

Chapter 9

Mancur Lloyd Olson (1932–1998)¹

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Introduction

Mancur Olson had the rare ability to explain clearly the subtle nature of how groups of human beings organize to educated readers who are not versed in economic theory and its arcane vocabulary. His first book *The Logic of Collective Action: Public Goods and the Theory of Groups*, first published by the Harvard University Press in 1965, presented the fundamental issues of group formation by self-interested individuals in a way that made sense to most readers. He made a serious and successful effort to connect his theory with the scholarly writings on groups by sociologists and other non-economists. This book influenced the thinking of many academics and non-academics.

The technical term for the principal inherent problem of group formation is called the “free rider problem”. If all members of the group receive a benefit from the action of the group and are not forced to contribute to the cost of group action, a self-interested group member has no incentive to contribute. As an example of this “problem” consider the case of the classical music station KMFA in Austin, TX. This station plays classical music of all sorts 24 hours a day. The station does not receive any public funds. The existence of this station depends on voluntary contributions from people who value the existence of the station. The number of people in the Austin area who contribute is a fraction of the people who listen to the station. The bi-annual fund-raising drives attempt to shame those listeners who do not contribute to pledge monetary support.

There is no hard evidence about how the appeals to the noncontributing listeners work, but the station has been able to raise enough funds to flourish. Most standard

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treatments of the free rider problem in the modern economics literature involve the use of noncooperative game theory. This literature uses language and formalism that most educated people cannot comprehend unless they have taken a college level course in game theory. A person with a solid education and an ability to understand a logical argument can understand anything Mancur Olson wrote, however, because of the clarity of his thought and expression. Olson did not “solve” the free rider problem. He explained the problem without jargon and then he addressed how various groups attempt to deal with the problem.

He also developed two other important theoretical propositions, the implications of which will be explored for generations. These propositions have to do with (1) the implications of group development for economic performance and political health of a nation, and (2) the implications of the transition from “roving bandits” to “stationary bandits” as a necessary and sufficient condition for the existence of government. As James Buchanan wrote of him, “Mancur Olson was perhaps more influential in political science than any other of his economist peers.” Given Buchanan’s own enormous influence, this is a telling statement.

His Life

(The Stationary Bandit). . . is not like the wolf that preys on the elk, but more like the rancher who makes sure that his cattle are protected and given water. The metaphor of predation obscures the great superiority of stationary banditry over anarchy and the advances in civilization that have resulted from it. No metaphor or model of even the autocratic state can, therefore, be correct unless it simultaneously takes account of the stationary bandit’s incentive to provide public goods at the same time that he extracts the largest possible net surplus for himself. (Olson, 1993).

His Life

Mancur was born on a ranch in North Dakota in 1932, and he had ample opportunity to watch the wolf stalk the elk firsthand. There was a residual Scandinavian cadence, learned from his parents, in his speech throughout his life. His manner was plain and straightforward, and he was artlessly humble in his dealings with people he met. The version of his curriculum vitae he gave out in response to requests led off with his social security number, as if he might have to identify himself.

He graduated from North Dakota Agricultural College in 1954, and then won a spot as a Rhodes Scholar at University College, Oxford. From Oxford he returned to the United States and attended graduate school at Harvard. His dissertation became the remarkably influential book *The Logic of Collective Action* whose title was selected partly on advice from James Buchanan when it was later published in 1965. Only Anthony Downs’ dissertation, *An Economic Theory of Democracy*, even comes close in terms of impact for a first work in the history of public choice.

Olson was hired at the Economics Department at Princeton, and then took the position of Deputy Assistant Secretary of the U.S. Department of Health, Educa-

tion, and Welfare (HEW) in the Johnson administration. In his two year at HEW, he had ample opportunity to observe the work of government, and the actions of interest groups, that would figure so prominently in his next book. In 1969 he left the government and accepted a job as Professor of Economics in the rather blue collar environs of the College Park campus of the University of Maryland. He was never seriously tempted by offers at more glamorous institutions, and remained at College Park for the rest of his life.

His Contributions

Olson’s major contribution, explaining the logic of collective action, defies easy categorization. It is problem for the Left, because it argues that the key distinction is between consumers and producers, or between producers at different levels of the supply chain, rather than between capitalists and labor. Further, the problem of free riding is a direct assault on Marx’s ideas about the inevitable construction of a workers’ paradise where “from each according to his ability, to each according to his need” is the norm.

But it is also a problem for conservatives, because powerful producers will face no countervailing political force from consumers, wage earners, or less concentrated industries. The fact that many people free ride may be no more than an extension of the standard Samuelsonian “public goods” problem, but its political implications would seem to require government intervention to ensure compliance with laws, even if all citizens might support the law in principle. Further, since voting is also subject to the free rider problem, the claim that voters can be relied on to police corruption is rendered suspect, and questions are raised about the campaign finance system.

Olson’s second important book, *The Rise and Decline of Nations* (1982), made the seemingly paradoxical claim that long-term political stability hurts economic performance. This would appear to contradict the conventional wisdom that stability and predictable actions by government enhance growth. But Olson claimed that interests become entrenched in stable democracies, so that governments suffer from “institutional sclerosis” as lobbyists manage a system of redistribution that distorts incentives and fails to reward initiative.

The apparent policy implication (“need growth? Fight a war!”) was not taken very seriously, but Olson was making a very serious point about the dynamics of economic history. The clearest example is the explanation implied for the economic “miracles” of Germany and Japan after WWII. Their success, in Olson’s view, had at least as much to do with the fact that all the entrenched interests in government were swept away along with the governments that were replaced after the war ended.

The larger question of why some nations prosper and others fail to grow, and the role of government in fostering growth or blocking it, occupied Olson in the last fifteen years of his life. His views differed substantially from those of both the

Chicago and Virginia public choice schools. Virginians tend to believe that all government is evil (with the possible exception of the Pentagon, and that is located in Virginia). Chicago public choice scholars have moved toward a system of theory in which government is efficient, at least in the way that it conducts transfers. Olson argued that government was neither evil nor efficient. His “Maryland school” centered on the idea that government does some things well, if it has the right incentives. And, surprisingly, it has the right incentives more often than one might think, at least in Olson’s view.

The key concept was the “stationary bandit,” introduced in his celebrated 1993 paper in the *American Political Science Review*. While many in the public choice movement have argued that government is simply a device for extracting benefits from citizens, Olson claimed that even a bandit, once stationary, had strong incentives to ensure at least minimal prosperity for citizens.

But more than this, the autocrat will recognize that problems of legitimate succession will still rob citizens of incentives to invest and build. The only way to ensure a truly long time horizon is to form a democracy. Further, since democracies appear less likely to go to war with one another, this form of government will have important evolutionary advantages if it can once be implemented. So, the original roving bandit who first settles down is the true father of democracy, and he created the democratic system purely out of his own self-interest in stability and prosperity.

This work is quite controversial, since it raises important questions about the nature of transition to democracy. Was Stalin bad, or was he inevitable? Olson tries to take on this question in portions of his last book, *Power and Prosperity* (2000), published posthumously.

Though Olson studied the collective action problem, he spent most of his professional life providing public goods for free. At conferences, in his office, and in discussing ideas he was happiest when he felt like he was learning something. He came from a generation of scholars who crossed a threshold, taking up very modern techniques but keeping a focus on the classical questions of moral philosophy.

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