

# REMEMBERING MANCUR OLSON: AND AULD LANG SYNE<sup>1</sup>

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## EARLY DAYS: OXFORD

It was in late September 1955 that Mancur Olson introduced himself. In the Porter's entry lodge of our Oxford College (University College, Oxford, or to Oxonians affectionately, and hereafter, "Univ." <http://www.univ.ox.ac.uk>) he asked whether I had rooms in College or was living in "digs." "College," I mumbled because I had no idea what "digs" meant, having been in Oxford not more than a day. His speech and manner seemed so British I was astonished to learn that he had arrived in Oxford only a year before, and from North Dakota, a State neighboring my own. It would be twenty years before I would learn that he claimed his ever so slowly mellowing English accent to be not foreign to him at all but something regional or local from home. Twenty years also before I would think to ask the meaning of "Mancur" – thinking it might be Norwegian and after hearing so many say "Mankur," which never seemed to bother him. "From the Arabic" he told me, "meaning 'Victorious'."

Academic 1955-56 was Mancur's final year at Oxford, and during it he and I both read (i.e. "studied" in Oxford jargon) PPE (Honour School of Philosophy, Politics, and Economics<sup>2</sup>), we had the same tutors, dined in Hall on the same ration of three styles of potatoes, and drank bitter beer in the same College Cellars. Hicks held the Drummond Chair of Economics, and Harrod held forth as a Don at Christ Church. But Oxford in those days really belonged to Philosophy: Ryle at Magdalen College, Strawson and H.L.A. Hart at University, Searle at Christ Church, Isaiah Berlin at

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<sup>1</sup> This paper revises and augments my article, Mancur Lloyd Olson, Jr. 1932-1998: A Personal Recollection. *Eastern Journal of Economics*, Summer 1998, pp. 253-63. <https://webfiles.uci.edu/mcmcguir/CV-Papers/McGuire-EasternEJ-1998-24%283%29-253-64.pdf?uniq=nktcvi>; © Copyright by the author.

<sup>2</sup> Another term for PPE had been "Modern Greats" to distinguish it from the time-honored study of Classics (that is of ancient Greece and Rome, their languages, and civilizations) deservedly denominated "Greats."

All Souls, Austin, Kneale, Warnock, Anscombe, and so many others. But although required by the Oxford University PPE Examination Statutes to sample the delights of analytic philosophy, Olson seemed not tempted. He loved economics – right up to the moment of his unexpected, lightning sudden heart attack as he was leaving his office at 3.00 pm on the afternoon of February 19, 1998.

Our principal economics tutor was Tom Wilson, a contemporary of Keynes, macro-economist at the Treasury during the War, later adviser to Conservative Governments, with a special interest in business cycles, and lifelong friend to us both. Tom was an Oxford Don like out of the movies. Tutorials were conducted in a cloud of pipe smoke, logs ablaze in the fireplace, and sherry to lubricate the recitation. Tom's tutorials typified the Oxford approach to economics in those days. The novice undergraduate was cast adrift into the middle of an ongoing or recent controversy, supplied with several references, and expected to sort things out with a written essay a week hence. Tom was touching in his courtesy, his club-ish sort of intimacy, and ready laughter. Mancur and I had dinner with him in the 1970's when he had moved from "Univ" to a Chair at Glasgow, and later we both lamented that we had allowed contact to lapse.

### **RATIONAL MANCUR**

I distinctly remember talking with Mancur in our college Junior Common Room over some point on the debate between Edward Chamberlain's *Monopolistic Competition* and Joan Robinson's *Imperfect Competition*. This may have been my first encounter with his tenacious commitment to the subject and method of economics, and to scholarship as a career and a profession. Never before had I come across this explicit reverence for scholarly work – at least not among contemporaries – nor with this commitment to rationality in persons. Indeed, this was as close to a religious impulse as I ever detected in Mancur. But I was to learn over the years that he respected the power of the rationality hypothesis to explain and appraise human behavior vastly more than any other – and his Vita showed it. How many times have his colleagues and friends heard him question: "But would that (such and such behavior or inference) be rational?" He believed in Economics like few others I have ever met, and he saw the economic factor in situations where it dawned on no one else.

Sometimes I wonder if this attitude toward rationality truly characterized Mancur's personal life. I do believe that he liked to think that it did. I remember one time whining to him about time spent in travel. "I always reach the airport half an hour in advance," I complained. "Yes," he answered, "one should always schedule one's time so as to arrive late at the airport and miss an occasional flight."

This procedure (duly modified to include all expected costs and benefits) he thought would be a “rational” use of one’s time, as it would minimize time unnecessarily wasted in travel.

Returning to the University of Maryland from a six-week consulting assignment in wartime Cambodia at the end of 1974, I told Mancur of a Cambodian general who was agonizing over whether to send his helicopter pilot to pick up his wife or girlfriend for escape from Phnom Penh to Bangkok. As the war’s end drew near, the general finally decided on the girlfriend, and so instructed his pilot, a Cambodian major, to pick her up for Bangkok. But the major didn’t go to rescue the general’s girlfriend; he flew instead to save *his own* girlfriend for escape to Bangkok.

Olson saw at once that the major’s behavior was “rational”, sensing that the general’s reach would soon be cut short; he saw the enforcement, duration, and commitment angle in the story and its application to collective action. Thus, it was the *economic* slant on the event that he found *interesting* – not the morality, justice, or plain irony of it, but the economics of it. The story appeared quite a bit later in a newspaper piece with typical Olsonian flourish.

It was, I suspect, the strength of this conviction (a feature of his personality that Tom Schelling, as he once told me, also found so compelling) that fueled his commitment to extend economics beyond markets, commerce, and money, as he was among the first to imagine the heights this idea could command. And among the first to launch out on a serious program to explore those peaks in the face of skepticism and sometimes opposition. Whether this was the explanation or not, most who met and heard Mancur would call his ideas arresting, original, interesting, novel, thought provoking. In a 1966 conversation in Washington, DC, Wassily Leontief expressed his admiration of Mancur to me – something to the effect, “That’s just the sort of person we need at Harvard, someone with a broad sweep to his ideas, someone who thinks big.”

This was soon after Mancur had failed to obtain promotion from Assistant Professor and was denied tenure at Princeton, an event that he never mentioned in the many years I knew him. This setback continues to puzzle me. Surely his record at the time promised a prominent career. But he was not much at “maths” (UK-English slang); his style was almost instinctive; and his obsessions dwelt on political economy, not a very fashionable focus then. Moreover a vaguely donnish persona made him vulnerable to disparagement as I witnessed from time to time by some quite distinguished people. Maybe it was all somehow personal after all.

Sometime about 1970 I asked Mancur what he thought of World Government. “A bad idea,” he opined. “Look at the costs of monopoly in the economic realm.” From a sort of romantic idealism on my part, I “imagined” (along with John Lennon)

a resolution of conflict and elimination of war might result from such unification of people, whereas Olson conceived the possibilities for suppression and exploitation occasioned by the absence of competition among rulers. Most important, he saw this because of the economic template he brought to a socio-political issue. This instinct and his gift for use of economic concepts to understand political phenomena remained his trademark. He manifested this talent for example from the essay *The Principle of Fiscal Equivalence*, “American Economic Review Papers and Proceedings” (May 1969) – which asked “what is the correct size, reach, and composition of a government” – right down to the book manuscript he left behind in 1998, *Prosperity and Power*.

Personally, I doubt that in his daily life Mancur was more rational than most of us. But he did value rationality more than most, and he was unusually alert to the benefits and costs of his own choices. I remember at about age 35 being instructed by him on the benefits to an academic career of a high citation count in the Social Sciences Citation Index. I had been utterly clueless, and he had been building his numbers. In our written collaboration, he argued more than once how a particular tactic in presentation would “hasten the references,” to quote him, and he knew.

## HARVARD AND USAFA

Mancur left Oxford in the summer of 1956, with a two-year ROTC obligation to serve in the U.S Air Force. But first Harvard (1956-1958) for a PhD, where he came under the influence of Edward Chamberlin, John Kenneth Galbraith, and at the end, Thomas C. Schelling. Chamberlin taught the first year graduate course in Microeconomics and Mancur chose him as a thesis supervisor. Chamberlin, however, became ill and retired in 1960. By 1963, Mancur had produced a draft of his thesis, and Thomas Schelling who had moved to Harvard in 1958 took on the role of adviser. Schelling’s influence was crucial, both as critic of the thesis and as editor of the Harvard Economic Studies series in which the thesis was later published. But Olson often corrected others who thought Schelling was his principal supervisor. Classmates Dale Jorgensen and Clopper Almon also exerted an enduring influence on his development.

By the time he was commissioned in the Air Force and stationed at the newly established Air Force Academy, Olson showed traits which would distinguish him throughout his accelerating academic career. One of these was the ability to distill publishable insights from life experiences. As a faculty member in the Economics Department at the Air Force Academy, he authored a study on the effectiveness of strategic bombing, *The Economics of Target Selection for the Combined Bomber*

*Offensive*, “Journal of the Royal United Service Institution” (November 1962). Here, presumably, J.K. Galbraith’s influence as the author of the Air Force’s “USSBUS” study (*US Strategic Bombing Survey*) and former teacher to Olson was important. Mancur also completed *The Economics of Wartime Shortage: A History of British Food Shortages in the Napoleonic War and World Wars I and II* (Duke University Press, 1963).

Remember this was the era of Herman Kahn 1960 (*On Thermonuclear War*), Bernard Brodie 1959 (*Strategy in the Missile Age*), Thomas Schelling 1960 (*The Strategy of Conflict*), Albert Wohlstetter (*The Delicate Balance of Terror*), and Henry Kissinger 1957 (*Nuclear Weapons and Foreign Policy*), and a time of serious military planning to prepare, survive, and prevail in a major war<sup>3</sup>. Olson was always more interested in practical policy, over theory for its own sake. During a later period of his life he consulted on projects with both U.S. Senators from Minnesota, Eugene McCarthy and Walter Mondale, and with their staffs. We both knew Gene McCarthy. Sometime after McCarthy’s unsuccessful 1968 campaign to unseat LBJ, and after Hubert Humphrey’s defeat in that election year, I asked Mancur if he had favored McCarthy for president. “No,” he said, “McCarthy is a poet, not a President.”

Even in a work of economic history Mancur was concerned with current policy. He had long been interested in economic history, and while still a Harvard graduate student he wrote (with Curtis C. Harris Jr.) *Free Trade in Corn: A Statistical Study of the Prices and Production of Wheat in Great Britain from 1873 to 1914*, “Quarterly Journal of Economics” (February 1959). Thus upon resigning his commission in the U.S. Air Force, before taking up an assistant professorship at Princeton, he had published a book, two articles in Harvard’s “Quarterly Journal of Economics,” and two other refereed articles<sup>4</sup> – impressive innings for sure but arguably no “home runs” at least if you judge *The Logic of Collective Action* solely on mathematical grounds.

## ECONOMICS OF ALLIANCES

The first recognized home run was *An Economic Theory of Alliances*. Just how this idea dawned on Mancur I never asked but possibly it germinated in the Air Force Academy years. The applicability of the voluntary public good provision model to alliance behavior is mentioned in *The Logic of Collective Action* (pp. 36 and 40) but not really spelled out. In any case in my files I have the paper of this

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<sup>3</sup> During this era I was US Army Captain assigned to nuclear targeting and survival studies in the Pentagon, and a fly-on-the-wall there at the time. I can attest to the tangible conviction among our military leadership that while nuclear war was a challenge to survive, losing-vs-winning was certainly meaningful and we had a mandate to prevail.

<sup>4</sup> This information was taken from Olson’s *Curriculum Vitae*.

title – *An Economic Theory of Alliances* – given one afternoon in the summer of 1964 to a seminar at RAND. Richard Zeckhauser, then a Harvard graduate student was in the seminar room. The next morning (after working feverishly through the night, I was told) he showed Mancur a fully developed, elegant, mathematical statement of Olson’s idea; the rest is history.

In Olson’s descriptions of this transaction to me he always called Zeckhauser “lightning fast.” The mimeographed paper in my possession contains an appendix with exclusive credit for composing it given to Zeckhauser in Mancur’s handwriting. The author’s conventional opening footnote on the first page states that the inspiration for the paper is William Baumol’s economic theory of the state (*Welfare Economics and the Theory of the State*, Harvard, 1952), and the title page has Zeckhauser’s name added as co-author of the entire paper in Olson’s hand. The path from this early draft to the final published (and republished) article was marked by revision after revision as Olson and Zeckhauser labored over presentation and negotiated individual words and punctuation.

The resulting Olson-Zeckhauser (OZ) paper, *An Economic Theory of Alliances*, “Review of Economics and Statistics,” (1966) virtually created a cottage industry for economists and political scientists. Because the analytic set-up – Zeckhauser’s mathematics and diagrams – was so lucid it provided an entire short course in Olson’s major opus, *The Logic of Collective Action* (more of which presently) bypassing its exasperating qualities. OZ<sup>5</sup> in fact would underlay important subsequent advances in economic theory and “formal model” theories in political science – advances in understanding equilibrium behavior in the voluntary provision of a public good within a group. I have in mind particularly studies of how the Nash equilibrium in a group’s voluntary provision depends on various features of the group: the size of its membership, the homogeneity or heterogeneity of those members, the total income/wealth of the group, and its distribution among the membership. With a co-author I have tried to summarize our state of knowledge here without excessive mathematics. See McGuire and Shrestha (2003).

First of all, clarity about these features of OZ has led to better understanding of the effects of income growth within an alliance or other voluntary group since the question was first raised (Chamberlain 1974, McGuire<sup>6</sup> 1974), and then second to what to expect if income is transferred from one party to another within the same group. Here the paradoxical. “Warr neutrality result”, has been a continuing source of fascination. Warr (1983) demonstrated that if income within an alliance

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<sup>5</sup> The short hand “OZ” is not my creation. Who ever said economists have no sense of fun?

<sup>6</sup> When I showed a draft of this paper to Mancur in 1974 he said these issues had crossed his mind while writing his thesis, but had never got around to working on them. More generally he seemed disinterested in and he scarcely participated in the now colossal literature on the subject. See also footnote 7.

(or family, or any equivalent collective that supplies a public good strictly for its own members) is transferred from one member to another, the group's equilibrium provision of the public good to itself is unchanged. Important refinements of this result include Cornes and Sandler (1984), and Bergstrom, Blume and Varian, (1986). More generally the model has been extended to many groups other than military alliances. A good example would be Andreoni's *Privately Provided Public Goods in a Large Economy: The Limits of Altruism*, "Journal of Public Economics" (1988). This literature continues to grow, and the topic is still vibrant now 18 years after Olson's death.

But back to OZ itself, its great impact I believe derives from several factors beyond its novelty and clarity of presentation. First, it was timely; the topic of NATO burden sharing was in national focus. Next it made a stark substantive prediction from the hypothesis that nation-states in their resource allocation behaviors could be represented as utility maximizing "individuals." This is the prediction of disproportionality between the income or wealth of a country and its share in the alliance burden, greater income/wealth associated with bearing a more than proportional burden share, memorably termed by Olson the "exploitation of the great by the small". And, moreover, it was methodologically innovative as one of the very early economic studies that used the economist's "utility function" and "indifference curves" to analyze the aggregate behavior of an entire country as if it were an individual. The first such approach to my knowledge is found in Wassily Leontief's *The Use of Indifference Curves in the Analysis of Foreign Trade*, 1933, "Quarterly Journal of Economics." On both methodological and substantive grounds then the paper was ready-made for political scientists, sociologists, actually social scientists of every stripe, extending even to policy wonks in recent times.

## THE LOGIC OF COLLECTIVE ACTION

I chose *An Economic Theory of Alliances* first because its impact among economists was immediate and sensational. Chronologically, however, the *Alliances* paper is derivative from Mancur's thesis, "*The Logic of Collective Action: Public Goods and The Theory of Groups*" – only one of many ideas, suggested problems, suggested solutions to problems to stem from that work.

I was a graduate student working on my own thesis in Cambridge in spring 1963 when Mancur visited me in my digs with a typed draft of his thesis. He asked me to look it over. It was his revision of an earlier version on which he had lavished many years, but which had been rejected by Thomas Schelling – with copious and insightful



comments, Mancur emphasized.

Olson was worried, very worried, yet showed no loss of confidence in his work. As a backup, he was preparing to offer a manuscript on another topic entirely as a thesis. This was *The Economics of Wartime Shortage: A History of British Food Shortages in the Napoleonic War and World Wars I and II*. He then planned, in the event, to search out another avenue to release *The Logic of Collective Action*. Schelling, however, was pleased with the revision, so pleased he included it in the Harvard Economic Studies series of which he was editor at the time. Olson was relieved and delighted, a victory all the more to savor as having been snatched from disappointment. The “alternative thesis” was published as a book later in 1963 by the Duke University Press, so Mancur must have been holding off final agreement with Duke when we talked before and after his April 1963 meeting with Schelling.

This *Logic* book, being in the vanguard of the development of Public Choice and Social Choice as fields within economics, took root as a classic over a much longer period of time. Although Mancur’s thesis now is a standard reference in undergraduate and graduate texts in Introductory Economics, Price Theory, Macroeconomics, Public Finance, Labor Economics, International Trade, Public Choice, and Welfare Economics, at its initial appearance it was slow to achieve acceptance among economists. Why was that? One reason is that the subject is hugely complex: one sees from the footnotes that Olson understood many of the crucial dimensions along which analysis of voluntary provision of public goods must be pursued: (1) the size of group, (2) disparities in income and preferences among group members, (3) openness or closedness of the group to new members – which he called “inclusive” or “exclusive”, (4) the fashion in which individual contributions are settled, involving such issues as sequence of allocative moves, possibility of re-contracting, bargaining, commitment, and repetition, and (5) the effect of joint provision or tying of a private good to a public good limited to members of the group which thereby holds the membership captive – issues we now call impurities or imperfections in publicness. (This is developed in Cornes and Sandler (1986, 1996) or in McGuire (1990) specifically for the case of military alliances where each partner's military serves both alliance ends and its own country-specific goals simultaneously). Olson lumped all these facets of “collective goods” together, drawing on distinctions as required to make his points. So, for example, sometimes a “collective good” would be a pure “Samuelson” public good, other times not. And as economists rigorously explored more and more of these facets individually, references to *The Logic of Collective Action* compounded, and its fame and repute became common wisdom. Especially notable here is the work of Sandler (1992). At the time of Mancur’s death “*The Logic*” had been translated into German, French, Hungarian, Japanese, Italian, Korean, Spanish, Chinese, and Russian and in 2012, Polish. It had been named the American Academy of Management’s Social Issues



Division best book (1993) for its “enduring contribution,” and was selected (1995) by the American Political Science Association for its Leon D. Epstein Award.

In addition, Mancur intuited the vast universe of non-market behavior which existed within this structure of collective action: (1) families, and small societies of all kinds, (2) labor unions, and other economic and political pressure groups, (3) bureaucracies, teams, and partnerships, (4) nations and groups of nations, (5) multinational bodies, and (6) societal and historical classes of the widest possible sweep. He desired to communicate with sociologists, political philosophers, and political scientists with their own huge literatures and ongoing discourse (in fact, to communicate with anyone who would listen to his ideas and give him feedback, however challenging or even harsh). And he was phenomenally successful in extending his dialogue to them. A Fellow of the American Academy of Arts and Sciences, Olson was elected (1985) to the political science section, not economics – testament to his gift for crossing disciplines. His ability to stimulate research in political science and sociology was spectacular. See Russell Hardin’s *Collective Action* (Johns Hopkins, 1982) as an example of his effect upon political science. But still this was the beginning of the era of Public Choice and Social Choice movements within economics and many economists were not convinced – for methodological reasons or maybe their own political reasons.

Another cause for the slow start I believe is that while Olson possessed a subtle understanding of the structure of economic behavior of individuals within groups, much of the technical apparatus by which we now pursue his argument was not available to him. Consider for example his idea of “The Exploitation of the Great by the Small,” within a closed group of specific membership, which provides itself with a pure, non-rival, and non-excludable public good by strictly voluntary contribution. Other things equal, the point is that richer individuals will contribute a greater proportion of their wealth to the public good than will poorer members of the group. Olson conjectured this result on the basis of substitution effects alone. Later, derivative analyses such as that of Bergstrom, Blume, and Varian (1986) – unavailable to Olson in 1960-63 – show how income effects necessarily imply this result when preferences are identical among group members.<sup>7</sup> Despite these

<sup>7</sup> As is now understood from Andreoni (1986) for example, or Andreoni and McGuire (1993) – but in 1965 did not understand – there exists a “cut-off” or “critical” income when the preferences of all members of a group of fixed membership are identical. Some members will have an income below this cut-off; they will contribute nothing to the provision of the public good in voluntary Nash-Cournot equilibrium. Other members will have an income greater than the cut-off income: they will allocate the entire amount by which their incomes exceed the cut-off to public good provision in voluntary Nash-Cournot equilibrium. (The proof also requires a constant average cost of public good provision, which is common to all contributors.) A simple non-mathematical treatment of this “pure case is available in McGuire and Shrestha (2003). Obviously then the ratio “contribution/income” is zero for those with incomes below the cut-off, and increases with income for those with incomes above the cut-off. One might think that Mancur would have favored Warr and Bergstrom, Blume, and Varian and so on; but not so. He argued often to limit, to restrict their conclusions.

technical limitations on the work, it continues to be hugely referenced. Just for the year of 1996 alone, thirty-two years after its publication, the Social Science Citation Index listed 216 references to *The Logic of Collective Action*. Finally, maybe the book that this special edition of *Decisions* celebrates was slow to gain acceptance because of Mancur's style of argument, which some would find exasperating, where his intuitive reach exceeded his analytic grasp.

Soon after both our PhD theses were accepted in the Harvard Economic Studies Series<sup>8</sup> and we had already been friends for ten years --- with shared region of origin, Oxford days, Harvard exposure, and comparable military experience behind us --- Mancur and I got together, I think it was in Cambridge again or maybe DC. Aside from talk of economics and career, my memory of the meeting remains clear because of Mancur's question for me so earnestly posed: "What do you really want out of life, Marty?" I remember he asked. My thoughts went swiftly and irresistibly to Ferraris, exotic beaches, and girls in bikinis, but I censured them since I could tell he was truly serious. Instead I answered somewhat lamely: "Not sure. What do you want?" The answer startled me. "Prestige," said Mancur: "What I want is prestige!" I tried to challenge this object as a goalpost for one's life but it was clear he had given a lot of thought to it. Anyway this is not something you would argue long about with a friend. But I've never forgotten the exchange, especially as with the passage of years Mancur Olson's "prestige" ascended to the sky.

## WASHINGTON AND THE UNIVERSITY OF MARYLAND

Whatever the details of its slow launch, in the historical record Olson's thesis is secure – a defining work in the emerging of discipline of Public Choice by one of its founders. The Mancur Olson who departed Princeton for Washington, DC in the summer of 1967 was author of an under-appreciated if incipient classic. He had accepted tenure at Maryland, but first a detour into the Department of Health Education and Welfare (HEW) as Deputy Assistant Secretary to Bill Gorham. The Council of Economic Advisers and its annual *Economic Report of the President* had caused HEW to propose an annual *Social Report of the President*, and Gorham wanted Olson to write it. Gorham had come from McNamara's Pentagon, as Sherpa for the Program Planning and Budgeting System (PPBS) to the civilian agencies. As Mancur told me in 1996 he had equivalent Deputy Assistant Secretary offers elsewhere in the Government including Defense, but it was the challenge of Gorham's need that attracted him.

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<sup>8</sup> Olson's thesis occupied Volume 124 in that series; mine viz. McGuire (1965), No 125.

Olson co-authored and managed production of *Toward a Social Report*, (USDHEW, 1969). When he took up the tenured Associate Professor position at Maryland in 1969, he wanted to make something more of his HEW investment. Replete as the subject of study was with externalities, and with tax and benefit incidence in a second best environment, he finally settled on the title “Beyond the Measuring Rod of Money,” a manuscript long since completed but still in his files at the time of his death.

## **THEORY OF DEMOSCLEROSIS: THE RISE AND DECLINE OF NATIONS**

A second trait typical of Mancur was a use of dialogue to identify analyzable problems and to build his own conceptions of their solutions. One tactic I observed often was to state a hypothesis, then ask the listener to prove what was wrong with it. (Just how he got away with this I never quite understood.) If proved wrong, he would invariably incorporate the correction in his own thoughts. But proving an Olson conjecture wrong was no easy task. His precise statement might be incorrect, but the underlying grain of truth or wisdom was there more often than not. If ever there was an economist who valued being “approximately right” over being “exactly wrong” it was Olson. And as such he was quite fearless in putting out ideas, however tentative, and learning from objections and criticisms. He always listened. I never saw him give a paper without taking detailed notes of the criticisms. Moreover, possibly as a result of his style of dialogue, he was extraordinarily concerned with literate and above all memorable characterizations of his ideas.<sup>9</sup> The importance of language in Olson’s life, mentality, and work is clear from his struggles to find the best explanation of his ideas. Although he made graceful expression appear easy, in fact he poured huge effort into finding the best turn of phrase.

Mancur was raised on a farm in North Dakota. When he was a child, he told me, his father gave him a pony and cart for his birthday – seventh or eighth. He loved driving that cart around the yard; but before this was allowed he had to learn the names of all the parts/pieces of the harness, bridle, etc. Before you can **do** something properly such as care for your pony, you must know the words to describe what it is you are doing, or so thought Mancur’s father, and Mancur too.

In 1990 at a conference in Cambridge, Mass. to honor Thomas Schelling, Mancur introduced the argument that institutions of governance can be idealized as existing

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<sup>9</sup> Olson’s devotion to marketing a memorable turn of phrase indicates a deep public relations instinct. In his 60’s he co-organized a discussion group “WAFER” (Washington Area Forum on Economic Reform), and memorably chaired “IRIS” (Institutional Reform and the Informal Sector) presently to be discussed. Throughout his career he lobbied tirelessly for professional adoption of his terminology: “exclusive groups,” “encompassing interests,” “exploitation of the great by the small,” etc.

at various points along a spectrum between pure autocracy and pure utopia. To develop the essence of the concept, he elaborated on a simple story from Banfield's *The Moral Basis of a Backward Society* – a story of the King of a province as its economic owner. Olson's King started off as a **roving bandit**; but when he settled down as monarch he changed a little – becoming now a **stationary bandit**. Although many at the conference would forget the details of Mancur's economic argument, few would forget the story of the King nor the memorable "stationary bandit." See *Autocracy, Democracy, and Prosperity*, in Richard Zeckhauser, ed. *Strategy and Choice* (Cambridge, MA, MIT, 1991).

I observed Olson's more mature work, *The Rise and Decline of Nations* – RADON as he liked to call it – grow out of just such dialogue, a life of voracious reading, punishing travel, and always dialogue. (To see a book Mancur had read was to see one devoured, and awash with black ink marks and scribbles – destroyed in a way as if the reader had been frantic to consume it.) One day in the mid-1970's, early in his musings he suggested over lunch at Maryland that both a perfectly competitive laissez faire society, and a perfectly managed socialist society would be exempt from the rent seeking, efficiency distortions of pressure groups. This seemed to imply that at some point along the spectrum the damages would be greatest. The suggestion drew forth much criticism and disagreement around the lunch table. Thus was born the notion of "encompassing groups" which played so important a part in the book then in early draft, an idea which animated much of Mancur's future analyses of economic evolution and the failures of socialism. The idea played a central part in our later collaboration together in the 1990's – collaboration which led to our joint *Journal of Economic Literature* (1996) paper.

An "encompassing group" internalizes in its own decision calculus a portion of the costs and benefits its actions impose upon the economy in which it is embedded. If a group is *completely or perfectly encompassing*, it will include calculation of *all* the benefits and costs its actions impose on the *entire economy*, and thus will impose no distortions on that economy; instead in this case it will perfectly represent or reflect the economic interests of everyone. However, if a group is only partially or imperfectly encompassing then it will internalize only a portion of the benefits and/or costs it generates for the wider economy in which it is embedded. The less encompassing a group, the greater will be the efficiency loss it creates, in following strictly its own interest, and ignoring the costs and benefits it creates for others in its decision making.

The basic idea – in Olson's concrete and pictorial language that interest group behavior has a tendency to create politico-economic arteriosclerosis (dubbed "demosclerosis" by the press) – is central to RADON. Here, then, is a third of Mancur's traits and a defining characteristic of his life's work. I mean his ability to

develop a simple idea so that it was powerfully applied across a grand subject area. He recognized, as few economists now do, that a well-developed, simple idea can have a powerful impact. Mancur was not one simply to dash off a clever technical article. But he did bring to his technical endeavors the same lavish expenditure of effort on communication that he brought to grander visions.

For many years, he and I shared a suite of offices and the assistance of the same marvelous secretary, Adele Krokes, so I saw this during the years RADON was written. But I also remember especially two of his papers: (1) *The Marginal Utility of Income Does Not Increase: Borrowing, Lending, and Friedman-Savage Gambles*, (with Martin J. Bailey and Paul Wonnacott) 1980; and (2) *Positive Time Preference*, (with Martin J. Bailey) 1981. How many “final” drafts were produced only Adele would know, but dozens for sure.

The publication of RADON vaulted Olson to academic celebrity. The book was awarded the Gladys M. Kammerer Award of the American Political Science Association for best book in 1983. Soon Olson was elected to the American Academy of Arts and Sciences (1985), then to Vice Presidency of the American Economic Association (AEA, 1986). Earlier he had been elected President of the Southern Economic Association, and of the Public Choice Society, and then of the Eastern Economic Association. (His AEA election by a large majority over opponent Thomas Schelling produced a sort of sheepish chagrin in Mancur. Schelling later became AEA President, though.)

Then soon (1989), there followed an honorary fellowship of University College, Oxford. “Univ” claims to be the oldest (<http://www.ox.ac.uk/admissions/undergraduate/colleges/college-listing>) of Oxford University’s thirty-plus colleges and societies. Other of its honorary fellows from this side of the Atlantic have included Army General Bernard Rogers, former NATO Supreme Allied Commander, senior in order of election to Olson, and President William Clinton, junior in order of election to Olson. As the years went by, Mancur seemed to me to become ever so slightly more Donnish, his posture and gait, beard, manner of speech with its weighty pauses, the ever so slight formality of dress, and the extravagant flourish of his signature. Was this Oxon redux? As the honors multiplied, the opportunities and demands to market his ideas increased. His commitment, energy, good humor, and shrewdness served these objectives well.

## **IRIS: INSTITUTIONAL REFORM AND THE INFORMAL SECTOR**

Luck must play a role in any career as successful as Mancur Olson’s. In his case he was perfectly set up for the collapse of Communism – a surprise development

somewhat – but one to which his strength played perfectly, as one of the world’s leading figures with a claim to cogent analysis of the evolution of entire social systems. Of course, sheer energy too is essential, and commitment. Mancur was always working, talking, operating. No long vacs (UK university slang) for Mancur. These ended in Oxford. He seized the opportunity, creating the hugely successful IRIS project.

“IRIS,” standing for “Institutional Reform and the Informal Sector,” was a project devised then elaborated by Olson in the late 1980’s to early 90’s to compete for a U.S. Agency for International Development (USAID) request for proposal (RFP). The IRIS idea which so appealed to USAID and led to Olson’s selection over formidable Ivy League competitors incorporated conceptual, empirical, and policy analysis of institutional reform in the developing world, with special emphasis on those states in transition from socialism. Mancur often mentioned IRIS’s special debt to the ideas of Hernando de Soto, the Peruvian advocate of the pivotal role of the informal sector in achievement of developmental success and prosperity. He drew extensively on de Soto’s opus, *The Other Path: The Invisible Revolution in the Third World*, New York, Harper and Row (1990). For himself, he selected the title “Principal Investigator” and later “Chairman.” To the surprise of many, he relished the entrepreneurial opportunities. By the time of Mancur’s death the project had been impressively effective.

With early success Olson was feted by his local Senator – Paul Sarbanes of Maryland, his 1954 Rhodes Scholar Classmate – and more conferences were organized to explore his ideas. These conferences included two (1996 and 1997) of the Luxembourg Institute for European and International Studies. By Fiscal Year 1997 IRIS projects staffed by over fifty persons had been initiated in a score of countries, and AID obligations to IRIS were running at \$ 7 million annually. Olson had become a whirling dervish of numberless meetings, international travel, public appearances, management of IRIS, and remarkably throughout it all a continued outpouring of stimulating ideas and new research.

### FINAL MATURE SCHOLARSHIP

At the time of his death at age 66, Mancur had papers in draft with several others;<sup>10</sup> and a manuscript tentatively entitled *Power and Prosperity* – earlier called *Capitalism, Socialism, and Dictatorship* – was in its Nth draft. I know from joint work with him that one of the central, and intriguing, themes in his thinking of later years concerned the idea that the enormous economic gains from a “Social Order” only

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<sup>10</sup> Including papers with A. Dixit, A. Swamy and N. Sarna, C. Clague, P. Keefer, and S. Knack, B. Jack, and myself.



come at a necessary cost. These gains include the benefits, for example, of secure property rights, a system of contracts and enforceable commercial promises, and a limit on the assignment of powers to tax and enforce obedience to the law. “How truly terrible,” I heard him say more than once, “would be a state of nature with no laws, and no government.” The necessary cost is the amount of redistribution a society must endure, that is redistribution not to the needy, but to the powerful, those with the power to control government and its allocative-cum-redistributive authority. But this redistribution is more than merely a transfer; it also is a drag on productivity. The taxes to support redistribution interfere with the efficient allocative workings of the entire productive economy, further exacerbating the true real cost.

In 1998 by no means was he preparing to step off the stage – just the opposite. In 1993 he had told me how he was brimming over with ideas, felt better than ever before, could not write his thoughts down as fast as they came. Indeed, his lifelong commitment to running, rowing, jogging and aerobic fitness seemed to promise that he would triumph over the odds – adverse odds from a family history of heart trouble. Mancur Lloyd Olson Sr. had died of a heart attack while operating his tractor – age 65. Brother Allen in his 50’s also from cardiac causes. Though he rarely spoke of him, Mancur was deeply loyal to his father. I remember from the early days the pride in his answer when I asked what was his father’s work. “A farmer!” he declared.

Personally I think that one of his last papers published two years before his death may well serve as a fitting epitaph. This is his *Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor*, Distinguished Lecture on Economics in Government, “Journal of Economic Perspectives,” Spring 1996. The paper is vintage Olson. It shows his passion for the practical consequences of economics, his belief that good policy is within the grasp of the most backward and floundering societies, and above all the responsibility of economists to wise up, and reverse the damages of economic quackery and self-serving mischief. I have already mentioned Mancur’s use of the monopoly-competition duality from economics to evaluate political centralization versus devolution. To my mind, the continuity over a lifetime career in his uses of economics to analyze political structures gave us Mancur Olson’s most striking legacy.

In the mid 1980’s Mancur told me he thought that macroeconomics was far more important than microeconomics. “Why,” I asked. “Because all the truly important discoveries which will have an effect upon people are to be made in macro,” he answered. “The really big problems are in macro.” (About this time Mancur characteristically volunteered to teach graduate macroeconomics at Maryland.) He was using “macro-economics” with its conventional meaning: the larger national and international-economy-wide system with its issues of employment, income and prices,



growth and stability. I was struck by this insight. I had been attracted to economics by the precision, power, and beauty of micro and by the issues which it addressed of resource allocation and efficiency, prices and markets, equilibrium and distribution. I had always located Mancur Olson and his work squarely in the micro tradition, and I imagine most others would do the same. But here was a master of economic craft and discovery declaring macro-economics the continent for richest future expedition.

Yet allowing a little less technical, more common sense definition of “macro,” who would dispute that Mancur’s vision of economics embraced the largest scale and scope? His ambitions for the explanatory power of economics extended from the decision framework of individual families to the grand evolution of entire societies and systems of nations. He showed us how elemental economic concepts can illuminate political behavior, structure, and evolution – “political,” therefore, in the widest sense. He showed us how political behavior conditions the economy on which it depends and which it attempts to dominate – often with unhappy economic results. The one signal idea, central to his grasp of this interdependence, is that of “collective action.” Mancur’s most striking legacy is the illumination he bequeaths of how groups and organizations behave economically – a legacy created through his own tenacious pursuit of the logic of collective action.

### WHAT MIGHT HAVE BEEN

The forty-two years of Mancur Olson’s scholarly life were devoted to an inspiring pursuit of his vision of “macro.” His ideas may occupy the core of macroeconomics fifty or one hundred years from now, or they may signify only one strand, but surely they will be present and influential in all future study of economy, of society and of interactions between them. Here in 2016, we still don’t know. But we do know that economists, political scientists, sociologists, anthropologists and whatever other new disciplinary clusters emerge in social science will be studying Mancur Olson’s ideas and learning from his insights – valuing the Collective Good which his life’s work has left to all.

Among those insights Mancur conveyed to me somewhere along that 42 year line was his observation that what distinguishes the useful and good in economic analysis from the useless and bad is very often the assumptions an analysis makes. Bad assumptions produce unhelpful economics, regardless of whether or not the analysis is logically unassailable. But this is why economics remains inherently, even

notoriously, difficult.<sup>11</sup> Notably implicit within this observation is that deductive rigor and mathematical truth seem absent from the criterion that Olson suggests. His observation also goes a long way toward explaining public ignorance about the purpose of economics as a field of study, and about the capacity of economics to guide, let alone govern, the economy. So how then do we discern the good assumptions? Some combination of intuition, educated common sense, and empirical support, I imagine he would suggest.

Mancur Olson rose to prominence by a less traveled route than most of today's economic leaders; that is, not by publication of highly clever, sophisticated, and sometimes profusely mathematical journal articles. Some might argue that Olson was narrow, that his area of knowledge was solely, or merely public goods, and the voluntary provision model. But that I believe would be wrong. Olson was able to stay focused on the big picture and not be drawn obsessively to ever more narrow components. In short, Leontief was right.

And this is what economics most needs today --- a new paradigm for macro-economics joined with political economy. A paradigm that incorporates the central function of finance as facilitating intergenerational savings and income-transfer combined with investment and growth; that recognizes the demise of marginal cost and marginal factor productivity as driving forces in a world where digital technology has outpaced ideas of (now ancient) industrial organization; that can see the implications of a universal availability (which is close at hand) of almost free communication among the universe of all the subsets of earth's  $7 \times 10^9$  globalized and trading individuals; and finally that can incorporate the knowledge of governance afforded by the arrival and development of Public Choice as a field of learning in our generation.

This is of course an "impossible" problem, meaning it cannot even be formulated let alone solved if the standards of rigor of modern micro-economics, say the theory of general equilibrium or formal welfare and social choice, must be respected. But that is the point about the crucial importance of assumptions; they allow the simplification essential to description of the problem in a manner that promises enlightenment. Olson recognized this and he was a master at it. We do know that had he lived, Mancur Olson would have remained fully engaged. He might have pointed the way out of the morass we presently occupy.

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<sup>11</sup> I remember reading in some biography that Ludwig Wittgenstein had explained to J.M. Keynes or Piero Sraffa or some other Cambridge economist that as a field of study he chose philosophy over economics because he thought economics too difficult. I cannot find the reference, though I find the thought consoling.

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