Pyokyeong Son
Submitted 07 Nov. 2022

How does the optimal strategy of the firm or its owner that Munger identifies enable it to make its employ's collective action problem more difficult?

Munger distinguishes between the “purely capitalistic” system and the capitalistic system with government coercion supported by a democratic majority, in order to clarify the incentives that lead to collusion between price-setting firms and government agents, that forego the collective action problem of producing economic growth possibly through pure capitalism.

Firms (or owners of the firm) in a democratic society has the political freedom to assemble, which often leads to collusion, leading to a price-setting firms with market inefficiencies that violate the first welfare theorem. Additionally and more importantly, state actors who are politically allowed to create enforcible regulation is incentivized to accept rent-seeking firms' money to make policies to benefit firms—preventing entry, bottlenecking, etc.; the firms are incentivized to rent-seek as long as the marginal product of innovation investment is lower than marginal product of paying off government agents to prevent competition.

Thus in a politically-democratic and capitalistic market is a PD for both government agents and firms, in which the dominant strategy is to rent-seek. Munger also models this as a collective action problem, where the common good is economic growth; it faces a familiar payoff structure of defection by an individual not destroying growth, but which unravels (like in the Schelling diagram) into everybody's defection. The “virtuous firm” is an unreasonably high moral standard to impose (assuming behavioral symmetry; rational agents), to firms or state agents; that, as Munger suggests, is same as asking them to leave money on the table.

(244 words)