

Capitulo I

Exit,
Voice,
and
Loyalty

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Responses to Decline
in Firms, Organizations,
and States

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A Theory of Loyalty

As was pointed out in earlier chapters, the presence of the exit option can sharply reduce the probability that the voice option will be taken up widely and effectively. Exit was shown to drive out voice, in other words, and it began to look as though voice is likely to play an important role in organizations only on condition that exit is virtually ruled out. In a large number of organizations one of the two mechanisms is in fact wholly dominant: on the one hand, there is competitive business enterprise where performance maintenance relies heavily on exit and very little on voice; on the other, exit is ordinarily unthinkable, though not always wholly impossible, from such primordial human groupings as family, tribe, church, and state. The principal way for the individual member to register his dissatisfaction with the way things are going in these organizations is normally to make his voice heard in some fashion.¹

As an aside, it is worth noting that, with exit either impossible or unthinkable, provision is generally made in these organizations for expelling or excommunicating the individual member in certain circumstances. Expulsion can be interpreted as an instrument—one of many—which "management" uses in these organizations to restrict resort to voice by members; a higher authority can then in turn restrict the powers of management by prohibiting expulsion, as is for example done to protect con-

1. There is no intention here to associate absence of exit with "primitiveness." Edmund Leach has noted that many so-called primitive tribes are far from being closed societies. In his classic study *Political Systems of Highland Burma* (1954) he traced in detail the way in which members of one social system (*gumsiao*) will periodically move to another (*gumlao*) and back again. Exit may be more effectively ruled out in a so-called advanced open society than among the tribes studied by Leach.

sumers when a public service is supplied in conditions of monopoly. But when exit is a wide-open option and voice is largely nonexistent, as in the relations between a firm and its customers in competitive markets, expulsion of a member or customer is a pointless affair and does not need to be specifically prohibited. One way of catching that somewhat rare bird, an organization where exit and voice both hold important roles, may be to look for groupings from which members can both exit and be expelled. Political parties and voluntary associations in general are excellent examples.

The Activation of Voice as a Function of Loyalty

A more solid understanding of the conditions favoring coexistence of exit and voice is gained by introducing the concept of *loyalty*. Clearly the presence of loyalty makes exit less likely, but does it, by the same token, give more scope to voice?

That the answer is in the positive can be made plausible by referring to the earlier discussion of voice. In Chapter 3 two principal determinants of the readiness to resort to voice when exit is possible were shown to be:

- (1) the extent to which customer-members are willing to trade off the certainty of exit against the uncertainties of an improvement in the deteriorated product; and
- (2) the estimate customer-members have of their ability to influence the organization.

Now the first factor is clearly related to that special attachment to an organization known as loyalty. Thus, even with a given estimate of one's influence, the likelihood of voice increases with the degree of loyalty. In addition, the two factors are far from independent. A member with a considerable attachment to a product or organization will often search for ways to make himself influential,

especially when the organization moves in what he believes is the wrong direction; conversely, a member who wields (or thinks he wields) considerable power in an organization and is therefore convinced that he can get it "back on the track" is likely to develop a strong affection for the organization in which he is powerful.²

As a rule, then, loyalty holds exit at bay and activates voice. It is true that, in the face of discontent with the way things are going in an organization, an individual member can remain loyal without being influential himself, but hardly without the expectation that *someone* will act or *something* will happen to improve matters. That paradigm of loyalty, "our country, right or wrong," surely makes no sense whatever if it were expected that "our" country were to continue forever to do nothing but wrong. Implicit in that phrase is the expectation that "our" country can be moved again in the right direction after doing some wrong—after all, it was preceded in Decatur's toast by "Our country! In her intercourse with foreign nations, may she always be in the right!" The possibility of influence is in fact cleverly intimated in the saying by the use of the possessive "our." This intimation of some influence and the expectation that, over a period of time, the right turns will more than balance the wrong ones, profoundly distinguishes loyalty from faith. A glance at Kierkegaard's celebrated interpretation of Abraham's setting out to sacrifice Isaac makes one realize that, in comparison

2. In terms of figure 3 of Appendix B, a person whose influence (that is, the likelihood that he will be able to achieve full quality recuperation) is correctly expressed by a point as high as V₃ will be willing to trade off the certainty of the competing product against even a little hope of recuperation for the traditional product. Thus he will choose voice. He who has little influence and knows it, on the other hand, is not likely to take kindly to such a trade-off. If he is to opt for voice rather than exit, he will normally require the certain availability of the competing product to be matched by the near-certainty of recuperation for the traditional variety.

to that act of pure faith, the most loyalist behavior retains an enormous dose of reasoned calculation.

When is loyalty functional?

The importance of loyalty from our point of view is that it can neutralize within certain limits the tendency of the most quality-conscious customers or members to be the first to exit. As has been shown in Chapter 4, this tendency deprives the faltering firm or organization of those who could best help it fight its shortcomings and its difficulties. As a result of loyalty, these potentially most influential customers and members will stay on longer than they would ordinarily, in the hope or, rather, reasoned expectation that improvement or reform can be achieved "from within." Thus loyalty, far from being irrational, can serve the socially useful purpose of preventing deterioration from becoming cumulative, as it so often does when there is no barrier to exit.

As just explained, the barrier to exit constituted by loyalty is of finite height—it can be compared to such barriers as protective tariffs. As infant industry tariffs have been justified by the need to give local industry a chance to become efficient, so a measure of loyalty to a firm or organization has the function of giving that firm or organization a chance to recuperate from a lapse in efficiency. Specific institutional barriers to exit can often be justified on the ground that they serve to stimulate voice in deteriorating, yet recuperable organizations which would be prematurely destroyed through free exit. This seems the most valid, though often not directly intended, reason for the complication of divorce procedures and for the expenditure of time, money, and nerves that they necessitate. Similarly the American labor law sets up a fairly complex and time-consuming procedure for one trade union to take

over from another as the sole certified bargaining agent at the plant level. Consequently, when workers are dissatisfied with the services of a union, they cannot switch easily and rapidly to another and are that much more likely to make an effort at revitalizing the union with which they are affiliated.

The previous discussion of the alternative between exit and voice makes it possible to say something about the conditions under which specific institutional barriers to exit, or, in their absence, the generalized, informal barrier of loyalty are particularly desirable or "functional." It was shown, for one, that in the choice between voice and exit, voice will often lose out, not necessarily because it would be less effective than exit, but because its effectiveness depends on the *discovery* of new ways of exerting influence and pressure toward recovery. However "easy" such a discovery may look in retrospect the chances for it are likely to be heavily discounted in *ex ante* estimates, for creativity always comes as a surprise. Loyalty then helps to redress the balance by raising the cost of exit. It thereby pushes men into the alternative, creativity-requiring course of action from which they would normally recoil and performs a function similar to the underestimate of the prospective task's difficulties. I have elsewhere described how such underestimates can act as a beneficial "Hiding Hand" in just this manner.³ Loyalty or specific institutional barriers to exit are therefore particularly functional whenever the effective use of voice requires a great deal of social inventiveness while exit is an available, yet not wholly effective, option.

Secondly, the usefulness of loyalty depends on the closeness of the available substitute. When the outputs of two competing organizations are miles apart with respect to price or quality, there is much scope for voice to come into

3. *Development Projects Observed* (Washington: Brookings Institution, 1967), ch. 1.

play in the course of progressive deterioration of one of them before exit will assume massive proportions. Thus, loyalty is hardly needed here, whereas its role as a barrier to exit can be constructive when organizations are close substitutes so that a small deterioration of one of them will send customer-members scurrying to the other. This conclusion is a little unexpected. Expressed as a paradox, it asserts that loyalty is at its most functional when it looks most irrational, when loyalty means strong attachment to an organization that does not seem to warrant such attachment because it is so much like another one that is also available. Such seemingly irrational loyalties are often encountered, for example, in relation to clubs, football teams, and political parties. Even though it was argued in Chapter 6 that parties in a two-party system are less likely to move toward and resemble each other than has sometimes been predicted, the tendency does assert itself on occasion. The more this is so the more irrational and outright silly does stubborn party loyalty look; yet that is precisely when it is most useful. Loyalty to one's country, on the other hand, is something we could do without, since countries can ordinarily be considered to be well-differentiated products. Only as countries start to resemble each other because of the advances in communication and all-round modernization will the danger of premature and excessive exits arise, the "brain drain" being a current example. At that point, a measure of loyalty will stand us in good stead. Also, there are some countries that resemble each other a good deal because they share a common history, language, and culture; here again loyalty is needed more than in countries that stand more starkly alone as was precisely implied by the comparison between Latin America and Japan, which was cited above (Chapter 5).

Finally, what was said in Chapter 4 about the danger of losing influential customers when a higher-quality, higher-

price product is available "nearby," points to another conclusion on the comparative need for loyalty. If organizations can be ranked along a single scale in order of quality, prestige, or some other desirable characteristic, then those at the densely occupied lower end of the scale will need loyalty and cohesive ideology to a greater extent than those at the top. There is much evidence that this need is being appreciated both among various "left behind" groups of American society and, in the international arena, among the countries of the Third World. In the next chapter it will be shown that the most prestigious organizations and groups might, to the contrary, benefit from a decline in the level of loyalty they command.

The loyalist's threat of exit

Loyalty is a key concept in the battle between exit and voice not only because, as a result of it, members may be locked into their organizations a little longer and thus use the voice option with greater determination and resourcefulness than would otherwise be the case. It is helpful also because it implies the possibility of disloyalty, that is, exit. Just as it would be impossible to be good in a world without evil, so it makes no sense to speak of being loyal to a firm, a party, or an organization with an unbreakable monopoly. While loyalty postpones exit its very existence is predicated on the possibility of exit. That even the most loyal member can exit is often an important part of his bargaining power vis-à-vis the organization. The chances for voice to function effectively as a recuperation mechanism are appreciably strengthened if voice is backed up by the *threat of exit*, whether it is made openly or whether the possibility of exit is merely well understood to be an element in the situation by all concerned.

In the absence of feelings of loyalty, exit per se is essentially costless, except for the cost of gathering informa-

tion about alternative products and organizations. Also, when loyalty is not present, the individual member is likely to have a low estimate of his influence on the organization, as already explained. Hence, the decision to exit will be taken and carried out in silence. The threat of exit will typically be made by the loyalist—that is, by the member who cares—who leaves no stone unturned before he resigns himself to the painful decision to withdraw or switch.

The relationship between voice and exit has now become more complex. So far it has been shown how easy availability of the exit option makes the recourse to voice less likely. Now it appears that the *effectiveness* of the voice mechanism is strengthened by the possibility of exit. The willingness to develop and use the voice mechanism is reduced by exit, but the ability to use it with effect is increased by it. Fortunately, the contradiction is not insoluble. Together, the two propositions merely spell out the conditions under which voice (a) will be resorted to and (b) bids fair to be effective: there should be the possibility of exit, but exit should not be too easy or too attractive as soon as deterioration of one's own organization sets in.

The correctness of this proposition can be illustrated by the extent to which parties are responsive to the voice of the membership. The parties of totalitarian one-party systems have been notoriously unresponsive—as have been the parties of multi-party systems. In the former case, the absence of the possibility of either voice or exit spelled absolute control of the party machinery by whatever leadership dominated the party. But in the second case, with both exit and voice freely available, internal democracy does not get much of a chance to develop either because, with many parties in the field, members will usually find it tempting to go over to some other party in case of disagreement. Thus they will not fight for "change from

within." In this connection it may be significant that Michels's "Iron Law of Oligarchy" according to which all parties (and other large-scale organizations) are invariably ruled by self-serving oligarchies was based on first-hand acquaintance primarily with the multi-party systems of Continental Western Europe. The best possible arrangement for the development of party responsiveness to the feelings of members may then be a system of just a very few parties, whose distance from each other is wide, but not unbridgeable. In this situation, exit remains possible, but the decision to exit will not be taken lightheartedly. Hence voice will be a frequent reaction to discontent with the way things are going and members will fight to make their voice effective. This prediction of our theory is confirmed by the lively internal struggles characteristic of parties in existing two-party systems, however far they may be from being truly democratic. Even in parties in nontotalitarian almost-one-party systems, as for example the Congress party of India and the PRI (Partido Revolucionario Institucional) of Mexico, voice has been more in evidence than in many of the often highly authoritarian or oligarchic parties of multi-party systems.*

In two-party systems, exit can happen not only as a re-

* A related point of considerable importance is suggested to me by the recent article of Michael Walzer, "Corporate Authority and Civil Disobedience," *Dissent* (September-October 1969), pp. 396-406. The strict democratic controls to which supreme political authority is subjected in Western democracies are contrasted in the article with the frequently total absence of such controls in corporate bodies functioning within these same states. As the author shows, this absence or feebleness of voice in most commercial, industrial, professional, educational, and religious organizations is often justified by the argument that "if [their members] don't like it where they are, they can leave" (p. 397), something they cannot do in relation to the state itself. Walzer argues strongly that this argument is a poor excuse which should not be allowed to stand in the way of democratization; but as a matter of positive political science, it is useful to note that the greater the opportunities for exit, the easier it appears to be for organizations to resist, evade, and postpone the introduction of internal democracy even though they function in a democratic environment.

sult of a member or group of members of one party going over to the other, but because it is always possible to launch a third party. Hence, if voice is to be given a fair try by the members, such launching must not be too easy—a condition that is usually fulfilled by the very existence and tradition of the two-party system, as well as by the institutional obstacles ordinarily placed in the way of third parties. On the other hand, if voice is to be at its most effective, the threat of exit must be credible, particularly when it most counts. In American presidential politics this set of conditions for maximizing the effectiveness of voice means that a group of party members should be able to stay within the party up to the nominating convention and still be able to form a third party between the end of the convention and election time. If exit is made too difficult by requiring the group to qualify as a party at a date *prior* to the convention, the dissenting group must either exit before the convention or go to the convention without being able to make an effective threat of exit. More stringent conditions for exit fail here to strengthen voice; rather they make for either premature exit or for less effective voice. The point is well put by Alexander Bickel:

The characteristic American third party . . . consists of a group of people who have tried to exert influence within one of the major parties, have failed, and later decide to work on the outside. States in which there is an early qualifying date tend to force such groups to forego major-party primary and other prenomination activity and organize separately, early in an election year. For if they do not they lose all opportunity for action as a third party later.⁴

The author adds that this is counterproductive from the point of view of the two-party system; the same judgment can be made from the point of view of achieving

4. Alexander M. Bickel, "Is Electoral Reform the Answer?" *Commentary* (December 1968), p. 51.

party responsiveness to its members through the most effective mix of voice and exit.

Two conclusions stand out from this discussion: (1) the detail of institutional design can be of considerable importance for the balance of exit and voice; (2) this balance, in turn, can help account for the varying extent of internal democracy in organizations.

Boycott

Boycott is another phenomenon on the border line between voice and exit, just like the threat of exit. Through boycott, exit is actually consummated rather than just threatened; but it is undertaken for the specific and explicit purpose of achieving a change of policy on the part of the boycotted organization and is therefore a true hybrid of the two mechanisms. The threat of exit as an instrument of voice is here replaced by its mirror image, the promise of re-entry: for it is understood that the member-customer will return to the fold in case certain conditions which have led to the boycott are remedied. Boycott is often a weapon of customers who do not have, at least at the time of the boycott, an alternative source of supply for the goods or services they are ordinarily buying from the boycotted firm or organization, but who can do temporarily without them. It is thus a temporary exit without corresponding entry elsewhere and is costly to both sides, much like a strike. In this respect also it combines characteristics of exit, which causes losses to the firm or organization, with those of voice, which is costly in time and money for the member-customers.

Elements for a model of loyalist behavior

It may be helpful to set up a more formal model of what happens when choice between two competing goods or organizations is affected by loyalty. For the purpose of

this inquiry, it will be assumed once again that the normally bought product or the organization to which one belongs begins to deteriorate. The focus will now be on organizations and their policies, rather than on firms and their products. Quality deterioration must therefore be redefined in subjective terms: from the member's viewpoint, it is equivalent to increasing disagreement with the organization's policies.

In figure 1 the horizontal axis measures quality of an

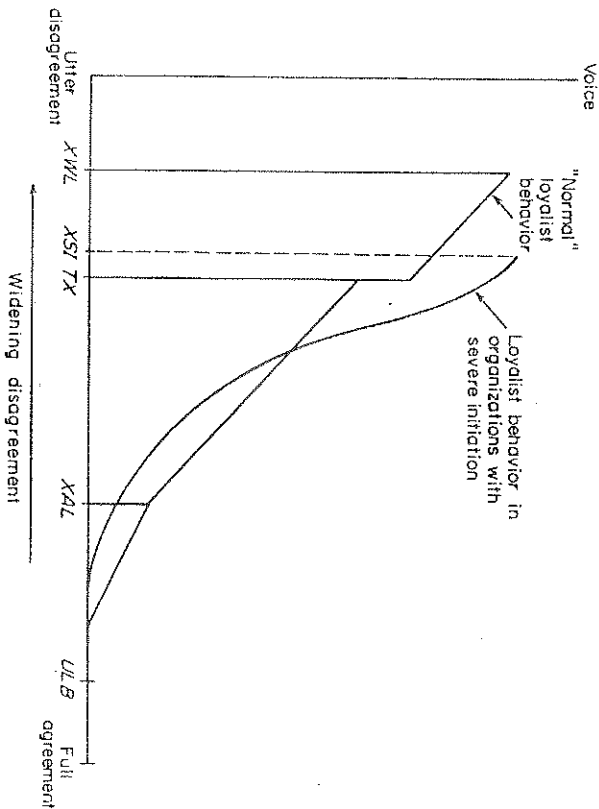


Figure 1. Loyalist behavior in the face of increasing disagreement with an organization

organization which is moving from the point where the member finds himself in complete agreement with its policies to the point of total disagreement. The vertical axis measures the amount of effective voice that is forthcoming in response to various degrees of disagreement.

At some point in the process of the organization's heading in the "wrong" direction, members will begin attempts to use their influence to correct and reverse the process, and these attempts will become stronger as disagreement widens. There comes a point in this process at which exit would take place in the absence of loyalty (XAL—point of eXit in the Absence of Loyalty). Loyalty now acts as a brake on the decision to exit. The loyal member does *not* exit, *but something happens to him*: he begins to be acutely unhappy about continuing as a member, contracts qualms or *Bauchschmerzen* (bellyaches) as the phrase went among German Communist party members dissatisfied with the party line. Normally he will make stronger attempts than hitherto to change the line and will intensify the use of voice in its various forms for this purpose; hence we show a kink in the voice function at this point, and a steeper slope after it. Then, as disagreement widens further, the member will have thoughts of exit and threaten it (TX—point of Threat of eXit) if that action can be at all expected to enhance the effectiveness of voice. The threat of exit means a discontinuous increase in the amount of voice that is forthcoming; this explains the vertical slope of the voice function at this point. Finally, loyalty reaches its breaking point and exit ensues (at point XWL—point of eXit With Loyalty). The strength of the grip which loyalty has on the customer or member can be measured either by the distance between XAL and TX or by that between XAL and XWL. These two distances define two different varieties of loyalty. The former represents loyalty with no thought of exit—in many basic organizations, exit is normally entirely outside the horizon of the member, even though he may be quite unhappy about his condition as member. The distance between XAL and XWL represents a more inclusive concept of loyalist behavior. The distance TX-XWL represents the portion of the process of deterioration during which the member thinks

about exit and is liable to use the threat of exit for the purpose of changing the policies of the organization. This threat being in some situations a particularly potent weapon, the total volume of effective voice that is generated in the course of the process of deterioration may be more closely related to that distance than to the total stretch of loyalist behavior (XAL-XWL).

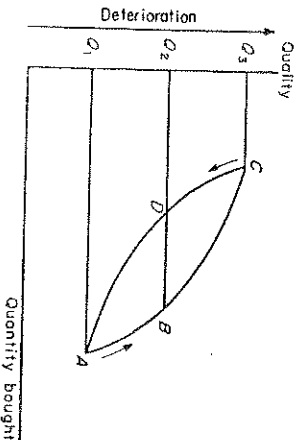
With the help of this model, speculation about the loyalist's behavior can be carried a little further. Suppose he has exited (exit from a product means ordinarily "entry" into a competing product, whereas exit from an organization can mean simply passage from the set of members to the set of nonmembers) and the product or organization he has left achieves recovery: At what point of the organization's "road back" will he re-enter? It seems quite unlikely that he will do so as soon as recovery reaches point XWL at which he exited. Just because he suffered between XAL and XWL he will now wait *at least* until the product or the organization has returned to point XAL at which previously he began to have qualms. He may very well require higher quality as an extra margin of insurance that renewed slippage will not immediately saddle him with *Bauchschmerzen* once again; in many cases, of course, the whole process may have left behind such scars that re-entry is altogether inconceivable. Thus the points of exit and re-entry will be far from identical: the distance between them, if it could be measured, would yield another way of measuring the strength of loyalty for different products and organizations.

If progressive deterioration and then improvement of quality in the above model is replaced by successive declines and then increases in the prices of assets, loyalist behavior is seen to be akin to that of the naïve, small, odd-lot investor who typically sells stocks cheap to stop his losses and buys back dear after stock values have risen considerably beyond those at which they were sold. Unlike

such investors, however, the loyalist is not necessarily a "sucker"; his sticking with the deteriorating product or organization should have as counterpart an increase in the chances of their recovery. It is only if such recovery fails to occur that he looks like, and turns out to be, a sucker. But in that case he has lost the bet on recovery that is implicit in loyalist behavior.

An observation of interest to the economist: loyalist behavior as sketched out here leads to a breakup of the traditional demand curve which establishes a one-to-one relationship between price (or quality) and quantity bought into two distinct curves. When a loyalty-commanding product first deteriorates and then improves, there will be one demand schedule for the downward movement in quality, with low demand elasticities at the beginning and high ones eventually as intolerable deterioration finally does lead to exit of the loyalists, and quite another one as quality recovers. During the improvement phase, elasticities will be low in the low-quality ranges and will only eventually become higher as improvement is confirmed.⁵

5. This proposition is easily diagrammed. The figure below shows quantity bought on the horizontal axis and quality (deterioration) on the vertical axis. Suppose quality first stands at Q_1 , then de-



teriorates gradually to Q_3 and thereafter recovers slowly back to Q_1 . Curve ABC then shows the demand schedule for the deterioration phase while curve CDA portrays demand for the recovery phase. Depending on the phase of the decline-recovery cycle, demand for quality Q_2 is either Q_2B or Q_2D .

Demand is of course always likely to be a function not only of current, but to some extent also of previous, quality because of inertia and lags in perception. Loyalty strongly reinforces this influence of past performance of the firm or organization on present behavior of the customers or members.

These remarks make it tempting to introduce the concept of *unconscious* loyalist behavior. A situation similar to the one in which the points of exit and of re-entry do not coincide has been described by psychologists. If, say, the likeness of a cat is made to change gradually into that of a dog through a succession of images shown to a subject and if later the same series is shown in reverse order, the eye behaves as though it were "loyal" to whatever figure it started with: when the sequence is shown in the cat to dog direction, a majority of images will be labeled "cat," and vice versa.⁶ To this extent then, the general difficulties of recognizing change are a breeding ground for unconscious loyalist behavior in case of deterioration, as well as for prolonged reluctance toward entry or re-entry in case the organization improves.⁷ Since unconscious loyalist behavior is by definition free from felt discontent, it will not lead to voice. This behavior whose onset is marked by point

6. K. R. L. Hall, "Perceiving and Naming a Series of Figures," *Quarterly Journal of Experimental Psychology*, 2:153-162 (1950). Similar results have been obtained in experiments designed to investigate how diverse bits and pieces of information are combined and integrated. When, for example, several personality trait adjectives are read to the subjects of the experiment, the over-all judgment about the person described by the adjectives depends on the order in which the adjectives have been named, with the earlier-named ones apparently receiving a higher weight. For instance, the sequence "intelligent, prudent, moody, self-centered" produces a better over-all impression than the reverse sequence. This phenomenon is known as "primacy effect." See Norman H. Anderson, "Primacy Effects in Personality Impression Formation," *Journal of Social Psychology*, 2:1-9 (June 1965), and literature there noted.

7. Robert Jervis, "Hypotheses on Misperception," *World Politics*, 20:439-453 (April 1968), and Albert O. Hirschman, "Underdevelopment, Obstacles to the Perception of Change, and Leadership," *Daedalus* (Summer 1968), pp. 925-936.

ULB (Unconscious Loyal Behavior) is loyalist only from the point of view of an outside observer who feels that voice- or exit-justifying deterioration has indeed set in. The member is simply unaware of the degree of deterioration that is taking place.

The model which has been outlined will be useful in considering now certain variants of loyalist behavior.

Loyalist Behavior as Modified by Severe Initiation and High Penalties for Exit

Loyalty has so far been hailed as a force which, in the act of postponing exit, strengthens voice and may thus save firms and organizations from the dangers of excessive or premature exit. Something has already been said, however, about situations in which loyalty does not play so providential a role. The various institutions designed to foster loyalty have obviously not been established with the purpose of elaborating an improved mixture of voice and exit; when they do so, it is unwittingly, "as a result of human action, not of human design."⁸

It is always pleasant for the social scientist to discover such hidden and unintended harmonies, but the discovery carries with it an obligation to look out for situations that fall short of harmony. In the present case, the opportunities for a nonoptimal outcome are numerous. It is possible for loyalty to overshoot the mark and thus to produce an exit-voice mix in which the exit option is unduly neglected. Secondly, it must be realized that loyalty-promoting institutions and devices are not only uninterested in stimulating voice at the expense of exit: indeed they are often meant to repress voice alongside exit. While feedback through exit or voice is in the long-run interest of orga-

nization managers, their short-run interest is to entrench themselves and to enhance their freedom to act as they wish, unmolested as far as possible by either desertions or complaints of members. Hence management can be relied on to think of a variety of institutional devices aiming at anything but the combination of exit and voice which may be ideal from the point of view of society.

High fees for entering an organization and stiff penalties for exit are among the main devices generating or reinforcing loyalty in such a way as to repress either exit or voice or both. How do these devices affect our model of loyalist behavior? The concept of unconscious loyalist behavior can serve to open up the subject. As was just shown, this type of behavior cannot give rise to voice; and because like all loyal behavior it also postpones exit, it will be prized by organizations whose management wishes members to refrain from both exit and voice. Such organizations will be looking for devices converting, as it were, conscious into unconscious loyalist behavior.

Actually there often is no clear dividing line between these two types of behavior, because the customer or member of the organization may have a considerable stake in *self-deception*, that is, in fighting the realization that the organization he belongs to or the product he has bought are deteriorating or defective. He will particularly tend to repress this sort of awareness if he has invested a great deal in his purchase or membership. In organizations entry into which is expensive or requires severe initiation, recognition by members of any deterioration will therefore be delayed and so will be the onset of voice. By the same token, however, it may be expected that once deterioration is averted to, members of an organization that requires severe initiation will fight hard to prove that they were right after all in paying that high entrance fee. Thus while the onset of voice will be delayed by severe initiation, resort to it is likely to be *more active* than is ordinarily the case during a subsequent phase of loyalist

8. This phrase, used by F. A. Hayek as the title of an essay in *Studies in Philosophy, Politics, and Economics* (Chicago: University of Chicago Press, 1967), is traced by him to Adam Ferguson's *Essay on the History of Civil Society* (1767).

behavior. The high cost of entry will change the time-pattern of voice, but may well not reduce its aggregate volume.⁹

This finding implies a modification of the theory of cognitive dissonance. The theory has normally shown how people will alter their cognitions and beliefs so as to make them more consistent with some "discrepant" act or behavior they have engaged in and which is difficult to reconcile with these beliefs. In the case just noted, the act is more or less severe initiation and the cognition, in one well-known experiment, was the boring nature of the activities of the organization of which one has become a member. The theory predicted—and the experiment confirmed—that the severer the initiation the higher will be the degree of self-deception, that is, the more fascinating will the boring activities seem to the member.¹⁰ Assume now, that there is not only some limit to self-deception but, and this is more important, room for *making* the activities of the organization more interesting as a result of members' initiative: then the same basic experimental constellation would lead to the prediction that severe-initiation members will display *more initiative* and will be *more activist* than the rest after having at first been more complacent and passive. Hence, a situation of dissonance may produce not only alterations of beliefs, attitudes, and cognitions, but could lead to *actions* designed to change the real world when that is an alternative way (and particularly when it is the only way) of overcoming or reducing dissonance.¹¹

9. As is shown by the curved line in figure 1.

10. E. Aronson and J. Mills, "The Effects of Severity of Initiation on Liking for a Group," *Journal of Abnormal and Social Psychology*, 59:177-181 (1959). See also, for further refinement of the experimental results of Aronson-Mills and rebuttal of some criticisms, H. B. Gerard and G. C. Mathewson, "The Effects of Severity of Initiation on Liking for a Group: A Replication," *Journal of Experimental Social Psychology*, 2:278-287 (July 1966). See Appendix E for a fuller statement on these papers.

11. In spite of superficial resemblance, the hypothesis here proposed is fundamentally different from the one put forward and
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This hypothesis is to be tested experimentally by Professor Philip Zimbardo of Stanford University and his associates.¹² Pending the outcome of these efforts, it is perhaps permissible to appeal to scattered historical evidence for illustration. Take the well-known and well-tested maxim that "revolution, like Saturn, devours its own children." Why this should be so is now easily understood: in "making the revolution" revolutionaries have paid a high personal price in risk-taking, sacrifice, and single-minded commitment. Once the revolution is made, a gap between the actual and the expected state of affairs is only too likely to arise. To eliminate that gap those who have paid the highest price for bringing about the new reality will be most strongly motivated to change it *enew*. In the process, they will take on some of their fellow revolutionaries who are now in positions of authority and a large number of the revolutionaries on either the one side or the other or on both will come to grief in the ensuing fight.

Another illustration of the same principle, drawn from the American experience, will be given in Chapter 8.¹³

tested in *When Prophecy Fails* by Leon Festinger, H. W. Riecken, and Stanley Schachter (Minneapolis: University of Minnesota Press, 1956). In this classic of the literature of cognitive dissonance, the authors investigated the effects on a group of believers of an unequivocal disconfirmation of their belief. In line with the theory's predictions, the believers became more vigorously engaged in proselyting activities than before. This activity, however, must be interpreted as an attempt to eliminate dissonance by "forgetting" the disconfirmation, *by drowning out the dissonant cognition*, rather than by changing it. Both the Aronson-Mills and the *Prophecy* situations are so constructed that the dissonant cognitions (boring nature of the activities of the group, nonoccurrence of predicted food) are unchangeable, once-and-for-all events. In the real world, many situations are of course iterative and are subject to change, "the next time around."

12. See Appendix E for a detailed statement on the scope and design of the proposed research.

13. See pp. 113-114. I argued elsewhere in a similar vein that efforts to rescue development projects from difficulty will be most vigorous when those responsible for the project are fully committed to it as a result of prior expenditures. Hence the later the difficulty appears the better, provided of course that it can be successfully solved. See Hirschman, *Development Projects Observed*, pp. 18-21.

Payment of a high price of entry thus does not lead necessarily to acquiescence with that for which the price has been paid, but may result in an even more determined and outspoken use of voice. It is also possible, of course, that by the time the member is no longer able to close his eyes to what is going on, deterioration has become such that exit appears as the only possible reaction to the sudden revelation of rottenness. Hence severe initiation may eventually activate exit as well as voice.¹⁴ "You can actively flee and you can actively stay put"—this phrase of Erik Erikson is again most pertinent. It was quoted once before, in connection with the likely behavior of the quality-conscious consumer. The coincidence is not accidental, for severe initiation no doubt makes for quality-consciousness.

A different kind of distortion of the model of loyalist behavior occurs when an organization is able to exact a *high price for exit* (over and above the forfeit of the price for entry which occurs inevitably with exit). Such a price can range from loss of life-long associations to loss of life, with such intermediate penalties as excommunication, defamiation, and deprivation of livelihood. Organizations able to exact these high penalties for exit are the most traditional human groups, such as the family, the tribe, the religious community, and the nation, as well as such more modern inventions as the gang and the totalitarian party.¹⁵ If an organization has the ability to exact a high price for exit, it thereby acquires a powerful defense against one of the member's most potent weapons: the threat of exit. Obviously, if exit is followed by severe sanctions the very idea of exit is going to be repressed

14. The activation of exit is shown in figure 1 through the location of point XSI (exit of members having received Severe Initiation) ahead of XWL.

15. For an account of the terror of leaving the Communist party, see Gabriel A. Almond, *The Appeals of Communism* (Princeton, 1954), ch. 12.

and the threat will not be uttered for fear that the sanction will apply to the threat as well as to the act itself. In terms of the model, point TX will be moved to the left and is in fact likely to disappear altogether, that is, merge with XWL, the point of exit when loyalty is present. This point itself may of course also be moved to the left: to deter exit is indeed a major purpose of imposing a high price for it. But in comparison with organizations that can command strong spontaneous loyalty while being unwilling or unable to impose stiff penalties for exit, the main change in members' behavior under conditions of progressive deterioration of the organization is likely to be the omission of the threat of exit rather than the postponement of exit itself.

What happens to voice in organizations where the price of exit is high? Some tentative suggestions can be advanced by distinguishing between those high-exit-price organizations where the price of entry is zero (because, as in the case of the family or nation, one enters them as a result of one's birth) and those where this price is high as well. For the latter organizations it has just been shown that the onset of felt discontent and therefore of voice will be delayed. Since the high price of exit does away, on the other hand, with the threat of exit as an effective instrument of voice, these organizations (gangs, totalitarian parties) will often be able to repress both voice and exit. In the process, they will largely deprive themselves of both recuperation mechanisms.¹⁶

The situation is quite different for the traditional groups, such as family and nation, which exact a high price for exit, but not for entry. Here the fact that one fully "belongs" by birthright may nurture voice and thus

16. This is a special case of the proposition, put forward by David Apter, that any increase of coercion in a society will have a price in terms of the flow of information to the powerholders. See his *Politics of Modernization* (Chicago: University of Chicago Press, 1965), p. 40.

compensate for the virtual unavailability of the threat of exit. By itself, the high price or the "unthinkability" of exit may not only fail to repress voice but may stimulate it. It is perhaps for this reason that the traditional groups which repress exit alone have proved to be far more viable than those which impose a high price for both entry and exit.

Loyalty and the Difficult Exit from "Public Goods" (and Evils)

The reluctance to exit in spite of disagreement with the organization of which one is a member is the hallmark of loyalist behavior. When loyalty is present exit abruptly changes character: the applauded rational behavior of the alert consumer shifting to a better buy becomes disgraceful defection, desertion, and treason.

Loyalist behavior, as examined thus far, can be understood in terms of a generalized concept of penalty for exit. The penalty may be directly imposed, but in most cases it is internalized. The individual feels that leaving a certain group carries a high price with it, even though no specific sanction is imposed by the group. In both cases, the decision to remain a member and not to exit in the face of a superior alternative would thus appear to follow from a perfectly rational balancing of prospective private benefits against private costs. Loyalist behavior may, however, be motivated in a less conventional way. In deciding whether the time has come to leave an organization, members, especially the more influential ones, will sometimes be held back not so much by the moral and material sufferings they would themselves have to go through as a result of exit, but by the anticipation that the organization to which they belong would go from bad to worse if they left.

This sort of behavior is the opposite of the one discussed

in Chapter 4. It was shown there that under certain conditions the most influential members might be the first to exit. The reason for which this conclusion is reversed here is that a wholly new and somewhat strange assumption has just been introduced: the member continues to care about the activity and "output" of the organization even after he has left it. In most consumer-product and in many member-organization relations this is of course not the case. If I become dissatisfied with the brand of soap I usually buy, and consider switching to another, I do not expect such switching to cause a worsening of the quality of my habitual brand; even if I did I presumably would not care as long as I quit buying it.¹⁷ With the help of this counter-example, we can spell out the two conditions that underlie the special loyalist behavior now under discussion:

In the first place, exit of a member leads to further deterioration in the quality of the organization's output; secondly, the member cares about this deterioration whether or not he stays on as a member.

The first condition means that quality of a product is not invariant to the number of buyers or to the amount sold. The withdrawal of some members leads to lower quality, hence presumably still lower "demand" from the remaining members and so on—a typical case of unstable equilibrium, and of a cumulative sequence à la Myrdal. The consumer-member is here a "quality-maker" rather than, as in perfect competition, a quality-taker. Situations in which individual buyers are conscious of being price-makers rather than price-takers are, of course, familiar from the theories of monopoly and monopolistic competition. What strikes the economist as weird here is the direction of the relationship: In the usual price-making

17. I may, in fact, entertain the opposite "serves-them-right" reaction if I hear that a firm which has disappointed me and with which I have stopped doing business comes to grief.

situation, withdrawal of a buyer (a downward shift of the demand curve) will lead to price being lowered or, correspondingly, to quality being *improved* because the supply curve is assumed to be rising. In the present case, on the contrary, withdrawal of the quality-making "buyer" leads to a quality decline. The reason is that the "buyer" is now in reality a member and as such he is involved in both the supply and the demand sides, in both production and consumption of the organization's output. Hence, if those who have the greatest influence on quality of output are also, as is likely, more quality-conscious than the rest of the members, any slight deterioration in quality may set off their exit, which in turn will lead to further deterioration, which will lead to further exits, and so on.

In this situation, utter instability is once again avoided by the intervention of loyalist behavior and particularly by members being aware of, and recoiling from, the prospective consequences of their exit. In other words, instability may be averted if members are aware that it threatens. But there is a real question why a member should care about the consequences of his exit on the quality of the organization, to the point where the prospective decline in quality would keep him from exiting. The only rational basis for such behavior is a situation in which the output or quality of the organization *matters to one even after exit*. In other words, *full exit is impossible*; in some sense, one remains a consumer of the article in spite of the decision not to buy it any longer, and a member of the organization in spite of formal exit.

This important class of situations can again be illustrated by the competition between private and public schools. Parents who plan to shift their children from public to private school may thereby contribute to a further deterioration of public education. If they realize this prospective effect of their decision they may end up by not taking it, for reasons of general welfare or even as a

result of a private cost-benefit calculation: the lives of both parents and children will be affected by the quality of public education in their community, and if this quality deteriorates the higher educational attainments of the children to be obtained by shifting them to private school have a cost which could be so large as to counsel against the shift.

The distinction made by economists between private and public (or collective) goods is directly relevant to this discussion. *Public goods* are defined as goods which are consumed by all those who are members of a given community, country, or geographical area in such a manner that consumption or use by one member does not detract from consumption or use by another. Standard examples have been crime prevention and national defense as well as other accomplishments of public policies that are or ought to be enjoyed by everyone such as high international prestige or advanced standards of literacy and public health. The distinguishing characteristic of these goods is not only that they *can* be consumed by everyone, but that there is *no escape* from consuming them unless one were to leave the community by which they are provided. Thus he who says public goods says public evils. The latter result not only from universally sensed inadequacies in the supply of public goods, but from the fact that what is a public good for some—say, a plentiful supply of police dogs and atomic bombs—may well be judged a public evil by others in the same community. It is also quite easy to conceive of a public good turning into a public evil, for example, if a country's foreign and military policies develop in such a way that their "output" changes from international prestige into international disrepute. In view of this book's concern with deterioration and resulting exit or voice, this sort of possibility is of special interest.

The concept of public goods makes it easy to understand the notion that in some situations there can be no real exit from a good or an organization so that the

decision to exit in the partial sense in which this may be possible must take into account any further deterioration in the good that may result. What becomes difficult to grasp, in fact, once the concept of public goods is introduced is how even a partial exit from such goods is possible.

Actually, of course, a private citizen can "get out" from public education by sending his children to private school, but at the same time he *cannot* get out, in the sense that his and his children's life will be affected by the quality of public education. There are many ostensibly private goods of this sort that one can buy or refrain from buying; but they have a "public-good dimension" (often called "externalities" by economists) so that their mere production and consumption by others affects, ennobles, or degrades the lives of all members of the community. While this is perhaps not a very frequent or very important phenomenon for saleable commodities and services, it is a central feature of many organizations in relation to their members. If I disagree with an organization, say, a political party, I can resign as a member, but generally I cannot stop being a member of the society in which the objectionable party functions. If I participate in the making of a foreign policy of which I have come to disapprove, I can resign my official policy-making position, but cannot stop being unhappy as a citizen of a country which carries on what seems to me an increasingly disastrous foreign policy. In both these examples, the individual is at first both producer and consumer of such public goods as party policy and foreign policy; he can stop being producer, but cannot stop being consumer.

It is thus possible to rationalize a wholly new type of loyalist behavior. In line with common sense (and the theory of demand), the propensity to exit has thus far been presented as a rising function of discontent with product quality, or of disagreement with the party line.

Now it can be shown that an invariant or even inverse relationship between these variables is possible. In the case of public goods, the member will compare, at any one point in the process of deterioration, the disability, discomfort, and shame of remaining a member to the prospective damage which would be inflicted on him as a prospective nonmember and on society at large by the additional deterioration that would occur if he were to get out. The avoidance of this hypothetical damage is now the benefit of loyalist behavior, and if this benefit increases along with the cost of remaining a member, the motivation to exit need *not* become stronger as deterioration proceeds although undoubtedly our member will become increasingly unhappy. The ultimate in unhappiness and paradoxical loyalist behavior occurs when the public evil produced by the organization promises to accelerate or to reach some intolerable level as the organization deteriorates; then, in line with the reasoning just presented, the decision to exit will become ever more difficult the longer one fails to exit. The conviction that one has to stay on to prevent the worst grows stronger all the time.

Usually this sort of reasoning is an ex-post (or ex-nunc) justification of opportunism. But it must be reluctantly admitted that loyalist behavior of this type—the worse it gets the less can I afford to leave—can serve an all-important purpose when an organization is capable of dispensing public evils of truly ultimate proportions, a situation particularly characteristic of the more powerful states on the present world scene. The more wrongheaded and dangerous the course of these states the more we need a *measure of spinelessness* among the more enlightened policy makers so that some of them will still be "inside" and influential when that potentially disastrous crisis breaks out. It will be argued later that in these situations we are likely to suffer from an excess rather than from a shortage of spinelessness. It is nevertheless worth noting

that the magnitude of public evils that can today be visited upon all of us by the centers of world power has bestowed "functionality" or social usefulness on protracted spinelessness (failure to exit) provided it turns into spine (voice) at the decisive moment.

Organizations and firms producing public goods or public evils constitute the environment in which loyalist behavior (that is, postponement of exit in spite of dissatisfaction and qualms) peculiarly thrives and assumes several distinctive characteristics. For one, there is the possibility described in the last paragraphs in which we saw "right or wrong, my country" change into a seemingly perverse "the wronger the nayer." Moreover, when exit does occur its nature is different from the type of exit discussed up to now. In the case of exit from organizations producing private goods, exit terminates the relationship between the customer-member and the product-organization he is leaving. True, by signaling to management that something is wrong, exit may provide a stimulus toward quality recuperation, but this effect is wholly unintended by the exiting customer-member—he "couldn't care less." In the case of public goods, on the other hand, one continues to "care" as it is impossible to get away from them entirely. In spite of exit one remains a consumer of the output or at least of its external effects from which there is no escape. Under these conditions, the customer-member will *himself* be interested in making his exit contribute to improvement of the product-organization he is leaving—an improvement which he may judge to be impossible without radical change in the way in which the organization is run. To exit will now mean to resign under protest and, in general, to denounce and fight the organization from without instead of working for change from within. In other words, the alternative is now not so much between voice and exit as between voice from within and voice from without (after exit). The exit decision then

hinges on a totally new question: At what point is one more effective (besides being more at peace with oneself) fighting mistaken policies from without than continuing the attempt to change these policies from within?

The considerable difference between "proper" exit from public goods and the kind of exit (from private goods) thus far discussed is revealed when a customer-member who exits from a public good behaves *as though* he were exiting from a private one. In a society as dominated by private goods and by styles of behavior acquired in reacting to them as the United States, such confusion may perhaps be expected. Examples from recent history come easily to mind. High officials who disagree with public policies do not blast them when they resign, but present this decision as a purely private one; one leaves because a better offer has come his way, "in fairness to my family." Similarly young men and women who find American society, its values, and the actions of its government not to their tastes are "opting out" as though they could secure for themselves a better set of values and policies without having first changed the existing set. The malaise resulting from this confusion of the two kinds of exit can be measured by the relief that *would* have been experienced if at least one of the public officials "dropping out" of the Johnson administration in disagreement over Vietnam had thereupon publicly fought official war policies; and by the relief that *was* so widely felt when the 1968 campaign of Senator Eugene McCarthy made it possible for many young Americans to do just that, instead of merely "copping out."