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Silicon Valley's Response to 2016 US Presidential Election Hacking

Collective Action:

Problems involving collective action are either market oriented or organizationally oriented. In market oriented collective action, the benefits are pegged to the supply as opposed to a benefit that does not diminish as more members are added. In the case of a cartel, if a competitor begins to cut prices or increases production then the total share of profit will decrease. In an organizationally oriented group such as a governmental lobbying group, as more members are added the benefit from the public good does not decrease. In many cases, the cost of membership goes down with increased membership and so it is encouraged.

In an organization the larger a group gets the less likely it is for an individual to pay for the public good, because the contribution from an individual is less noticeable when the payment is foregone. In a group with many members, called a latent group by Olson, public goods are undersupplied because each member has the lowest share of benefit from the public good. Smaller groups have a higher likelihood of supplying a public good because, when one member withholds payment for the good there is a significant decrease in benefit or a significant increase in cost to other members.

Privileged groups are small member groups in which there is such a high benefit to providing the public good that it is worth it for one member to provide it completely on its own. Privileged groups always provide the public good. Intermediate groups are in which the benefit of the public good is not greater than the total cost of providing it. However, the group is small enough where if one member withholds payment there is either a significant increase in cost or decrease in benefit.

The important analysis here is determining how much each member has to gain from the public good. The members with the larger stake in the public good will be exploited by the smaller stakeholders because their contribution is smaller and not as noticeable. In situations with an unequal stake, the public good will be undersupplied and will only meet the cost benefit analysis of the larger stakeholder. Conversely, smaller countries are getting more benefits than they would receive if they simply supplied the public good themselves and so are generally content to continue not paying.

Silicon Valley's Hacking Dilemma:

After the 2016 U.S. Presidential election, there were many public concerns over the involvement of foreign "hackers" spreading often false propaganda through American social media. The largest source of revenue for social media companies are their advertising revenue. Facebooks shares the largest portion. Last year Facebook's revenue

was 28 billion dollars, where 97% of that came from advertisement[1]. Silicon Valley was scrutinized for selling advertising space to malicious propaganda bots. Government regulation threatened social media revenue streams. The industry was put in a position to respond with collective action. Individually firms could either address the issues of hacking and properly quell public unrest or maintain status quo and hope other members clean up the mess.

It is assumed that a government regulation on advertisement would apply to all major forms of social media. The collective action group is an inclusive organization similar to a lobbying group. In this scenario the firms' benefits are not pegged to the supply of the total amount of advertisements, rather it is to ward off government interest in regulating the sector. Firms can join the "group" by participating in the extra security protocols to root out fake news and the benefit of less government regulation is not diminished.

The industry follows the model of a privileged group as described by Olson. There are a small number of firms and the benefits from the public good are distributed unequally. Facebook is the largest stakeholder in this scenario because it gains more than any other social media platform from its advertising. Therefore, it has the most to lose from regulation. Facebook massively overhauled their platform to combat questions over security and spent money on advertisements meant to reassure the public of its commitment to rooting out "fake news."

Through Olsen's analysis we can induce that the cost of overhauling its platform and advertising said changes was less than the benefits it received from an unregulated market. Although other firms made security changes, such as twitter banning terrorist affiliated accounts, Facebook made the most public attempt at addressing the security concerns arising from the election. Olson's analytical lens labels the type of organization and the collective action problem. The analysis shows us that Facebook would have made these changes unilaterally regardless of the responses of the other members of the industry. The optimal amount of public good supplied in this scenario is every social media firm taking proper steps to increase security.

The smaller social media platforms responded as would smaller stakeholders in Olson's model and could be seen as "free riders". Facebook was at the center of public scrutiny and required the largest overhaul. Facebook's resources and media presence gave it the clout to change public perception and provide the public good of no government regulation more effective than the single response of any one of the smaller social media platforms by themselves. The level of response to public scrutiny was accordingly suboptimal and would require a government policy.

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[1] https://investor.fb.com/investor-news/press-release-details/2017/Facebook-Reports-Fourth-Quarter-and-Full-Year-2016-Results/default.aspx

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