefits without paying the costs of membership, but if they did free ride, they would all lose. So the combination of focus on economic conditions at work and on closed shop (coercion)—the features that define job control unionism—reflect the demands of an organization whose members are assumed to be rational actors.
- Perlman’s theory: (i) begins with the idea that workers (esp. manual workers) are pessimistic: they are fearful about losing jobs, which they

assume to be scarce (they show “scarcity consciousness”). So we begin with a richer psychological assumption (which may be explained by social or historical circumstances, in the US in particular, where job control unionism has flourished); (ii) because they are pessimistic about prospects of job loss, they want to have organizations that protect their jobs and wages. So on this argument, job control unionism is not the result of an organizational imperative—the demand of holding onto members, who are assumed to be rational. Instead, it is a reflection of the psychology of members. (An alternative argument, along similar lines, would be that workers think of jobs in specific firms as a kind of property right, and want organizations that will protect their property rights in those jobs.)

4. How does Olson criticize the Perlman theory?

- The point of the criticism is to show that the phenomena discussed by Perlman can be better explained by Olson, on the assumption that workers are rational agents, and that their organizations need to provide them with selective incentives—rather by reference to the psychology of workers.
- One line of argument is about the historical evidence of when unions expand: there are three large periods of such expansion, and in each case labor markets are tight, from which Olson concludes that the explanation in terms of worker pessimism is flawed: why would workers be pessimistic when labor markets are tight. But this criticism seems mistaken. Pessimism means that workers overestimate the chances of losing their jobs, and want to protect against such loss. So they unionize when labor markets are tight because that is when they have the power to organize without fear of job loss: but the basic pessimism may not disappear when markets are tight, not if it is a basic psychological disposition. So they organize when they have greatest power and can most likely succeed, not when they have greatest need and will likely fail.
- A second line of argument is about the demand for labor: here the idea is that it makes no sense for workers and their organizations to demand higher wages if they are worried about job loss, unless they think that the elasticity of demand for labor is zero. Here again, the argument is not compelling. Suppose that workers want to protect their jobs and improve wages and working conditions. They fear job loss to workers who can be paid less, so the union does not permit the firm to pay new employees less; and they fear loss of jobs when other firms cut costs, so they try to ensure industry-wide unionization, which takes wages out of competition.
- A third point concerns attendance at union meetings: Olson suggests that low attendance raises troubles for Perlman perhaps because it suggests

that workers are not especially invested in their organizations. But if they see unions as protecting jobs and wages, and if the unions are doing that without high attendance, then why attend? Perlman's story is about having organizations that are effective agents of worker demands for job and wage protection, not about workers identifying with the union.

I am not here defending the Perlman view, just suggesting that Olson's case against it does not seem very strong, and his defense of the selective benefits theory of job-control unionism seems correspondingly weakened.