

EXIT, VOICE & LOYALTY by Albert O. Hirschman

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p. 1 Each society learns to live with a certain amount of such dysfunctional or misbehavior; but lest the misbehavior feed on itself and lead to general decay, society must be able to marshal from within itself forces which will make as many of the faltering actors as possible revert to the behavior required for its proper functioning.

pp. 1-2 While moralists and political scientist have been much concerned with rescuing individuals from immoral behavior, societies from corruption, and governments from decay, economists have paid little attention to *repairable lapses* of economic actors. There are two reasons for this neglect. First, in economics one assumes either fully and undeviatingly rational behavior or, at the very least, an *unchanging level* of rationality on the part of the economic actors. Deterioration of a firm's performance may result from an adverse shift in supply and demand conditions while the willingness and ability of the firm to maximize profits (or growth rate or whatever) are unimpaired; but it could also reflect some "loss of maximizing aptitude or energy" with supply and demand factors being unchanged. The latter interpretation would immediately raise the question how the firm's maximizing energy can be brought back up to par. But the usual interpretation is the former one; and in that case, the reversibility of changes in objective supply and demand conditions is much more in doubt. In others words, economists have typically assumed that a firm that falls behind (or

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gets ahead) does so "*for a good reason*"; the concept—central to this book—of a random and more or less easily "repairable lapse" has been alien to their reasoning.

p. 3 Precisely in sectors where there are large numbers of firms competing with one another in similar conditions, declines in the fortunes of individual firms are just as likely to be due to random, subjective factors that are reversible or remediable as to permanent adverse shifts in cost and demand conditions. In these circumstances, mechanisms of recuperation would play a most useful role in avoiding social losses as well as human hardship.

pp. 3-5 There can be no doubt that competition is one major mechanism of recuperation. It will here be argued, however (1) that the implications of this particular function of competition have not been adequately spelled out and (2) that a major alternative mechanism can come into play either when the competitive mechanism is unavailable or as a complement to it.

Enter "Exit" and "Voice"

The argument to be presented starts with the firm producing saleable outputs for customers; but it will be found to be largely—and, at times, principally—applicable to

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organizations (such as voluntary associations, trade unions, or political parties) that provide services to their members without direct monetary counterpart. The performance of a firm or an organization is assumed to be subject to deterioration for unspecified, random causes which are neither so compelling nor so durable as to prevent a return to previous performance levels, provided managers direct their attention and energy to that task. The deterioration in performance is reflected most typically and generally, that is, for both firms and other organizations, in an absolute or comparative deterioration of the *quality* of the product or service provided. Management then finds out about its failings via two alternative routes:

- (1) Some customers stop buying the firm's products or some members leave the organization: this is the *exit option*. As a result, revenues drop, membership declines, and management is impelled to search for ways and means to correct whatever faults have led to exit.
- (2) The firm's customers or the organization's members express their dissatisfaction directly to management or to some other authority to which management is subordinate or through general protest addressed to anyone who cares to listen: this is the *voice option*. As a result, management once again engages in a search for the causes and possible cures of customers' and members' dissatisfaction.

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The remainder of this book is largely devoted to the comparative analysis of these two options and to their interplay. I will investigate questions such as: Under what conditions will the exit option prevail over the voice option and vice versa? What is the comparative efficiency of the two options as mechanisms of recuperation? In what situations do both options come into play jointly? What institutions could serve to perfect each of the two options as mechanisms of recuperation? Are institutions perfecting the exit option compatible with those designed to improve the working of the voice option?

p. 6 The reason for which humans have failed to develop a finely built social process assuring continuity and steady quality in leadership is probably that they did not have to. Most human societies are marked by the existence of a surplus above subsistence. The counterpart of this surplus is society's ability to take considerable deterioration in its stride. A lower level of performance, which would mean disaster for baboons, merely causes discomfort, at least initially, to humans.

p. 14 Quite a different reaction to the discovery of slack occurs when the discoverer asks himself, after having got over his initial shock, whether slack may not after all be a good

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thing, a blessing in disguise. The idea that slack fulfills some important, if unintended or latent, functions was put forward by Cyert and March, who point out that it permits firms to ride out adverse market or other developments. During such bad times slack acts like a reserve that can be called upon: excess costs will be cut, innovations that were already within one's grasp will at last be introduced, more aggressive sales behavior that had been shunned will not be engaged in, and so on. Slack in the political system has been rationalized in a very similar manner. The discovery that citizens do not normally use more than a fraction of their political resources came originally as a surprise and disappointment to political scientists who had been brought up to believe that democracy requires for its functioning the fullest possible participation of all citizens. But soon enough a degree of apathy was found to have some compensating advantages in as much as it contributes to the stability and flexibility of a political system and provides for "reserves" of political resources which can be thrown into the battle in crisis situations.

p. 17 In the first place, Friedman considers withdrawal or exit as the "direct" way of expressing one's unfavorable views of an organization. A person less well trained in economics might naively suggest that the direct way of expressing views is to express them! Secondly, the decision to voice one's views and efforts to make them prevail are contemptuously referred to by Friedman as a resort to "cumbrous political channels." But

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what else is the political, and indeed the democratic, process than the digging, the use, and hopefully the slow improvement of these very channels?

p. 17 But the economist is by no means alone in having a blindspot, a "trained incapacity" (as Veblen called it) for perceiving the usefulness of one of our two mechanisms. In fact, in the political realm exit has fared much worse than has voice in the realm of economics. Rather than as merely ineffective or "cumbrous," exit has often been branded as *criminal*, for it has been labeled desertion, defection, and treason.

p. 24 According to traditional notions, of course, the more alert the customers the better for the functioning of competitive markets. Consideration of competition as a recuperation mechanism reveals that, although exit of some customers is essential for bringing the mechanism into play, it is important that other customers remain unaware of, or unperturbed by, quality decline: if all were assiduous readers of Consumer Reports, or determined comparison shoppers, disastrous instability might result and firms would miss out on chances to recover from their occasional lapses.

pp. 28-29 A less speculative illustration of the issue under discussion can be drawn from the history of the trade union movement in this country. A preliminary step to the CIO-AFL

merger of 1955 was the No-Raiding Agreement which was concluded between the two organizations two years earlier. The text of this agreement referred to a statistical study of all petitions over a two-year period, addressed by CIO-AFL unions to the National Labor Relations Board for certification as the official bargaining agents in industrial plants. It was found that most petitions were unsuccessful and that those which were granted were about equally divided between CIO Petitions to displace an AFL union and AFL petitions to displace a CIO union. These results, so the report says, "compel the conclusion that raids between AFL and CIO unions are destructive of the best interests of the unions immediately involved and also of the entire trade union movement." As reasons for this conclusion, the document cites unrest and disunity created among the workers as a result of the raids, successful or not, and the desirability of devoting the energies of the trade union movement to the organization of unaffiliated workers rather than to raiding. Implicit in this conclusion is the judgment that the disadvantages of exit-competition outweighed in this case its possible efficiency-inducing advantages and *perhaps* the assumption that these advantages can be better secured via the alternative mechanism—voice—which must now be examined more closely.

p. 31 But voice is like exit in that it can be overdone: the discontented customers or members could become so harassing that their protests would at some point hinder rather

than help whatever efforts at recovery are undertaken. For reasons that will become clear this is most unlikely to happen in relations between customers and business firms; but in the realm of politics—the more characteristic province of voice—the possibility of negative returns to voice making their appearance at some point is by no means to be excluded.

pp. 31-32 An interesting parallel appears here between economics and exit, on the one hand, and politics and voice, on the other. Just as in economics it had long been thought that the more elastic demand is (that is, the more rapidly exit ensues whenever deterioration occurs) the better for the functioning of the economic system, so it has long been an article of faith of political theory that the proper functioning of democracy requires a maximally alert, active, and vocal public. In the United States, this belief was shaken by empirical studies of voting and political behavior which demonstrated the existence of considerable political apathy on the part of large sections of the public, for long periods of time. Since the democratic system appeared to survive this apathy rather well, it became clear that the relations between political activism of the citizens and stable democracy are considerably more complex than had once been thought. As in the case of exit, a mixture of alert and inert citizens, or even an alternation of involvement and withdrawal, may actually serve democracy better than either total, permanent activism or total apathy. One reason, stressed by Robert Dahl, is that the ordinary failure, on the part of most citizens, to use their potential

p. 37 It appears, therefore, that voice can be a substitute for exit, as well as a complement to it. What are the conditions, then, under which voice will be preferred to exit? The question can be formulated more precisely as follows: If a competing or substitute product B is available at the same price as the normally bought product A and if, because of the deterioration of A, B is now clearly superior from the point of view of A's customers, under what conditions will a customer of A *fail* to go over to B?

p. 40 This is also one of the reasons for which voice plays a more important role with respect to *organizations* of which an individual is a member than with respect to *firms* whose products he buys: the former are far less numerous than the latter. In addition, of course, the proliferation of products tends to increase cross-elasticities of demand and to that extent it would increase the probability of exit for a given deterioration in quality of any one product picked at random. For these reasons, voice is likely to be an active mechanism primarily with respect to the more substantial purchases and organizations in which buyers and members are involved.

p. 41 Voice is most likely to function as an important mechanism in markets with few buyers or where a few buyers account for an important proportion of total sales, both because it is easier for few buyers than for many to combine for collective action and simply

political resources to the full makes it possible for them to react with unexpected vigor—by using normally unused reserves of political power and influence—whenever their vital interests are directly threatened. According to another line of reasoning, the democratic political system requires “blending of apparent contradictions”: on the one hand, the citizen must express his point of view so that the political elites know and can be responsive to what he wants, but, on the other, these elites must be allowed to make decisions. The citizen must thus be in turn influential and deferential.

p. 35 7. Voice could usefully complement competition also in a more familiar context. Economists who have hopefully eyed competition's ability to allocate resources efficiently have generally concluded that the most serious impediment to the hope's fulfillment is the existence of external diseconomies in production and consumption (pollution, littering of beaches with beer cans, and so forth). Obviously, these diseconomies could be contained or prevented through effective articulation of protests on the part of those who suffer from them. In other words, the voice of the nonconsumer on whom the diseconomies are inflicted could become a valuable adjunct to the competitive mechanism. Once this is realized it is perhaps less surprising that the voice of the *consumer* too has a role to play in complementing the mechanism.

because each one may have much at stake and wield considerable power even in isolation. Again, it is more common to encounter influential members of an organization than buyers with a great deal of influence on the policies of firms from which they buy, and the voice option will therefore be observed more frequently among organizations than among business firms.

p. 42 The former phrase does not refer to the long established and still quite useful consumer research organizations, but to the more militant actions by or on behalf of consumers that have been taken recently, the most spectacular and resourceful being the campaigns of Ralph Nader, who has established himself as a sort of self-appointed consumer ombudsman. The appointment since 1964 of a consumer adviser to the President has been a response to this emergence of the consumer voice which was quite unexpected in an economy where competition-exit is supposed to solve most of the "sovereign" consumer's problems. As a result of these developments, it looks as though consumer voice will be institutionalized at three levels: through independent entrepreneurship à la Nader, through revitalization of official regulatory agencies, and through stepped-up preventive activities on the part of the more important firms selling to the public.

p. 43 Thus, while exit requires nothing but a clearcut either-or decision, voice is essentially an *art* constantly evolving in new directions. This situation makes for an important bias in favor of exit when both options are present: customer-members will ordinarily base their decision on *past* experience with the cost and effectiveness of voice even though the possible *discovery* of lower cost and greater effectiveness is of the very essence of voice. The presence of the exit alternative can therefore tend to *atrophy the development of the art of voice*. This is a central point of this book which will be argued from a different angle in the next chapter.

p. 43 17. For another, most vivid case in point, within the context of community action in Venezuela, see Lisa Redfield Peattie, *The View from the Barrio* (Ann Arbor, Mich.: University of Michigan Press, 1968), ch. 7; the "art" of eliciting voice, this time in low-income neighborhoods of American cities, is also the subject of her article "Reflections on Advocacy Planning," *Journal of the American Institute of Planners* (March 1968), pp. 80-88.

p. 44 This may be the reason public enterprise, not only in Nigeria but in many other countries, has strangely been at its weakest in sectors such as transportation and education where it is subjected to competition: instead of stimulating improved or top performance,

the presence of a ready and satisfactory substitute for the services public enterprise offers merely deprives it of a precious feedback mechanism that operates at its best when the customers are securely locked in. For the management of public enterprise, always fairly confident that it will not be let down by the national treasury, may be less sensitive to the loss of revenue due to the switch of customers to a competing mode than to the protests of an aroused public that has a vital stake in the service, has no alternative, and will therefore "raise hell."

In Nigeria, then, I had encountered a situation where the combination of exit and voice was particularly noxious for any recovery: exit did not have its usual attention-focusing effect because the loss of revenue was not a matter of the utmost gravity for management, while voice did not work as long as the most aroused and therefore the potentially most vocal customers were the first ones to abandon the railroads for the trucks. It is particularly this last phenomenon that must be looked at more closely, for if it has any generality, then the chances that voice will ever act in conjunction with exit would be poor and voice would be an effective recuperation mechanism only in conditions of full monopoly "when customers are securely locked in."

p. 45 Suppose at some point, for whatever reason, the public schools deteriorate. Thereupon, increasing numbers of quality-education-conscious parents will send their

children to private schools. This "exit" may occasion some impulse toward an improvement of the public schools; but here again this impulse is far less significant than the loss to the public schools of those member-customers who would be most motivated and determined to put up a fight against the deterioration if they did not have the alternative of the private schools.

p. 46 In thus orienting themselves toward exit, rather than toward voice, investors are said to follow the Wall Street rule that "if you do not like the management you should sell your stock." According to a well-known manual this rule "results in perpetuating bad management and bad policies." Naturally it is not so much the Wall Street Rule that is at fault as the ready availability of alternative investment opportunities in the stock market which makes any resort to voice rather than to exit unthinkable for any but the most committed stockholder.

p. 47 While it is most clearly revealed in the private-public school case, one characteristic is crucial in all of the fore-going situations: those customers who care *most* about the quality of the product and who, therefore, are those who would be the most active, reliable, and creative agents of voice are for that very reason also those who are apparently likely to exit first in case of deterioration.



pp. 49-50 "You can actively flee, then, and you can actively stay put." This phrase of Erik Erikson applies with full force to the choice that is typically made by the quality-conscious consumer or the member who cares deeply about the policies pursued by the organization to which he belongs.

p. 51 When general conditions in a neighborhood qualities such as safety, cleanliness, good schools, and so forth will be the first to move out; they will search for housing in somewhat more expensive neighborhoods or in the suburbs and will be lost to the citizens' groups and community action programs that would attempt to stem and reverse the tide of deterioration.

pp. 56-57 The point of view here adopted contrasts with the spirit that has long animated the concern over monopoly and the struggle against it. The monopolist has traditionally been expected to utilize to the utmost his ability to exploit the consumer and to maximize profits by restricting production. Public policies have been based primarily on this expectation. Even Galbraith, ordinarily so ready to repudiate the "conventional wisdom," takes this exploitative behavior to be the prime and perhaps only danger which must be guarded against. In his *American Capitalism* he merely pointed out that competition has become an unrealistic alternative to the monopolistic tendencies of advanced capitalist economies and

extolled an alternative, already exiting remedy, to wit, "countervailing power." But what if we have to worry, not only about the profit-maximizing exertions and exactions of the monopolist, but about his proneness to inefficient, decay, and flabbiness? This may be, in the end, the more frequent danger: the monopolist sets a high price for his products not to amass super-profits, but because he is unable to keep his costs down; or, more typically, he allows the quality of the product or service he sells to deteriorate without gaining any pecuniary advantage in the process.

pp.59-60 The United States Post Office can serve as another example of the lazy monopolist who thrives on the limited exit possibilities existing for its most fastidious and well-to-do customers. The availability of fast and reliable communications via telegraph and telephone makes the shortcomings of the mail service more tolerable; it also permits the Post Office to tyrannize the better over those of its customers who find to exit to other communication modes impractical or too expensive.

pp. 65-66 Note therefore that a firm is particularly likely to be deflected from the point of maximum profits when the consumers which are made unhappy by the firm producing at that point are in the position of having "nowhere else to go." This is a result that contradicts, or at least qualifies, the conventional ideas about the "powerful consumer." His



power is usually believed to originate in the fact that he can take his business elsewhere and can thus "punish" the firm which does not pay heed to his preferences, but we see now that another kind of power resides in the consumer who cannot take his business elsewhere and who has therefore the maximum incentive to cajole, threaten, and otherwise induce the firm to pay attention to his needs and tastes.

pp. 70-71 The general conditions for the use of voice have been discussed in Chapter 2. With respect to the subject now under discussion, the matter can perhaps best be formulated as follows: for voice to function properly it is necessary that individuals possess reserves of political influence which they can bring into play when they are sufficiently aroused. That this is generally so—that, in other words, there is considerable slack in political systems—is well recognized. "Nearly every citizen in the community has access to unused political resources" writes Robert Dahl.

p. 72 But the authors use these most interesting data primarily to explain the misperceptions of the Republican party and of their nominee with respect to the chances for victory, instead of drawing the following, much more basic conclusion: in a two-party system a party will not necessarily behave as the Hotelling-Downs vote-maximizer because those "who have nowhere else to go" are not powerless but influential.

p. 76 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.

p. 83 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.

p. 84 \*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.

p. 86 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.

pp. 89- 90 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.

p. 91 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.