

## **Individual Versus Collective Action: The Dilemma of Incentives**

Mises argues that he takes no position on dichotomies such as “egoism and altruism ... individualism and collectivism” but rather the science of human action is a science of means which takes the ends as given<sup>1</sup>. However, the methodology is individualistic, rather than collective. It is a science of individual action, not collective action and the approach is methodological individualism.

But Mises' primary opponents with regard to this subject are socialists. Socialists are not individualistic even in methodology. As Mises points out<sup>2</sup>, some critics argue that even the concept of an individual is false because each person is shaped by his society and is a member of this social collective. To this Mises replies that an action is still performed by an individual, not by a collective.

Still, the collectivist could claim that a group goal and an expected group action could guide the individual, rather than imagining that each individual is guided solely by his own rational pursuit of self-interest or, as Mises would describe it, his individual desire to take action to improve his (individual) state of affairs.

If, instead, the individual believes himself part of a group which has a group goal and his (individual) action would improve the group's state of affairs (including his own), then the individual might act in such a way as to be part of a group action. He would still be taking an action at an individual level, but his reasoning may be intertwined with the group's. It might be seen as an act of cooperation with the group toward a common preferable end.

Socialists have admitted in the last few decades that the total output of a socialist society might not be as high in per capita terms as a capitalist society. But they argue that because it is more egalitarian it is better for the worker. The capitalist society is good for some and bad for others while the socialist society is equal and good for all.

However, this study of individual versus collective decision making can shed some light on whether socialism can achieve the cooperation necessary to achieve reasonably high and yet equitably shared output. From a given individual's point of view, we can imagine his decision-making when he works at a socialist firm – the choice to cooperate toward the common goal or to defect and shirk his duties in order to achieve his private goal of leisure.

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1 Mises, Human Action, p. 14-15

2 p. 41

		Cooperate	Individual Actor	Defect
Group	Cooperate	20,20		20,25
	Defect	2,-2		2,2

He faces a choice – cooperate toward the common socialist goal, or shirk and enjoy leisure. If he cooperates and everyone cooperates, he can expect the ideal socialist outcome of high output making everyone nearly as well off as the well off are under capitalism. However, if the group as a whole defects (shirk their duties) then his effort will only bring him grief. He will work hard, but output will still be incredibly low since he is the only one bothering to work.

And as it turns out, it is better for the individual in a socialist operation to shirk regardless of what other workers do. If he works hard he won't get enough benefit from his hard work to make it worthwhile unless every other worker also works hard – but if every other worker works hard, he can slack off and it won't make any noticeable difference. So, the individual has a dominant strategy to defect, rather than cooperate. If the group defects, then he is better off defecting (2 instead of -2) since at least he doesn't have to put out effort. If the group cooperates then he is still better off defecting (25 instead of 20) since he will enjoy the fruits of the output and also enjoy the leisure.

Facing this choice, the individual has the same scores as the societies as a whole. Capitalism can be seen as a society of competition rather than cooperation. Because of this, it occupies a square where the individual defects rather than cooperating. The group cooperates, however, because the invisible hand guides the group to this position. Alternatively, this square could be seen as the square for unequal contribution, where one person may defect while the rest cooperate – an unfair and unequal society where some have unearned income. Socialism, on the other hand, aspires to being a perfectly cooperative society but instead reaches perfect defection.

Socialism (ideal)  20,20	Capitalism (reality)  20,25
Capitalism (portrayed)  2,-2	Socialism (reality)  2,2

The reason for the failure of the socialist ideal is at least in part explained by the problem of individual versus collective decision-making. If people did make decisions collectively, they could decide to sacrifice slightly in order to have a more egalitarian outcome – without incentives being affected. But, in reality, socialist ownership does not allow that. An individual cannot know what other individuals will do, so he cannot choose with them collectively. He must ultimately decide for himself.

And this is indeed what is seen. So, empirically, we can show that in fact, individuals do act according to their own individual self-interest and choose as individuals, just as Mises predicted.