

THE PENGUIN AND THE LEVIATHAN



HOW COOPERATION TRIUMPHS
OVER SELF-INTEREST

YOCHAI BENKLER

THE PENGUIN
AND THE
LEVIATHAN

THE TRIUMPH OF COOPERATION

OVER SELF-INTEREST

YOCHAI BENKLER



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First Edition

THE PENGUIN
AND THE LEVIATHAN

Also by Yochai Benkler

The Wealth of Networks

For the millions who, by their acts every day,
small and large, give humanity its name.

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THE PENGUIN

VS. THE LEVIATHAN

What do Southwest Airlines or Toyota's shop-floor processes, Chicago's community policing program, and Wikipedia or Linux have in common? The answer is that they are all systems that have relied on human cooperation, rather than purely on incentive compensation, punishment, or hierarchical control. Toyota structured its shop-floor relations around teamwork, and engineered its supplier relations into a collaborative network built on trust and long-term cooperation, instead of a top-down system governed by process engineers and competitive bidding. Until its recent troubles, for more than two decades its model was seen as revolutionary and the primary reason for its becoming the world's largest

automobile manufacturer. Southwest Airlines similarly has outperformed its competitors by a wide margin, fostering a collaborative team spirit based on relative autonomy, high trust, and a pervasive sense of fair treatment among employees. Rather than cracking down harder on offenses, the Chicago police force has, for two decades, led the drive to a community-based model of policing, in which neighbors and police officers work together to prevent crime more effectively. Wikipedia relies on content created entirely by volunteers, allowing anyone and everyone to contribute their time and knowledge, rather than paychecks or editorial control, and Linux, the open-source software, depends on a massive collaboration between volunteers and paid contributors, whose outputs they all share and no one owns exclusively.

The way these organizations work flies in the face of what has long been the dominant assumption in Western society about human motivation: that human beings are basically selfish creatures, driven by their own interests. For decades economists, politicians and legislators, business executives and engineers have acted as though all systems and organizations had to be built around incentives, rewards, and punishments in order to get people to achieve public, corporate, or community goals: If you wanted to reduce crime, enact stronger penalties, like the three-strikes laws in California that sentence people to prison for life if they are convicted of a third felony. If you want employees to work harder, incorporate pay for performance and monitor their results more closely. If you want executives to do

what's right for shareholders, pay them in stock. If you want doctors to take better care of patients, threaten them with malpractice suits so that fear of litigation makes them take better care. The model in all these is the same—we are driven by self-interest; to get others to act well, you have to monitor, reward, and punish them. And yet all around us we see people cooperating and working in collaboration, doing the right thing, behaving fairly, acting generously, caring about their group or team, and trying to behave like decent people who reciprocate kindness with kindness. Nowhere has this fact been more obvious than online, where Wikipedia and open-source software have been so successful. Tux, the Linux Penguin, is beginning to nibble away at the grim view of humanity that breathed life into Thomas Hobbes's Leviathan.



*Testimony of Dr. Alan Greenspan to the Senate Committee
of Government Oversight and Reform,*

OCTOBER 23, 2008

Alan Greenspan: Those of us who have looked to the self-interest of lending institutions to protect shareholder's equity (myself especially) are in a state of shocked disbelief.

Senator Henry Waxman: In other words you found that your view of the world, your ideology was not right. It was not working.

Greenspan: Precisely . . . that's precisely the reason I was shocked because I've been going for forty years or more with very considerable evidence that it was working exceptionally well.

Former Federal Reserve chairman Alan Greenspan's unwavering belief in the power of self-interest is based on two of our society's most widely held, long-standing, and erroneous assumptions. The first is the assumption that inspired philosopher Thomas Hobbes's *Leviathan*: that humans are fundamentally and universally selfish, and the only way to deal with people is for governments to step in and control us so that we do not, in our shortsighted pursuit of self-interest, destroy one another (or make one another's lives too miserable to bear). The second assumption was Adam Smith's alternative solution to our assumed selfishness—the Invisible Hand. Smith's *Wealth of Nations* argued that because humans are inherently self-interested and human decision making is driven by the rational weighing of costs and benefits, our action in a free market would tend to serve the common good. In other words, in our pursuit of self-interest we would work to fulfill one another's needs, not because we care about one another's well-being, but because it is mutually advantageous to do so. Though their prescriptions are quite different, both *Leviathan* and the Invisible Hand have the same fundamental starting point: a belief in the selfishness of mankind. The former tries to curb and control selfish human behavior through

monitoring and punishment; the latter imagines markets as places where self-interest will lead people to act in ways that serve the common good.

The major alternative in Western political thought coalesced from the work of a wide array of thinkers: from French philosopher Jean-Jacques Rousseau, through Scottish Enlightenment philosopher David Hume and Adam Smith's other major work, *The Theory of Moral Sentiments*, to the work of major anarchist philosophers Pierre-Joseph Proudhon and Peter Kropotkin. Broadly speaking, this far more flattering view sees human beings as fundamentally capable of empathy, of possessing sentiments that compel us to act morally, cooperatively, or generously, not only in our own self-interest. This does not claim us to be saints; it merely says that we are capable of virtue, and that we need not be robotic slaves to the government's Leviathan, automations guided by the Invisible Hand of the market, or parts of the collectivist Hive of fascism to serve the common weal. In honor of Tux, the symbol of Linux, I'll call this alternative the Penguin.

Cycles of Leviathan and the Invisible Hand

Modern European and North American history has cycled between social, political, and economic systems that tended toward the Leviathan, and those that were based on the Invisible Hand. Throughout the seventeenth and eighteenth

centuries, Europe's absolute monarchies were more or less inefficient versions of Leviathan (just substitute "monarchy" for "government"). The inefficiency in exercising control provided substantial breathing room for Invisible Hand and the social action, the Penguin, to flourish underneath the Leviathan, more or less informally. By the nineteenth century the decline of the monarchy, the Industrial Revolution, and the subsequent rise of commerce swept the Invisible Hand into power (nowhere with more painful effects than in Britain, as Friedrich Engels and Charles Dickens portrayed with such excruciating detail). This long reign of the Invisible Hand in both Europe and America was punctuated by panics and crashes throughout the nineteenth century, then, in 1929, came to a swift and abrupt end as the markets crashed, ushering in the Great Depression.

Now the pendulum swung violently in the other direction. In Germany, where industrialization had already suffered a major blow from World War I, and in Russia, where it had been passed over altogether, moving straight from the Czar's lethargic rule to Stalin's cruelly efficient model, Leviathan reared its ugly head with a viciousness unmatched before or since, in the form of fascism and Soviet communism. In the United States, Britain, and other liberal democracies, Leviathan took more benevolent forms: the burgeoning welfare state and the rise of government bureaucracies (ushered in by the New Deal in the United States, and by similar movements in Western Europe). By the late 1950s and early 1960s the pendulum began to

swing back as concerns mounted over petty bureaucrats, unchecked discretion, and inefficiency. By the 1980s we were back in full swing toward laissez-faire capitalism; the Reagan and Thatcher governments in the United States and Britain, the rise of the efficiency- and free-trade-focused European Commission in Europe, and the emergence of the World Bank and the International Monetary Fund as bearers of what came to be known as “the Washington Consensus.” The Invisible Hand seemed to have completely won when even the center-left governments of the United States and the United Kingdom, under Bill Clinton and Tony Blair, busied themselves with dismantling welfare as we know it—replacing government bureaucracies with privatized, market-based alternatives—and deregulating the financial markets that flourished in New York and London. The drive to weaken the state and make way for self-interest in the market reached new peaks under George W. Bush. Predictably, today we find ourselves facing a new crisis, our economic systems toppled by our blind faith in the power of self-interest and in our ability to harness it effectively through incentives and payoffs.

Where does this leave us? If neither the command-control systems dictated by the Leviathan nor the Invisible Hand of the free market can effectively govern society, where shall we turn? What, if anything, do systems based on cooperation have to offer besides the pleasant diversion or utopic ideal of a free operating system or a global online encyclopedia? Can the Penguin deliver us more robust,

working social and economic systems that break us out of this vicious cycle?

I believe that he can.

Over the course of the twentieth century, intellectual trends in such diverse fields as business, anthropology, psychology, human evolution, economics, political science, and law have pondered the question, How shall we construct the systems we inhabit? We live our lives, after all, within the confines of systems: business systems, like workplaces and shopping malls; legal systems, like intellectual property laws or environmental regulations; technical systems, like the Internet, or the highways and bridges; administrative systems (some, like Medicare, run by the state; others, like arts and cultural foundations, by nonstate bodies); educational systems, like preschools and university research labs; and social systems, like our networks of friends.

Whether their goals were to increase profits, improve law and governance, advance the sciences, or simply help us to lead better, happier lives, leading researchers and thinkers have long sought to improve the way these systems are designed. In the twentieth century's first six decades, the favored approaches reflected the Leviathan; most systems were large, hierarchical, and controlled. Within the United States, this trend began in companies, when, early in the century, Frederick Taylor published his *Principles of Scientific Management*, which concerns a management process by which every action, by every employee, was described, timed, measured, and monitored to assure the most efficient

operation, reducing the employee to a very well-regulated component in a perfectly designed system—one that was controlled by the powers above.

Henry Ford soon took this basic concept and embedded it in an assembly line. Eventually, this mentality—that workers were essentially robotic, mechanized creatures who could perform adequately at a given task only if properly monitored, managed, and supervised—permeated a broad swath of sectors and industries, from factory floors to boardrooms. This top-down hierarchy later expanded to the public realm, as New Deal administrative agencies were built on the Progressive Era assumption that expert agencies could plan more effectively than the irresponsible market that had led to the Crash of 1929. In Europe, the progression went in the other direction; the rise of command-control systems began with state bureaucracy (pioneered by Bismarck in Prussia) and later diffused to businesses. But whatever the order of events, by the mid-1960s one thing was clear: In the United States and elsewhere, organization of hierarchies had come to dominate modern economic and social life. The father of sociology, Max Weber, saw this earlier in the century; economists like Joseph Schumpeter saw this in the mid-century: The future was to be inherited by ever larger, controlled bureaucracies; by various versions of Leviathan.

Paralleling the arc taking place in politics, the intellectual debate (and to some extent the practice) of the next forty years saw a pronounced shift away from centralized systems and toward markets and market-mimicking

approaches. In short, the Invisible Hand reemerged onto the landscape not only in the ivory tower and in the halls of Washington, but also in business and social life. Partly the shift was underwritten by the Cold War, the ideological battle between market-based and socialist economies. To a great extent, however, it was instigated by the inability of control-based systems to manage an increasingly complex and interconnected economy and society. As global trade expanded, and technological growth ushered countless new industries, companies, and products into the marketplace, hierarchical systems simply were inadequate to the task. Market-based systems, on the other hand, seemed not to require such close monitoring and control. By setting up systems of incentives, those who trusted in the efficacy of the market could let us run things more or less as we saw fit. This, it seemed at the time, appeared to be a far cheaper and more effective way of doing business, and it quickly caught on as a way of looking at the world. At the end of the twentieth century, the technology sector exploded, multiplying, several times over, the challenges of managing what was already a complex, far-flung and fast-moving world. Economists and businesses began to embrace a more starkly selfish model of humanity than Adam Smith had ever proposed, seeking more deregulation and relying, to an ever greater extent, on the perfectly aligned markets to harness our self-interest to the commonweal. We even began to accept the notion that our inherent selfishness applied not only to the business world or to the markets, but also to