Social Capital: A Path to a More Pluralistic Economics or Another Manifestation of Neoclassical Prominence?

by

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Paper presented at

INTERNATIONAL INITIATIVE FOR PROMOTING POLITICAL ECONOMY (IIPPE),
SECOND INTERNATIONAL RESEARCH WORKSHOP IN POLITICAL ECONOMY
NAPLES, ITALY, 10-12 SEPTEMBER 2008
Abstract:

Social capital refers to features of social organisation such as trust, norms and networks that facilitate collective action for mutual benefit. It provides an internal commitment mechanism to resolve social dilemmas, and thus to promote coordination of individual action and objectives within the economy. The aim of the present paper is to juxtapose neoclassical interpretations of social capital in economics, to alternative principles of altruistic and moral behaviour adopted by researchers in a wider spectrum of social science disciplines. We argue that social capital research in economics should turn to alternative, non-neoclassical approaches, which emphasise a more pluralistic view of human behaviour.

KEY WORDS: social capital, egoism, individualism, universalism, collective agency

INTRODUCTION

Social capital refers to features of social organisation such as trust, norms and networks that facilitate collective action for mutual benefit. It provides an internal commitment mechanism to resolve social dilemmas, and thus to promote coordination of individual action and objectives within the economy. As a term it was initially introduced in social science fields outside economics (Jacobs, 1961; Bourdieu, 1986; Coleman, 1988; Putnam, 1993). The appeal of social capital in overcoming collective dilemmas and enhancing cooperation in the production of public goods was soon to be recognised by some contemporary economists. Researchers acknowledged the importance of non-economic activities, such as voluntary work, donations, norms and networks of reciprocity, trust and cooperation as factors for economic effectiveness and development. In this manner, contemporary economic theory and practice appeared to depart from its reductionist view of the economic man as a self-interested individual, who makes decisions based on strategic calculations of personal welfare.

Despite important steps towards this direction, however, the neoclassical model of rational choice has maintained dominance with economics. In this case, trust, norms and networks are regarded as another exogenously determined factor to maximising individual behaviour. That is, social capital is interpreted as merely another means by which individuals ultimately serve
their own benefit, ignoring the social and moral content of aims and means. In the present paper, we argue that individuals are members of the wider social and political sphere, and as such they engage in interaction according to values of social justice and equality, and thus build institutions that embody incentives and objectives to serve these values, individually and collectively. Moreover, social relationships and cooperation may be seen as ends in themselves, providing a sense of solidarity and collective identity, which further support coordination amongst individual interests in favour of social welfare.

For instance, in the wider spectrum of social sciences there are studies that document how development programmes and socio-economic reform in certain countries depended on social capital derived from the synergy between state and society, as stated by the sociologist Heller (1996), or a process of political construction amongst stakeholders, following the political scientist Fox (1996). On the one hand, according to political scientists Levi (1996) and Rothstein and Stolle (2001), state reformists would create political opportunities, rules and institutions to secure political, civil and social rights, and ensure transparency, fairness and credibility of government actors. On the other hand, according to sociologist Woolcock (1998), grassroots associations and local groups would mobilise to produce social awareness, wider participation, shared values and common goals, not only within groups (bonding social capital), but also across groups (bridging social capital).

We stress that this reality constitutes part of social capital and can open the path to more pluralistic views of the concepts, capabilities and priorities of human behaviour in economic analysis. Such views emphasise aspects of human behaviour that capture social responsibility in securing public benefits, derived from a sense of collective identity and shared values of reciprocity and fairness, and shaped by collective mechanisms of social, political and cultural interaction and debate. In the sections to follow we examine why some economists tend to ignore this reality in their treatment of social capital and how they can restore it by appealing to alternative non-neoclassical principles of rationality and choice.

SOCIAL CAPITAL AND RATIONAL CHOICE

Early work in the economics field sought the theoretical foundations and empirical implications of social capital within game theoretic settings, which were typically employed to explain and predict cooperation between individuals (e.g. Glaeser et al., 1999; Bruni and
Examples such as the Prisoner’s Dilemma or the Tragedy of the Commons address conditions for mutual interaction, participation and association between individual agents in producing a common good. Thus, they provide a certain framework to represent features of social capital (trust, norms and networks) and to test the robustness of these factors in determining individual behaviour and securing cooperative solutions. Although empirical results produced by game experiments directed investigation to non-economic factors which coincide with elements of social capital, interpretations concerning the origin and persistence of these elements did not diverge from standard game theory assumptions, which are based on the neoclassical principle of rational choice. As a result, the social and moral aspects of trust, norms and networks were reduced to manifestations of strategic choices of individual agents.

The neoclassical paradigm tends to explain interaction and social outcomes by assuming two characteristics of *homo economicus*, namely instrumental rationality and self-interest. According to Anderson (2000), these assumptions are cast as methodological principles referred to as *methodological rationalism* and *methodological egoism*, respectively. On the one hand, methodological rationalism is the principle that we should try to explain people’s action as rational before resorting to explanations that represent them as irrational (op. cit., p. 172). Specifically, an agent is rational if and only if she chooses what she most prefers among those things she can get, or if and only if her preferences may be represented by utility functions and her choices maximise utility (Hausman and McPherson, 1996, pp. 27, 29). On the other hand, methodological egoism is the principle that we should try to explain people’s action as self-interested before accepting their typically more flattering self-interpretations (Anderson, 2000, p. 172). Choosing what one prefers, that is, choosing rationally according to the principle of utility maximisation is determined by one’s *own interests* rather than anyone else’s. Within this context, altruistic and moral behaviour is actually self-interested and identified with acts of a calculative, instrumental weighing of benefits and costs that maximise personal utility (Hausman and McPherson, 1996, p. 53).

Another implication of neoclassical rational choice theory with concern to the concept of social capital is its adherence to the principle of *methodological individualism*. As described in Levine, Sober and Wright (1987), it is “the doctrine that all social phenomena – their structure and their change – are in principle explicable in ways that only involve individuals – their properties, their goals, their beliefs and their actions” (p. 71). Thus, social formations, such as trust, norms and networks are merely devices constructed by individuals as a *means* to achieving given ends: institutions, norms and networks “are conceptualised as solving the
type of agency problems that arise in neoclassical theorising about decentralised markets” (Tsakalotos, 2005, p. 7).

The story of the prisoner's dilemma and the accompanying game matrix based on the aforementioned principles of human behaviour provided a simple yet powerful model that could be used to represent the structure of all these interactions. However, it is important to distinguish the type of cooperation produced by social capital from that predicted by standard game theory. According to Putnam (1993), game theory underestimates the ability of cooperative human behaviour, and actually underpredicts voluntary cooperation (pp. 165-166). Game theorists speak of cooperation attained in conditions of perfect information, third party enforcement, tit-for-tat strategies, indefinitely repeated games (Folk Theorem), and face-to-face interaction amongst a limited number of players. Putnam contends that “success in overcoming social dilemmas of collective action depends on the broader social context in which the game is played. ... Voluntary cooperation is easier in a community that has inherited a substantial stock of social capital, in the form of norms of reciprocity and networks of civic engagement” (op. cit., p. 167). He speaks of cooperation based on social connections between individuals – from kinship ties to networks of civic engagement at the community and regional level (professional groups, sports clubs, cooperatives, mutual aid groups, cultural associations and voluntary unions). Such groups could strengthen political and economic efficiency even though they are built up for reasons other than their economic value to participants (op. cit., p. 169).

Indeed, there is evidence from empirical game experiments that much more cooperation is produced between individual participants than predicted by standard game theory assumptions.1 A common explanation to this result is that some of the subjects may be primarily motivated by considerations of fairness. As Dasgupta (2000) notes: “it is not difficult to imagine people being moved to sacrifice personal resources to benefit those who have shown kindness and to sacrifice personal resources to punish those who have been unkind” and refers to these gestures as emotions of ‘reciprocity’ (p. 348). According to the author, these emotions simply reflect people’s disposition to be honest, as well as beliefs

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1 To illustrate, in an ultimatum game, where one player (proposer) offers an amount of money to another player (responder), so that if the latter refuses, none of the players receive any money, the proposer usually offers a share of 40-50% of the amount of money she has, while the responder refuses offers below 25% (Camerer and Thaler, 1995, p. 210; Roth, 1995, pp. 258-270; Dasgupta, 2000, p. 349). Even in experiments based on dictator games, where the responder’s privilege to reject has been withdrawn, offers although smaller are still positive (Kahneman et al., 1986, pp. S290-S291; Camerer and Thaler, 1995, p. 213).
about the extent to which such dispositions are prevalent in society (op. cit., p. 362). Camerer and Thaler (1995) take this argument a bit further and add that “a player does not care about the other’s welfare per se, but desires some kind of equity in the context of a particular interaction” (p. 216). Their view is that “people have simply adopted rules of behaviour they think apply to themselves and others, regardless of the situation” (op. cit., p. 218).

A common approach amongst economists is to represent acts of altruism, trust and cooperation with other-regarding preferences. Other-regarding preferences concern the consumption and outcomes (such as income) of others, as opposed to self-regarding preferences which refer to the individual’s own consumption and outcomes. According to Ben-Ner and Putterman (1998), both types of preferences are arguments included in the utility function (p. 7). This is consistent with a theory of rationality, where no substantive claims are made with regards to what the ultimate aim of individual action might be. As stressed by Hausman and McPherson (1996), a utility function is a mere index or indicator of preference ranking; it does not suggest that utility is an object of choice, some ultimately good thing that people want (p. 29). Thus, rational choice does not imply self-interest. An individual who makes choices based on a complete and transitive preference-ordering, which ranks the well-being of others very highly is no less a utility maximiser than one who is indifferent to the welfare of others (op. cit., p. 29).

Alternatively, individuals are seen to portray moral behaviour revealed through acts of commitment or obligation, based on (moral) norms and values of fairness and justice and determined by the wider social or cultural context within which individuals interact. In the theory of games, as Arrow (1994) points out, even though the choice of actions is totally individualistic and all interactions among players are embodied in the payoff functions, the rules of the game are social, produced from individual interrelationships (p. 5). Sugden (1998) takes the argument further by stating that “we need a theory in which individuals can be motivated by considerations other than self-regarding or other-regarding preferences … we need a theory in which individuals can be motivated by [social and moral] values” (p. 75). He contends that there exist other beliefs not represented in the payoff matrix of a game that influence players’ behaviour and depend on socially accepted norms and values (op. cit., p. 95). In this sense, a player expects her counterpart to follow a specific strategy not merely because she would, but because she ought to, even if it is contrary to her self-interest (op. cit., pp. 82, 83). The desire to act in accordance with other people’s expectations is treated as an additional motivating factor, or as a constraint not included in the payoffs (op. cit., p. 95).
However, such accounts of various elements of social capital do not depart radically from neoclassical interpretations of individual behaviour.\(^2\) At the end of the day, non-selfish behaviour, either as other-regarding preferences or external social constraints, are still regarded as another means towards the ultimate end of individual benefit. Below we further examine the implications of these statements by referring to examples that alternatively define social capital as other-regarding preferences and external constraints.

**IS SOCIAL CAPITAL ‘OTHER-THAN-SELF’ OR MERELY ‘SELF’-REGARDING?**

In the social capital literature, an example of other-regarding or altruistic preferences appears in the work of Glaeser et al. (1999). The authors conduct experiments, based on a typical trust game, where one player (the sender) offers an amount of money to the other player (the recipient) who then decides what proportion of that amount she is willing to return to the sender. By assuming that transfers from the sender (recipient) are indicative of levels of trust (trustworthiness), Glaeser et al. proceed to empirically test for the determinants of trust (trustworthiness) in interactions between individuals. They use regression analysis to assess the impact of factors including individual characteristics of players, as well as features of their social connections, used as measures of social capital. In general, they recognise factors such as reciprocal altruism, and produce empirical results in favour of this view. However, they proceed to interpret these factors as evidence of an individual’s pursuit to satisfy her own net benefit by employing a neoclassical framework of utility maximisation, which implies the instrumental weighing of costs and benefits that accrue to the individual.

Indeed, Glaeser et al. theorise that trust and trustworthiness are observed in cases where the benefits of short-run financial gain are outweighed by psychic costs from cheating and long-run penalties imposed on cheaters (op. cit., p. 7). Thus, the total utility an individual player receives depends on the pecuniary benefit of net cash earnings, which expresses the external return to the player from the interaction, as well as on the psychic gains, which accrue to the player and constitute the internal costs and benefits of trust and trustworthiness (op. cit. pp. 7-8). The psychic gains to trust include: (i) expressing (reciprocal) altruism; (ii) satisfying a

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\(^2\) This argument has been developed at great length by Fine (2001). We agree in many respects with his view on the reductionist treatment of the ‘social’ and the ‘capital’ by neoclassical theorists. Nevertheless, we find it difficult to adhere to his Marxist perspective, which in some way supports the idea that the most genuine interpretation of social capital is of neoclassical origin. Here, we only state that the neoclassical interpretation is not the only ‘game in town’.
norm to trust others; (iii) avoiding guilt that follows acts of betrayal; (iv) responding spitefully to lack of trust by others; (v) showing dislike to inequality and thus wanting returns equally shared across participants (op. cit., p. 8). These gains, assert the authors, represent altruistic preferences in a broader sense, and the more intense they are, the higher the net amount of transfer is to the other player. When testing this hypothesis empirically, they provide evidence of what they term reciprocal altruism: having controlled for the probability that players would meet again beyond the experiment (through friendship, prior acquaintance, common friends, nationality and race), the amount returned to the sender appears to rise more than one-for-one with the amount initially sent to the recipient (op. cit., p. 21).

However, Glaeser et al. also find evidence that elements of social capital as defined here, namely family background, group membership and time spent volunteering that accrue to the sender, increase financial returns for the sender, in terms of the amount of money returned to her, but decrease returns to the recipient, in terms of the money initially sent (op. cit., pp. 29-30, 32). To explain this result, they attribute the sender’s behaviour to her pursuit of personal benefits by means of her relatively favourable social traits derived from her stock of social capital (op. cit., pp. 5-6). Then, in an attempt to reconcile conflicting findings on reciprocal altruism and social capital, they interpret altruistic preferences of players as their ability to elicit trustworthiness from others or, in other words, to induce reciprocation of their trust towards them (op. cit., pp. 8-9, 24). Hence, they conclude, it is natural social status variables of individuals that predict the ability to induce others to behave in a trustworthy manner (op. cit., p. 30). As such, “these social capital variables appear to generate private, not group, returns, and emphasise the importance of distinguishing between individual and group-level social capital” (op. cit., p. 32, emphasis added).

Yet there are doubts about the principle that rational persons always act to maximise their own interest. As Blackburn (1998) notes, other-regarding desires, which are concerned not primarily with ourselves, but with other things or persons, are not superficial guises for self-interest: “[y]ou may be concerned about them because you are concerned that you cause this or that, or because your actions affect people and things in your world, but this is not the revelation of a hidden, selfish motivation” (p. 155). The reason that one chooses a particular course of action should not be identified with the pleasant or favourable emotions one derives, but with the object to which action is directed (op. cit., pp. 138-139). For instance, following Blackburn’s example, “[t]he fact that I think of the survival of the whales as pleasant does not even imply that I think it will be pleasant for me … And it does not suggest that it is not really their survival, but only my own pleasure, that I desire” (op. cit. p. 137). There is, thus, a
principle of altruism, based on these other-regarding desires. Such principle, Blackburn adds, does not compete with the principle of self-love; this is referred to as the no-competition thesis (op. cit., pp. 142-143). To assume the opposite, that is, to assume that a benefit to my neighbour is necessarily a loss to myself is to think of the interaction as a “zero-sum game”. Instead a person might share goods with others even when they are scarce, because perception of their real use and advantage might be identified with that of the other members of the group, as the object of one’s other-regarding concerns (op. cit., p. 143). Therefore, in the trust game experiment developed above, financial returns gained by the sender might have been granted by the recipient in response to her desire to share her earnings, rather than to her alleged inability, as mentioned in Glaeser et al. (1999), to think strategically and discount the allocation of total transfers, due to imperfect information or lack of social trust (p. 32).

In other words, one must distinguish between the empirical game and the theoretical game (Blackburn, 1998, p. 168). An empirical game is defined in terms of the empirical setup of the game, along with possible options, strategies, and payoffs the individuals confront. A theoretical game describes how an individual interprets possible options and strategies, and what her patterns of concerns are. In this sense, the theoretical game highlights the different contexts of choice the individual faces in practical thinking. Hence, by moving beyond the set-up of a prisoner’s dilemma, where non-cooperation is the dominant strategy, and changing the theoretical game to introduce ethics, where concerns of sympathy or identification with the common good dominate, then cooperation is more likely (op. cit., pp. 180-181).

Similarly, Anderson (2001) argues that in a prisoner’s dilemma it does not become rational to cooperate by simply assuming sympathetic or altruistic preferences (pp. 25-27). Indeed, people’s cooperation cannot be counted on “as long as [they] continue to judge the value of their action in terms of its expected marginal causal impact” (op. cit., p. 26), or in terms of their individual marginal contribution to valued social outcomes. That is to say, following Anderson, prisoner’s dilemmas will remain unresolved if agents abide to an act-consequentialist principle of rational choice. Act consequentialism is the claim that an act is morally right if and only if that act maximises the good, that is, if and only if the total amount of good for all minus the total amount of bad for all is greater than this net amount for any incompatible act available to the agent on that occasion (Sinnott-Armstrong, 2003). Utilitarianism, as a form of consequentialism, is not a selfish doctrine in the sense that it may require refraining from favouring one’s own friends or family over strangers if it is to increase total welfare (Hausman and McPherson, 1996, p. 101). However, as Collard (1978) notes, voluntary and spontaneous cooperation produced by altruistic preferences is negatively
affected by expectations on free-riding behaviour, particularly in situations of positive transaction costs and asymmetric information (pp. 13-14, 30-31). Hence, if expectations on the altruism of others are not positive, then the agent has no incentive to cooperate (op. cit., pp. 13, 30).

In this case, Collard argues, a higher degree of altruism is required for voluntary cooperation, which is achieved by introducing another principle, the Kantian principle (op. cit., p. 14). This principle states that if the interest of the action can without self-contradiction be universalised it is morally possible (op. cit., p. 14). In other words, an individual that follows the Kantian principle will choose to cooperate because she does not consider her own (negligible) contribution to the social outcome; rather she has a reasoned moral obligation to follow such a maxim no matter what others do (Sen, 1997, p. 771, footnote 54). These duties are unconditional and absolutely binding, in a categorical or non-instrumental sense, and failure to obey them is failure to treat people with appropriate respect, as ends in themselves (Blackburn, 1998, p. 215). This is reminiscent of the point mentioned above in Glaeser et al. (1999) that trusting behaviour, expressed through the generosity of interacting individuals, might be a result of satisfying a norm that requires trusting others (p. 8, footnote 11, and p. 27), even though this type of action was later interpreted as a preference for altruism and then as a characteristic of social status held by the individual for personal benefit.

Therefore, reasons for human action are not limited to self-interest and sympathy; they extend to a sense of commitment. In the often cited paradox of voting behaviour, Sen (1997) speculates that “it is possible that the voter may enjoy participation, or that she may act under some ‘deontic’ obligation to participate whether or not she enjoys it. So long as she attaches importance to the participatory act of voting, the analysis of the rationality of voting must take note of that concern, whether that concern arises from anticipated enjoyment, or from a sense of duty” (p. 750). But how does a theory of rationality take commitment into account as reasons for human behaviour? This task is undertaken by Anderson (2001). To provide a rational basis for committed action, the author proposes an alternative, non-preference based and non-consequentialist, principle of rational choice, the so-called universalisation principle (op. cit., pp. 27, 29).

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3 Collard is quite unclear with regards to the non-consequentialist nature of the Kantian principle. References to Harrod (1936) imply that a Kantian principle can be incorporated within a revised utilitarianism, where altruism is treated as another (moral) concern. It is this view that eventually does not allow Collard to diverge from a consequentialist approach to human behaviour.
According to this principle, committed action turns out to be rational based on reasons that “it is rational for us (any group of people regarded as a collective agent) to adopt, and thus that it is rational for any individual who identifies as a member of that group to act on” (op. cit., p. 24). Suppose that parties to a prisoner’s dilemma identify with one another as members of a certain social group: their families, their colleagues, various associations and clubs, their nation, caste, religion and a number of other social groups (op. cit., p. 28). As members of a certain group, people will reach a collectively desirable solution if they refer to one another as ‘we’ and treat their joint strategy as their object of choice. That is, in a prisoner’s dilemma, instead of individuals asking ‘What should I do?’ they would ask ‘What should we do?’ (op. cit., p. 28). To answer this question, individuals would gather to discuss the issues involved in order to reach a common point of view in assessing the aims to be achieved by collective action (op. cit., p. 28). In this sense, collective aims arrive as a conclusion, not a presupposition, of members’ deliberations (op. cit., p. 29).

The constitutive principle of a collective agent is that whatever can count as a reason for one member of the collective must count as a reason for all, reasons universalisable to their memberships (op. cit., p. 29). This does not show that it is irrational to follow the principle of expected utility and choose not to cooperate in prisoner’s dilemma. As Anderson stresses, what principle of choice is rational to act on depends on a prior determination of personal identity: in a context where one regards oneself as a member of a social group, the principle of expected utility will in general be invalid, because it is not universalisable among the members of the group; when one regards oneself as an isolated individual and not as a member of any collective agency, then the principle of expected utility might be valid, compared to the universalisation principle (op. cit., p. 30). For instance, following Anderson’s example based on the paradox of voting, it is evident that from the standpoint of the individual, who maximises expected utility, a trifling inconvenience might prevent her from voting since it would suffice to outweigh her negligible contribution to the general outcome of electing a particular candidate. However, from the standpoint of the collective agency, with which individuals identify as say members of a political party with a joint aim and strategy to elect a particular candidate, to act on the principle of expected utility is self-defeating and would not serve the common goal of electing their candidate (op. cit., p. 29).

On the whole, as Bruni and Sugden (2000) observe, issues of trust and social capital have been dealt with in the mainstream in accordance to an instrumental conception of rationality, dominating modern economics and game theory, at the expense of other, more useful
understandings of rationality (p. 22). Nevertheless, we shall see that economists maintain the tendency to focus on ‘individualistic’ aspects of social capital.

**HOW ‘INDIVIDUALISTIC’ CAN ‘SOCIAL’ CAPITAL BE?**

An example of work where norms and networks are interpreted as an external social constraint on individual behaviour appears in Sugden (1998). Sugden rejects an instrumental conception of rationality and an explanation of trust and social capital that appeal to notions of other-regarding preferences. He argues that to invoke preferences for acting morally can become an ad hoc strategy depriving economic theory of its explanatory and predictive power (op. cit., p. 75). In this light, Sugden introduces a theory of values based on moral sentiments – sentiments of approval (or disapproval) towards a class of actions, generated by compliance (or transgression) to a set of social norms – which he distinguishes from the individual’s preferences and utility (op. cit., pp. 75, 77). However, by applying neoclassical assumptions to the nature and formation of values and moral sentiments, he reduces them to an outcome of individual disposition and spontaneously achieved social order to (self-)impose constraints on individual, self-interested behaviour.

Initially, the author argues that a player’s payoffs in a standard game theoretic setting tell us how she responds to the different beliefs she might hold about her opponent’s strategy choice. However, there exist other beliefs not represented in the payoff matrix of a game that influence players’ behaviour. One player may be motivated to conform to some regularity or convention in behaviour because she believes that the other player believes she will conform to it. That is, behaviour is influenced by beliefs about beliefs about strategy choices, which are influenced by socially accepted norms and values (op. cit., p. 95). In this sense, a player expects her counterpart to follow a specific strategy not merely because she would, but because she ought to; the regularity or convention has become a norm. The general belief or expectation of conformity to a particular convention is called a normative expectation (op. cit., p. 82).

Hence, Sugden speculates, “if normative expectations have some motivating force, then there can be cases in which individuals follow conventions even though this is contrary to self-

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4 To illustrate, since preferences are exogenous in traditional neoclassical theory, feeding in different assumptions about the moral tastes of non-standard players would produce correspondingly different conclusions about the behaviour of standardly rational ones (Sugden, 1998, p. 74).

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August 2008
interest” (op. cit., p. 83). In this context, ‘payoffs’ can no longer be interpreted in the standard
sense, as von Neumann-Morgenstern utility indices which incorporate all motivating factors
of individual behaviour, self- and other-regarding. Instead they are interpreted as measures of
self-interest; the desire to act in accordance with other people’s expectations are treated as an
additional motivating factor, or as constraints not included in the payoffs (op. cit., p. 95). In
the author’s account of the conventional Hawk & Dove game, where normative expectations
are introduced, an individual is still willing to play dove, even if the dominant strategy, in
terms of self-interest, is hawk (op. cit., pp. 96-98).

However, normative expectations are considered by Sugden as an outcome of initially self-
interested behaviour (op. cit., p. 84). Although rules of justice have normative force on us,
since conformity to these rules elicits moral sentiments, for them to be initially established
they must appeal to individuals’ self-interest (op. cit., pp. 79-81). Based on Hume’s analysis,
the author explains that the emergence of a convention must precede the emergence of the
corresponding moral sentiment (op. cit., p. 80). The source of moral approbation which
attends the virtue of justice is sympathy with public interest: human nature is such that we
tend to derive a kind of satisfaction from other people’s satisfaction and a kind of uneasiness
from other people’s uneasiness. Nevertheless, sympathy with the public interest could not
motivate anyone to be the first person to follow any particular rule of justice. Rules of justice
must initially emerge as a kind of agreement, regularity or convention in behaviour to which
most people in society expect most other people to conform, so that it would be in the interest
of the individual to conform to them as well. In this manner, the natural disposition for
sympathy and moral approbation merely offer additional motivation or a means for
individuals to comply with rules of justice, even if it is contrary to self-interest in certain
situations.

More importantly, normative expectations and social evolution are explained as an
unintended consequence of human action, or as a result of spontaneous order (op. cit., p. 85).
The author uses examples of black markets in Eastern Europe before the collapse of
communism, or of trade in gambling, alcohol and narcotic drugs under regimes of prohibition,
to stress the fact that market institutions come into existence and persist without any external
support from formal law and state enforcement (op. cit., p. 88). They simply depend on there
being common recognition of de facto property rights and a commonly recognised form of
contract. Thus, he concludes, “it may be fruitful to think of institutions of a market economy
as a spontaneous order, which the written law codifies rather than creates” (op. cit., p. 88).
Hence, we have no general warrant to assume that institutions, norms and values are socially
functional or beneficial; some rules are arbitrary, but we still regard it as virtuous to act on them (op. cit., pp. 78, 84).

By interpreting values and moral sentiments as a result of individual disposition and spontaneous order, the model analysed above overlooks mechanisms of moral reasoning, public discourse and socialisation in the formation of values and norms. Such a model might be consistent in explaining the creation of norms which determine whether we should drive on the right or left side of the road. However, it might be inconsistent – and misleading – in situations where there exist social groups that pursue aims in a deliberate and coordinated manner. For instance, landowners in feudal societies sustained institutions of serfdom on the grounds of interests and power supported by the monarchy and the Church. Conventions that favour one group of people at the expense of another, or that clearly do not work for the general good will ultimately not generate a genuinely moral response or normative expectation. This would then explain the reason why labourers in the feudal system mobilised against established norms and institutions and, with the support of inspired scholars and reformists, claimed their rights to property and welfare, based on general values of justice and equality. Thus, although the present model can be useful in explaining the robustness of conventions that are arbitrary or even socially dysfunctional, it fails to explain the origin of institutions and values through aggregate social and political mechanisms.

A possible reason for this failure is that the contractarian approach of neoclassical theory is extended to the explanation of values and norms. As Adaman and Madra (2002) observe, non-market economic activities of the third sector (voluntary organisations and associations), which develop norms and networks of reciprocity and cooperation, are visualised as an alternative enforcement mechanism to supplement state and market systems when the latter fail to exercise coercion and enforce contracts between individuals. In this sense, they are inserted into the realm of contracts and the effects of political, cultural, and ethical institutions over the individual are theorised as exogenously determined mechanisms that merely constrain, enforce and obligate her (op. cit., p. 1054). Another reason why the models described above ignore factors of collective agency and public discourse follows from naturalistic assumptions of neoclassical theory. Sugden (1998) explicitly endorses such a view when he states that “a desirable property for a theory of values [is] the property of naturalism” (p. 76). He proposes a theory which should not appeal to what ‘really’ is good or bad, right or wrong. He admits that “people’s moral reasoning may be part of the subject matter of the theory. When we reason as moral agents, we often feel that there are moral facts that we can sense in some way” (op. cit., p. 76). “Nevertheless”, he continues, “[i]f, as social
theorists, we have to explain how people arrive at this moral sense, we must do so without assuming the existence of moral facts” (op. cit., p. 76). Hence, “[i]n some cases normative expectations may be consistent with general moral theories, but the connection is incidental” (op. cit., p. 85).

At the core of these statements is the effort to maintain a positivist tradition in the economics field. Positive theories say what is, as opposed to normative theories which say what is good or bad or what ought or ought not to be done. In this sense, positive theories are concerned with facts, whereas normative theories are concerned with values (Hausman and McPherson, 1996, pp. 212, 223). The distinction between positive and normative theories reflects the so-called fact-value dichotomy. The standard view maintains that questions of fact and questions of value are not only distinguishable, but independent (op. cit., 1996, p. 212). That is, the ‘ends’, or values, an individual pursues cannot be rationally discussed. Then, if it is the sciences (or at least the natural sciences) to be taken as dealing with questions of fact, and ethics with questions of value, economics as a science should focus on inquiries into facts, independent of ethical evaluation. It is for this reason that Sugden explicitly abstains from a discussion on the moral facts and reasoning behind the moral sentiments developed to sustain values and normative expectations.

Such an approach overlooks that values have always been part of economics. By appeal to theorists in the neoclassical, or pro-market in general, tradition, Staveren (2001) observes that “[n]eoclassical theory is presented as value-neutral, but many of its arguments are grounded upon liberal ethics, defending the moral value of freedom. This commitment is expressed as … the free individual, free choice and free exchange” (p. 26). At the same time, interpersonal values such as responsibility, trust and loyalty, or, “in short, the ‘social capital’ that is rooted in [actors’] commitment to care about each other” have hardly been recognised in contemporary economic theory (op. cit., p. 43). Tsakalotos (2005) summarises the idea by observing that “[w]hat is being privileged by neoclassical theory is homo economicus – self-interest as a rock bottom, or at least baseline behavioural assumption, which other norms or values merely constrain” (p. 3). Moreover, as virtues are being overruled by subjective perceptions of values and preferences, what finally matters to homo economicus is what sells and has a monetary payoff (op. cit., pp. 4, 8).

By highlighting individualism and opportunism, these models lead to the emergence of value-reducing activities such as monitoring, contract writing, theft deterrence and enforcement (Ben-Ner and Putterman, 1998, p. 8). Game experiments by Lubell and Scholz (2001) offer
empirical evidence of value-reducing activities. The authors examine the behavioural relevance of reciprocity, collective action strategies, past experience and institutions in explaining cooperation. When they consider the impact of partial-deterrence institutions and reciprocity on cooperation, they observe that “increasing the penalties of enforcement institutions enhances cooperation in nonreciprocal environments, but actually diminishes cooperation among cooperators in reciprocal environments”\(^5\) (op. cit., p. 175). According to the explanation they offer “a penalising institution can reframe the collective-action problem in a way that causes citizens to avoid the difficulty of testing for reciprocity … Penalties may shift decision-making modes to self-interested calculations rather than to collective-action heuristics, particularly when an intrusive monitoring system destroys other bases of cooperation” (op. cit., p. 167). Similarly, in an illuminating example analysed in Anderson (2000), residents of a Swiss town expressed less willingness to accommodate a state initiative to establish a nuclear waste facility in their area when they were offered compensation. By offering compensation, explains Anderson, the government conveyed the idea that the residents’ interest in a waste-free town is an entitlement, like a property right, which then induced them to think and act as utility-maximisers. This prevented them from thinking and acting as citizens, who bare a responsibility to respond to the pressing need of processing the waste in a certain area (op. cit., p. 197).

Hence, as Staveren (2001) stresses, although (individual) liberal values are an important aspect of self-preservation and self-realisation, “[they] appear to rely on other types of values, which belong to the social rather than the individual level” (p. 31). In general, as stressed by Polanyi (1944), “man’s economy, as a rule, is submerged in his social relationships. He does not act to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets” (p. 46). In particular, Polanyi asserts that distribution and production are ensured by two principles not associated with economics: namely redistribution and reciprocity (op. cit., p. 49). We could identify redistribution with activities of state and welfare institutions, and reciprocity with third sector services of voluntary organisations and associations (or what we term social capital). According to the substantivist / institutionalist approach adopted by Adaman and Madra (2002), these forms of social organisation and integration constitute the social and institutional context within which the economic subject is shaped (pp. 1049-1050).

\(^5\) A nonreciprocal environment is defined as one where the subject’s optimal response is defection, and is contrasted to the reciprocal environment where the optimal response is cooperation, as a result of the existence of social capital (Lubell and Scholz, 2001, p. 162).
Polanyi further stresses that not only are markets shaped by the context of social life; they are unable to operate without it: “To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity ‘labour power’ cannot be shoved about … In disposing of a man’s labour power the system would, incidentally, dispose of the physical, psychological and moral entity ‘man’ attached to that tag” (op. cit., p. 73). Hence, market exchange could not stand on principles of economic liberalism alone; it must also draw on institutions of redistribution and reciprocity, which support “the principle of social protection aiming at the conservation of man and nature as well as productive organisation, relying on the support of … the working and the landed classes … and using protective legislation, restrictive associations, and other instruments of intervention as its methods” (op. cit., p. 132). Overall, in any given society, behavioural patterns constructed in non-market forms of redistribution and reciprocity exist and might develop resistance towards the use of markets for certain goods and services to avoid reducing the value of commitment and reciprocity related to their provision (Adaman and Madra, 2002, p. 1052).

Despite economists’ attempts to adopt a more socially- and value-oriented approach in the social capital literature, they tend to maintain an individualistic stance, as a result of naturalistic and value-free views. However, an alternative approach, proposed by Anderson (2001) would stress that it is not the individual acting for the sake of her personal interests, that is, in an individualistic fashion, but for the sake of her individuality (p. 36). She argues that the only sort of individual that everyone can be is one who identifies with multiple collective agencies and accepts multiple commitments, not grounded in individual preferences, as reasons for action (op. cit., p. 37). To reconcile the different and often conflicting claims of membership in various groups, one can identify with a community that incorporates these multiple spheres of action and attempts to bridge the bonds across groups by establishing generalised norms and networks of reciprocity and fairness (op. cit., p. 37). In this sense, social capital, as shared values and committed action within and across groups, would allow people to trust, join forces and pursue common aims by acting collectively and identifying with a wider social unit through social interaction and public discourse.
CONCLUSIONS

In the present analysis, we examined the progress made in economics to restore the role of norms, networks, values and collective action in determining economic behaviour, by introducing the concept of social capital. Although mention was made to acts of altruism and commitment to norms within the wider social and cultural environment, these models maintain some of the core assumptions of the standard neoclassical model, which promote an individualist principle of rational choice and reduce altruism, norms and cooperation to ahistorical and asocial concepts of individual strategic interaction. For instance, in certain accounts acts of altruism and trust are attributed to an individual-level social capital derived from a person’s set of social traits, skills and status and, as such, are studied with the tools of price theory (Glaeser et. al., 1999, p. 33). Alternatively, acts of commitment, based on social norms and moral values, are assigned to a network-related social capital where virtues of trustworthiness, friendship and reciprocal assistance are cultivated only by individuals baring relevant dispositions and only if they are assured that these will be reciprocated (Bruni and Sugden, 2000, p. 43).

However, no benefit can be gained, either at a descriptive or prescriptive level, by subordinating “the multiple logics and rationalities of economic activities that comprise the third sphere to the unitary logic and rationality of the market model” (Adaman and Madra, 2002, p. 1070). Such interpretations impede our capacity to anticipate and explain alternative, non-market socio-economic arrangements, as they tend to underplay or ignore the role of shared values and collective agency. In the work of Anderson (2000, 2001), Adaman and Madra (2002) and Polanyi (1944), deliberation in the course of collective action is not interpreted as an act of an individual committed to maximise a concept of personal utility, which regards collective activities and aims, either as subordinate or superfluous to market efficiency. It is an act of individuals that express commitment to a collective identity and refer to public discourse for discussing and making decisions on the priorities of the group and the means to achieving them. It is a context in which individuals’ needs and opinions are not constrained, but represented, shaped and modified through interaction and debate. In this sense, people’s aims and values, as stressed in Staveren (2001) and Tsakalotos (2005), are not determined solely by their consequences; they are served as ends in themselves. For instance, the value of freedom, prominent in economic theory, is pursued not only because of the utility or efficiency it produces, but also because it is important in itself.
Moreover, the expansion of market exchange should be understood as more than simply the efficient satisfaction of preferences. As Tsakalotos (2001) notes: “Any society will consist of a mixture of allocative regimes with different norms attached to them. Changing the balance … by increasing the weight of the market with respect to state / communal allocation, will therefore also change the norms that dominate that society” (p. 10). In particular, Polanyi (1944) states that in a market society “instead of economy being embedded in social relations, social relations are embedded in the economic system” (p. 57), making human society an accessory of the market system. To treat this as an uncontroversial scientific fact that holds in every society at all times is, according to Polanyi, a fallacy (op. cit., p. 71). It overlooks the actual fact that it is rather “the homogenising, consumerist and economistic cultural milieu of contemporary market societies, which shape the economic subject into a rational calculating one” (Adaman and Madra, 2002, p. 1049).

Overall, if we wished to answer the question posed in the beginning of our paper, we could say that it is possible for social capital to constitute a path for a more pluralistic economics, by reinstating the social and moral aspects of economic behaviour through concepts of norms, networks, collective action and public benefit. Nevertheless, this can only be achieved if we move beyond the gravitational force exerted by traditional assumptions of neoclassical theory. Here we focused on detecting the obstacles that should be overcome in economics and setting a framework for alternative, non-neoclassical principles of rationality and choice that are more consistent to a social and moral interpretation of social capital. However, more research needs to be done in the direction of alternative approaches, across various paradigms (e.g. feminist, Marxist), as well as across disciplines (e.g. political science, sociology, philosophy). In this manner, we could further inform our analysis of the viability and specificities of a type of social capital that is based on the plurality of human motives and aims, and on notions of public interest, shared values and committed action.

REFERENCES


