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# A Note on Collective Action, Cooperation, Collusion, and Voluntary Production of Public Goods

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## **Abstract**

### **A Note on Collective Action, Cooperation, Collusion, and Voluntary Production of Public Goods**

In this note I challenge the claim that if it is possible to successfully produce public goods on a voluntary, decentralized basis, it must also be possible on the same basis to create stable cartels capable of reaping monopoly gains and frustrating consumer sovereignty. My proposed solution is rooted in the recognition that there is a fundamental asymmetry between the viability of beneficial and malevolent cooperation: the former is normally profitable both in the short and the long run, while the latter is profitable only in the short run.

One of the most common arguments describing an ostensibly beneficial function performed by governments refers to their alleged exclusive ability to supply society with the so-called public goods (see, e.g., Willis 2002: 161–163; Arnold 2004: 720–723; Ayers and Collinge 2004: 555–559). This argument has been extensively criticized in the relevant literature (Fielding 1979; Brownstein 1980; Block 1983; Hoppe 1989; Schmidtz 1991; Long 1994), thus providing support to the radical libertarian contention that the existence of governments is altogether undesirable. There is, however, a certain group of authors (Nozick 1974; Cowen 1992; Cowen and Sutter 1999, 2005; Holcombe 2004) who claim that successfully addressing the public goods issue in no way strengthens the viability of the radical libertarian position, since, even if they can be shown not to perform any socially beneficial function, governments are nonetheless a practical inevitability, “created and imposed on people by force, most often for the purpose of transfer-

ring resources from the control of those outside government to the control of those within it” (Holcombe 2004: 326).

In this note I would like to address what I regard as the most theoretically sophisticated variety of the above challenge, that is, the one that relies on a supposed symmetry between Pareto-superior and Pareto-inferior solutions to the collective action problem<sup>1</sup>. The challenge in question says the following: assuming that voluntary cooperation can successfully solve the collective action problem, it has to be capable of solving it regardless of the moral qualities of the motives that drive the solution. Thus, if it is possible to successfully produce public goods on a voluntary, decentralized basis, it must also be possible on the same basis to create stable cartels capable of reaping monopoly gains and frustrating consumer sovereignty. Conversely, if harmful cartels are to be thought of as inherently unstable and thus short-lived, it must also be concluded that the temptation of underselling one’s competitor by free riding on his public-spiritedness will thwart any attempts to successfully produce public goods on a voluntary, decentralized basis. In sum, either governments are inevitable, or private production of public goods is impossible.

I believe that the solution to this challenge lies in recognizing that there is, in fact, a fundamental asymmetry between the viability of beneficial and malevolent cooperation. In short, the former is normally profitable both in the short and the long run, while the latter is profitable only in the short run. And conversely, opposing the latter is normally profitable both in the short and the long run, while opposing the former is profitable only in the short run. To illustrate: if X bundles the production of private goods with the production of public goods, his offer is more attractive than the offer of those who focus exclusively on the production of private goods, thus generating short-term profits for him (Long 1994). But apart from tangible profits, such a business approach also generates favorable reputation, which gives X additional competitive edge and makes his business even more profitable in the long run (Klein 1997).

Conversely, cooperating with a cartel generates short-term profits for its members, but it by the same token makes their activities very disreputable, which further aggravates the inherent instability of their association, makes them subject to social ostracism, undermines their trustworthiness and thus reduces the number of their potential business allies, gives outside competition extra incentive to put the cartel out of business, etc. Breaking the cartel agreement, however, allows the breaker not only to gain short-term profits by underselling his erstwhile partners, but also to gain a favorable reputation, the reputation of an honest businessman who opposes collusion, which is likely to generate additional long-term profits for him.

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<sup>1</sup> The former meaning “beneficial to all of the affected agents” and the latter meaning “beneficial to those agents who participate in collective action, but harmful to at least some of the affected non-participants”.

In sum, overcoming the collective action problem to benefit oneself by harming others pays in the short run, but backfires in the long run, while overcoming it to benefit oneself by benefiting others pays in the short run and in the long run. Thus, there is a good reason to believe that, on the whole, voluntary cooperation can not only successfully solve the collective action problem, but also make the effects of the majority of voluntarily undertaken collective actions unambiguously beneficial.

Of course, whether such an outcome will actually be obtained depends crucially on whether the majority of a given society exhibit a relatively low time preference, a penchant for long-term thinking, and at least an elementary predilection for peace over conflict. However, given how transparent and easily understandable the benefits of adopting such a preference structure are, and how equally transparent and easily understandable the costs of adopting the opposite one are, it seems by no means inevitable that at least minimally reasonable individuals will always opt for the latter.

It is important in this context to avoid the mistake of applying the above-mentioned distinction between the long run and the short run to the available historical record and concluding that, for something that is supposed to be workable only in the short run, the malevolent cooperation of present and past governmental institutions turns out to be surprisingly long lived. As I have indicated in the previous paragraph, the economic asymmetry between Pareto-superior and Pareto-inferior solutions to the collective action problem will be able to manifest its positive consequences in a given society only if the majority of its members display sufficient understanding of why these consequences are positive and why it is worthwhile to let them be brought about. Without this understanding they are unlikely to get off the ground, which is amply illustrated by history.

Consider a parallel example: nowadays slavery is almost universally regarded as both immoral and economically inefficient, and yet this is a fairly recent cultural development. If in the slave period one were to construct an argument similar to the one expounded in the present paper, he could certainly not prove that the immorality and economic inefficiency of slavery can by themselves eliminate the infamous institution in question (since this would also be disproved by history), but he could plausibly suggest that as soon as these objectionable features of slavery are widely recognized, the subsequent positive institutional changes will be stable and durable, the facility with which malevolent cartels can overcome the collective action problem notwithstanding.

In other words, what I claim is not that the asymmetry between the viability of beneficial and malevolent cooperation will lead to the withering away of governments under all conceivable circumstances, or even under the present circumstances, but that it 1) will do so when coupled with a minimally favorable structure of social preferences (Stringham and Hummel 2010), and 2) will subsequently

keep the resulting voluntary arrangements stable and secure against attempts to reestablish territorial monopolies of force (Hummel 2001).

In sum, contra to the challenge considered in this note, governments do not appear to be inevitable, but this conclusion in no way contradicts the notion that effective private production of public goods is possible.

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