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Capitalism: It's as Much About Cooperation as Competition

By [Jason Voss, CFA](#)

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We have myopically come to believe that “survival of the fittest” is synonymous with competition and is the highest expression of our nature. Yet survival of the fittest also includes those creatures, including humans, who successfully and continuously cooperate to survive.

Case in point: Lions adorn the flags of many nations as symbols of individual power and unparalleled ferocity — think of King Richard I of England, who was, after all, called Richard the Lionheart. But as we all know, lions actually hunt and cooperate in packs in order to find and secure food.

In fact, the natural world is replete with numerous examples of strength in numbers, from flocks of birds flying together to reduce wind drag during migration, to schools of fish swimming together to increase the chance of survival in the face of predation. In the human world, armies are vast cooperative enterprises in which troops “watch each others backs” when confronting enemies.

Science has acknowledged these possibilities for decades, even though the subject receives little attention from the popular press. One notable exception, however, is a recent *Scientific American* cover story entitled “[Why We Help: The Evolution of Cooperation](#).” For me, it’s an article that can help bring an overlooked and understudied aspect of capitalism into sharper view: the fact that the capitalist system, like nature itself, depends on cooperation as much as competition.

To be sure, we tend to think of capitalism in the same way that we think of survival of the fittest — that it is one of the ultimate expressions of competition. In fact, it is difficult to find a definition of the word that does not emphasize competition in its description. Consider the following:

- [Investopedia defines capitalism](#) as “an economic system based on a free market, open *competition* [emphasis mine], profit motive and private ownership of the means of production. Capitalism encourages private investment and business, compared to a government-controlled economy. Investors in these private companies (i.e., shareholders) also own the firms and are known as capitalists.”
- Meanwhile the [Collins English Dictionary defines capitalism](#) as “an economic system based on the private ownership of the means of production, distribution, and exchange, characterized by the freedom of capitalists to operate or manage their property for profit in *competitive* [emphasis mine] conditions.”

But consider the myriad ways that capitalism depends on cooperation:

- That ultimate capitalist vehicle, the corporation, is not just a legal business entity but a vehicle of, and for, cooperation. In fact, alongside nation-states, corporations are the largest cooperatives ever imagined by people. What else besides cooperation describes [Walmart’s 2.2 million employees](#) working together toward competitive ends? What else besides cooperation describes McDonald’s 1.9 million employees working together toward competitive ends? Or China National Petroleum? Or Carrefour?
- Philosophically, a key part of what separates capitalism from its economic opposite, communism, is the level at which decision making is undertaken. Communism seeks to equally distribute its resources among economic players — but at the expense of the freedom of choice of buyer and seller. So decisions are usually made by an authoritarian economic entity, like a central planning committee. In contrast, capitalism trusts buyer and seller to both consent to a transaction. Put another way, capitalism allows — in fact, insists — that buyers and sellers cooperate in a transaction rather than just accept a third party’s mandated good and price.
- Markets are a vast cooperative enterprise in which buyers and sellers work together to set prices and allocate resources. Transactions occur without coercion, and in fact, occur only with cooperation.

Why is any of this important? Because, as the old saying goes, for the person with a hammer every problem looks like a nail. Governments increasingly, and strongly, advocate for business (i.e., “competitive”) solutions to social problems.

The argument typically rests on the unswerving belief in the efficiency of business and the superiority of competitive solutions. Yet competition does not always lead to optimal outcomes.

One obvious example for investors is the 2011–2012 debt and budget debate in the United States, where competition — Republican versus Democrat — has not resulted in a workable solution, and the underlying problems associated with high debt continue to fester. Might cooperation yield a better result? We will never know as long as the politicians' solution sets include only competition as a means to a policy end.

Let me be clear: This is not a defense of bloat and bureaucracy. Instead I am merely arguing that always seeking competitive solutions to problems (by holding up the business world as an example) overlooks the fact that businesses are vast cooperatives. My point is that we need to grow the universe of choices to include cooperative solutions to problems and thus avoid myopia.

So where could this new-found appreciation for cooperation be applied? One can imagine a scenario in which the global financial industry works with, not against regulators, to establish a financial system that balances opportunities for return with minimizing risk. As CFA Institute President and CEO John Rogers has noted elsewhere, every investment professional must “[take personal responsibility and act to move our profession and industry onto the higher path.](#)” Such cooperation between industry and government does not run contrary to capitalism or nature's survival of the fittest, as both need healthy doses of both *competition and cooperation*.

In fact, seminal research by Robert Axelrod and William D. Hamilton published in *Science* in March 1981, entitled “[The Evolution of Cooperation](#),” triggered hundreds of subsequent papers that have demonstrated that, even in that most cutthroat of environments — the [prisoner's dilemma](#) from game theory — cooperation trumps competition! In this groundbreaking research, Axelrod and Hamilton initially held a computer tournament and asked theorists from economics, sociology, political science, and mathematics to submit potential winning strategies. This first tournament had 200 rounds and included some extremely intricate strategies. So what were the surprising results?

A strategy called TIT FOR TAT (TFT) involved the following attributes: it was the simplest strategy submitted, on average it was the winningest strategy, and it was *based on cooperation*. So what were the two decision rules for TFT? First, in round one of the simulation cooperate with your ‘opponent;’ and second, that on all subsequent rounds the player does what the other player did in the preceding round. In subsequent tournaments (i.e., rounds), with many more entrants and 3 million choices, the TFT strategy won again.

How can this be? After all, as any student of game theory well knows, years of testing have demonstrated that the way to win the prisoner's dilemma is to betray your collaborator. Yet the key lesson from Axelrod and Hamilton — the lesson that is often lost — is that this iron-clad result only holds under one unique circumstance: if both participants know this is the last time they will ever encounter each other. In the real world, most economic participants have multiple and frequent interactions with fellow economic participants. If this is the case, then the winning strategy for us as individuals is TFT, which in fact holds several important lessons that can mirror real-world behaviors:

1. **Be nice.** That is, cooperate and never be the first person to betray others.
2. **Reciprocity.** If someone betrays you, then you betray them back. Likewise, if someone cooperates, then you cooperate back.
3. **Avoid covetousness.** In other words, be fair with your partner.
4. **Simplicity.** Do not be overly complex or tricky in your strategies.

Despite the obvious successes of cooperation as a mode of power and a vehicle for driving successful exchanges, it gets short shrift in the modern world. Yet cooperation just might be the “not-so-secret, secret weapon” that is readily available to us all. Cooperation is hiding in plain sight. It only requires that we actively choose to cooperate.