REMEMBERING PROFESSOR MANCUR OLSON

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Three decades have passed since my first encounter with Professor Olson, when I was a graduate student of economics at the University of Maryland. As a graduate student, I had the opportunity to take a course on public choice in which Professor Olson was one of the lecturers. I had already taken nearly all of the required graduate-level courses in economics, and yet I knew little about public choice. So I went into the first lecture of that course with a sense of excitement and anticipation.

The two-semester course was taught by three professors – Mancur Olson, Dennis Mueller and Peter Coughlin. The three professors divided the course into three parts, with Professor Mueller lecturing on public decision rules (including the voting rule), Professor Coughlin lecturing on game theory, and Professor Olson lecturing on collective action.

Professor Olson's first lecture, predictably, was on the logic of collective action, and he talked about the formation and behavior of interest groups in the light of their economic interests. An interest group arises when the benefits it can derive by taking collective action outweigh the cost of taking that action. The cost, in turn, is shared among the members of that interest group. In a small group, members are able to observe the actions and behavior of one another. If one member refuses to pay his share of the cost, it will have a negative impact on other members and might even undermine the group's collective action. Therefore, members participating in small interest groups are usually obliged to pay their share of the cost in order to continue engaging in collective actions. As a group grows in size, however, it becomes increasingly easy for members to enjoy a free-ride. From the perspective of an individual in a large group who pays a tiny fraction of the total cost, it might appear that the group's collective actions could continue even if he or she defaults on paying their share – as long as other members continue to pay theirs. So individuals in large groups might be tempted to benefit from their group's collective actions without paying towards the cost. But once the number of these selfishly inclined members increase, it becomes impossible for the group to support itself and its actions.

To solve this problem and remain sustainable, a large interest group needs to provide not only the benefits for which it was formed but also other incentives that

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oblige members to continue to pay their share. Professor Olson called these incentives "selective incentives." Expanding on his theory of special interests, Professor Olson went on to explain that the rise and decline of nations, specifically focusing on the question of why some nations continue to do well, while others never break free of poverty. He sought to answer this question using the logic of collective action, and more specifically, what roles special interests play in maintaining the cohesion of a group as large as a national economy.

At the time I taking his part of the course, Professor Olson had begun research, along with Professor Martin McGuire, that would be published in *The Journal of Economic Literature* in 1996. This particular research was amply reflected in his lectures at the time. Asking why some nations are wealthy and others are chronically poor, he first investigated the difference between authoritarianism and democracy. The key difference, he believed, lay in what he called "encompassing and stable interests." If the policymaking elite of a nation is narrowly defined and focused only on short-term interests, it is likely to distribute resources and income in an inefficient manner that undermines the growth potential of the national economy. On the other hand, if the policymaking group has encompassing and stable interests, it will likely focus on ensuring the growth of the national economy as efficiently as possible, using all available resources.

After completing this course, and during the last two years of my five-year stay at the University of Maryland, I ended up working for Professor Olson as a research assistant, helping him and Professor McGuire with their research on the above topic. Professor McGuire had left the University of Maryland and relocated to the University of California at Irvine, but before that I had taken his course on public finance. As an emeritus professor, Professor McGuire continued to advise me on my doctoral dissertation. I am still grateful for having worked as a research assistant for these professors.

After obtaining my doctorate, I returned to Korea and began working at the Korea Institute of Public Finance, where I still work. I spend most of my time on developing tax policy measures and evaluating them rather than researching topics of academic interest. Public choice is not my specialty, so I have not read many studies on the topic since leaving the University of Maryland. Nevertheless, as a public policy researcher, I still return to Professor Olson's teachings and theories to find implications for Korea today. Professor Olson actually commented on Korea in his book *The Rise and Decline of Nations*, saying that "…Hong Kong, Korea, Taiwan and Singapore. All four, it is worth noting, have recent histories that have been inimical to the development of distributional coalitions and have had relatively liberal trade policies as well."

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The passage appears in his explanation of the fast growth of those four East Asian countries. Before the late 1970s, it was unheard of in Korea for interest groups to form and launch collective actions. Until 1979, Korea was still an authoritarian state. Even so, the country's authoritarian presidents pursued encompassing and stable interests, which led to Korea's explosive economic development. Although political liberalization began in the 1980s, it was not until the very late 80s that interest groups enjoyed real freedom. More than two decades have passed since then, and interest groups now are so active and flourishing that some are even undermining the Korean economy through the inefficiencies they cause. The selective interests of labor groups, in particular, are seen as undermining the productivity of Korean industries.

The growth of the Internet has also made it extremely easy for large interest groups in Korea to form instantly and then disappear with almost as equal ease. Individuals with mildly strong interests begin to post their opinions on the Internet, and masses of other Internet users begin to flock around these individuals, leading to the exercising of collective actions that influence Korean policymaking. The making of modern Korea thus has a number of areas that would be worthwhile to research and analyze for how Professor Olson's logic of collective action applies to them.

Students taking Professor Olson's lectures were encouraged to think for themselves rather than receiving one-way lessons. Professor Olson taught what he was working on and refined his thinking and research conclusions while teaching. This was the case with the joint research he did with Professor McGuire and with his work on the *Beyond the Measuring Rod of Money*. In this latter work, he identified the key feature of many public goods and externalities as being in their indivisibility and sought to explain diverse economic phenomena with this concept. I still remember him talking for hours, writing notes after notes on the blackboard, and then suddenly coming to the realization that his fundamental premises were wrong and erasing the entire board to start over. He loved to think things through with his students. He was always looking for new ideas and inspiration, seeking to test ideas on students by engaging them in active debates.

I also remember the advice Professor Olson gave to me around the time of my graduation. He told me to practice my presentation skills before a mirror before plunging headlong into the job market. It was a very useful piece of advice. I had always wanted to improve my presentation skills, but never thought of doing anything as practical as practicing before a mirror. Since then, I probably haven't spent as much time before a mirror as I should have, but the advice always comes back to haunt me whenever I need to give a seminar, and it certainly makes me rehearse my presentation again and again in my head.

After receiving my doctorate, I told Professor Olson that I was planning to return to Korea. He said to give him the contact information for the deans of economics departments at all universities in Korea, so that he could write reference letters to them on my behalf. I wondered if he knew there were more than 100 universities with department of economics in Korea. Anyway, I was deeply moved by his eagerness to help me, and I was tempted to follow through. But instead I told Professor Olson the contact information of the only research organization I wanted to apply to: the Korea Institute of Public Finance. Professor Olson wasted no time in writing a reference letter on my behalf to the institute's research director, Dr. Choi Kwang, who happened to be a previous pupil of his as well. Thanks to Professor Olson, I have been working at the institute ever since.

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