Collective Action

In a now famous book, economist Mancur Olson pointed out that political activity on behalf of a group is a public good; that is, the benefits of such activity accrue to all members of the group, not just the individual who performs the activity.[4] Suppose a consumer writes a letter to his congressperson demanding a lower tariff rate on his favorite imported good, and this letter helps change the congressperson's vote so that the lower tariff is approved. Then all consumers who buy the good benefit from lower prices, even if they did not bother to write letters.

This public good character of politics means that policies that impose large losses in total, but small losses on any individual, may not face any effective opposition. Again take the example of the sugar import quota. This policy imposes a cost on a typical American family of approximately $30 per year. Should a consumer lobby his or her congressperson to remove the quota? From the point of view of individual self-interest, surely not. Since one letter has only a marginal effect on the policy, the individual payoff from such a letter is probably literally not worth the paper it is written on, let alone the postage stamp. (Indeed, it is surely not worth even learning of the quota's existence unless you are interested in such things for their own sake.) And yet, if a million voters were to write demanding an end to the quota, it would surely be repealed, bringing benefits to consumers far exceeding the costs of sending the letters. In Olson's phrase, there is a problem of **collective action:** While it is in the interests of the group as a whole to press for favorable policies, it is not in any individual's interest to do so.

The problem of collective action can best be overcome when a group is small (so that each individual reaps a significant share of the benefits of favorable policies) and/or well organized (so that members of the group can be mobilized to act in their collective interest). The reason that a policy like the sugar quota can happen is that the sugar producers form a relatively small, well-organized group that is well aware of the size of the implicit subsidy members receive, while sugar consumers are a huge population that does not even perceive itself as an interest group. The problem of collective action, then, can explain why policies that not only seem to produce more costs than benefits but that also seem to hurt far more voters than they help can nonetheless be adopted.

Modeling the Political Process

While the logic of collective action has long been invoked by economists to explain seemingly irrational trade policies, it the theory is somewhat vague on the ways in which organized interest groups actually go about influencing policy. A growing body of analysis tries to fill this gap with simplified models of the political process.[5]

The starting point of this analysis is obvious: While politicians may win elections partly because they advocate popular policies, a successful campaign also requires money for advertising, polling, and so on. It may therefore be in the interest of a politician to adopt positions that are against the interest of the typical voter if the politician is offered a sufficiently large financial contribution to do so; the extra money may be worth more votes than those lost by taking the unpopular position.

Recent models of the political economy of trade policy therefore envision a sort of auction in which interest groups "buy" policies by offering contributions contingent on the policies followed by the government. Politicians will not ignore overall welfare, but they will be willing to trade off some reduction in the welfare of voters in return for a larger campaign fund. As a result, well-organized groups—that is, groups that are able to overcome the problem of collective action—will be able to get policies that favor their interests at the expense of the public as a whole.

[5]See, in particular, Gene Grossman and Elhanan Helpman, "Protection for Sale," *American Economic Review* 89 (September 1994), pp. 833–850.