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TRADITION AS SOCIAL CAPITAL

"The law in itself has no power to secure obedience save the power of custom, and that takes a long time to become effective."

- Aristotle

Introduction

Tradition in its broadest sense is anything that is handed down from one generation to the next.\(^{(1)}\) Shils, in a recent treatise on the subject, defines tradition to include "all that a society of a given time possesses and which already existed when its present possessors came upon it and which is not solely the product of physical processes in the external world or exclusively the result of ecological and physiological necessity".\(^{(2)}\) Under this definition, buildings, books and paintings are included in tradition; so are roads, machines and instruments, institutions, conventions and practices. In more standard usage, however, tradition is confined to "the aggregate of customs, beliefs and practices that give continuity to a culture, civilization or social group and thus shape its views".\(^{(3)}\) It is in this latter, more restricted sense that the term is used in this paper.

The "social capital" aspect of tradition lies in the influence that tradition exerts on the social behaviour of the individuals comprising a community. One need hardly emphasize the point that without generalized adherence to certain common rules of conduct in social relationships orderly coexistence in a community becomes impossible. This adherence can be either voluntary or coerced. Tradition, to the extent that it induces individuals to internalize the social effects of their behaviour, reduces the area over which social conduct is regulated by formal rules and regulations externally
enforced. Tradition in other words, can be viewed as a substitute for policing in the production of social order.

What follows represents an elaboration of this basic argument.
Social Order and the Need for Government

Solitary man need only make peace with himself. Man in society must also make peace with his neighbours. As long as Robinson Crusoe remained alone on his island, he was really of little interest to either the economist or the sociologist. His actions, whatever their nature, were by definition "socially" optimal. There were no issues of exchange and externality to excite the economist, no problems of cooperation and conflict to concern the sociologist. With the arrival of Man Friday all of this radically changes. Crusoe must now pay heed to the impact of his activities on Friday, if not out of consideration for Friday at least out of regard for Friday's reactions, and hence of the boomerang effect on himself.

Man of course has always lived in groups \(^{(4)}\) and therefore always had to contend with the question of coordinating his behaviour with that of others, with the problem in other words of social order. Different societies have gone about this question in different ways, but every society has had to find a resolution to it, for without some minimum degree of social order existence in a society is not sustainable. Indeed, as the German sociologist Theodor Geiger has stressed, order is intrinsic in the very notion of society:

"The concept of 'society' implies interrelationship and interdependence between a number of individuals, a community life which involves an infinite chain of actions and reactions. In order to live together, people must be able to predict with reasonable certainty how others will behave in recurrent typical situations. These predictions then become the basis for the conjectural disposition of our own conduct. The behaviour of other members of a social group, especially their reactions to my conduct, must to a certain extent be predictable."\(^{(5)}\)

Economists should have no great difficulty agreeing with Geiger. Purposeful human action presupposes that the acting agent has some subjective anticipation of the response of others to his behaviour. Without some degree of
predictability, without some minimum degree of consistency in social interaction, rational behaviour becomes impossible.

The social order most familiar to economists is of course the order of the market, the spontaneous order generated out of the independent actions of many individuals in pursuit of different ends. The efficiency of free markets in allocating scarce resources among competing uses has been recognized at least since Adam Smith, but from the standpoint of social order, the efficiency of competitive equilibria is merely a happy by-product of the role of the market in bonding individuals into stable social interactions. The fact that self-interest is the bonding agent only magnifies the potential contribution of the market to society, for as Alfred Marshall is quoted as saying: "progress chiefly depends on the extent to which the strongest and not merely the highest forces of human nature can be utilized for the increase of social good."(6) By relying on free markets, on the freedom of people to 'truck, barter and trade' if they perceive it to be to their advantage to do so, a community minimizes the extent to which it need resort to threat or ethical constraints as a means of coordinating the social behaviour of its members. The more effective is the operation of market forces, in other words, the lighter becomes the task of the policeman and the preacher.

But their task remains nonetheless. Indeed, the roles are mutually supportive: we are unlikely to get well-operating markets where the policeman and the preacher have failed in their job. To state the obvious, the market is based on voluntary exchange, and exchange cannot take place unless participants have transferable rights over the use of scarce resources. This in turn presupposes the existence of a set of rules defining property rights and a threat system for enforcing them or, alternatively, a consensus
(an 'ethical system') on what constitutes permissible use of scarce resources.

The possibility of exchange also presupposes that the rights being transferred are exclusive to some degree. Where someone cannot be excluded from the use of a resource, he will have little incentive to exchange anything of value for it; and the 'owner', unable to derive any income from his resource, will have little incentive to husband it. Non-exclusivity is what accounts for what Hardin has labelled the "tragedy of the commons": the tendency to over-exploit commonly-owned resources to the detriment of the whole group of joint owners. The effectiveness of competitive markets is impaired because non-exclusivity of use rights creates a free rider problem. The person who voluntarily restricts his consumption of the jointly-owned resource bears the full cost of that reduction, but the benefits he generates accrue mainly to others. Under these conditions the pursuit of utility maximization by each member of the group separately does not lead to the maximization of social welfare.

This is a standard externalities result and the way out therefore is to find some alternative arrangement that will internalize all costs and benefits. One way of doing this is to give exclusive ownership of the resource to one person and have him rent or hire the services of others to exploit the resource. Since the owner will now be in a position to capture the rents that accrue to what is now his private property, he will want to see these rents maximized and the necessary marginal conditions for efficient exploitation of the resource will therefore be satisfied.

An alternative arrangement would be to have the joint-owners enter into a contract that would allocate use rights among all group members in such a way that the optimal level of exploitation were not exceeded. It is easy
to see that in this second case there would be benefits to anyone exceeding his allotted quota and a temptation therefore to cheat on the agreement. The need consequently would arise to have someone police and enforce the stipulated contract. In this second case we have essentially the creation of a government.

Externalities have long provided the economists' stock-in-trade rationale for the existence of governments but the idea of a social contract as the basis of government is not primarily an economic one. Thomas Hobbes was probably the first philosopher to conceive of the state as the creation of a covenant among men who wished to escape from a condition of anarchy. Hobbes's "model" is especially relevant to economists, because the Hobbesian view of human nature is very much that of _homo oeconomicus_ (albeit an exaggerated version). Hobbes viewed man as basically self-seeking and greedy, with a tendency to aggressive behaviour in pursuit of his aims. This view led him to his well-known conclusion that in the state of nature, every man is at war against every man, and life is "solitary, nasty, brutish and short". Only fear and force can tame man's appetites and prevent interminable conflict. Hobbes was well aware that there exist rules of moral conduct which if followed would allow man to create a peaceful, civil community — indeed he enumerated thirteen such rules of conduct. However, incentives for free compliance with any such rules are lacking, for if everyone were to abide by them, there would be advantages to any individual who breaks them. Without outside compulsion, therefore, social institutions simply collapse, and the state of nature is the unwelcome outcome — hence Hobbes's recommendation for the establishment of an all-powerful sovereign to rule over men and compel them "equally to the performance of their Covenants, by the terror of some punishment, greater than the benefit they expect by the breach of their Covenant."(8)
Tradition as the Motive for Cooperation

If we grant Hobbes his assumptions about human nature, then his conclusion logically follows - indeed it is nothing more than a vivid illustration of the "tragedy of the commons" at work. To elaborate somewhat, a contract is a device that enables the participants to benefit through cooperation. Each participant who joins the contract does so not in order to restrain his own capacity for action, but that of others. His own submission to the contract is the price that he must pay for the reciprocal restraints of the other contracting parties. If he can cheat on the other parties to the contract without affecting their behaviour he can benefit. Each participant therefore has an incentive to violate the contract. Of course if everyone behaves this way, then the contract fails and everyone suffers as a result (the traditional bane of all cartel arrangements). The problem has frequently been compared to a prisoners' dilemma game in which the benefits to each player from an over-all strategy of cooperation exceed those from defection, but each player separately can gain more from a strategy of defection than cooperation (i.e. defection is a dominant strategy). (9)

As long as the number of players is large enough, so that one's behaviour has no significant impact on the behaviour of others in the group, cooperation breaks down and the equilibrium outcome is sub-optimal for everyone. The rationale for the sovereign in Hobbes, and for law in society generally, is to prevent this undesirable result by inducing participants to cooperate.

The introduction of law, however, does not change the benefits of defection for any player. What it does instead is to raise the costs of such a strategy if the defector is found out. The punishment that the state can mete out to someone who defects, the club behind the injunction of the law, is certainly an important deterrent to law-breaking, but it is hardly the
sole motive for obedience. If law in fact operated this way, if the fear of official punishment were the only deterrent to law-breaking, then what we would get in effect would be Hobbes's Leviathan — if indeed we could get any order at all, for a law which everyone is out to break hardly seems sustainable.

Yet we know that public intervention need not be of the fearsome sort implied by the Leviathan. And the reason is obvious: people by and large comply willingly with the rules of their society. What needs to be explained is why they do so, for whenever someone voluntarily conforms to the rules of his society, when he passes up a chance to cheat on the social contract, the benefits of his behaviour accrue mainly to others. He is engaging in the production of a public good when he could be a free rider.*

It is little more than a truism (but we have to start somewhere) to say that an individual will tend to conform to the rules of his society without compulsion when those rules coincide with the moral and ethical precepts to which he subscribes. (10) A person who believes stealing to be wrong may still on occasion require the presence of the policeman as a reminder that swifter punishment than the wrath of God awaits if he yields to temptation, but on the whole he will refrain from stealing on his own accord. This need not imply that individuals who behave this way are not rational maximizers of their utility. One can explain their behaviour by recognizing

*Frequently, probably most of the time, people abide by the rules because it is to their advantage, in a narrow selfish sense, to do so. A driver needs little coercion to drive on the right side of the road. The man who does not pay his debts will find it difficult to get credit. And the man who wears his galoshes when visiting other peoples' homes will find himself getting few invitations. The discussion which follows relates to motives for compliance other than purely "selfish" ones.
that people can derive satisfaction from the performance of certain acts per se and not out of any derivative benefits that may flow from these acts (otherwise how does one explain charity, voting, or the boy scouts?). To the extent that an individual's social behaviour is motivated by the moral-ethical precepts of his society, potential conflicts between narrow self-interest and the public good are internalized, and the need for explicit formal laws or law enforcement consequently declines. Clearly the stronger the adherence to a set of ethical precepts and the more widely they are shared within a community, the less will be the need for external compulsion as a means to a socially-desirable level of cooperation. But this is just another way of saying that the stronger the force of tradition in a community the less the need for formal law, for the ethical-moral precepts of individuals in a community represent nothing more than the internalization of the norms and values of their community, which is to say the absorption of tradition.

A second motive for voluntary obedience to the rules of law is obedience out of respect for the authority of the law.\(^{(11)}\) This motive too need not be inconsistent with utility-maximizing behaviour on the part of individual citizens. By an argument similar to the one made above we can say that if obedience to the rules of law is part of an individual's ethical code, then he can derive satisfaction from the act of compliance per se; that is, compliance with the legal order of his society constitutes a direct argument in his utility function. Utility-maximizing behaviour, then, can be consistent with any degree of voluntary adherence to law depending on the weight of the compliance precept on one's utility function and the temptation of any other interests that he must forego in the act of compliance. Generally, one's inclination to obedience would decline if others in his
community ceased to obey, for a general increase in the level of dis-
obedience would be likely to raise the opportunity cost of compliance.
Kenneth Arrow makes this point implicitly when he argues that ultimately
"authority is viable to the extent that it is the focus of convergent
expectations. An individual obeys authority because he expects that others
will obey it". (12)

This suggests that the function of law is not only, or even
primarily, to provide sanctions against offenders, but also to assure those
who obey that they will not be exploited or taken advantage of by those who
don't. In the words of H.L.H.Hart, sanctions are "required not as the normal
motive for obedience, but as a guarantee that those who would voluntarily
obey shall not be sacrificed to those who would not". (13) One implication
of this view is that authority can be a very fragile thing. A small increase
in the level of disobedience can become an avalanche once the "guarantee"
that the law is meant to provide loses credibility. Beyond some critical
level of disobedience, therefore, the authority of the law may be so eroded
that either anomie sets in or obedience is generated through fear of punish-
ment alone.

The importance of authority for the effectiveness of law serves to
underline the importance of tradition in this regard as well, for tradition
and authority always march together. The essence of authority, according
to Carl J.Friedrich, is the "capacity for reasoned elaboration", the ability
to provide convincing reasons in support of that for which authority is
claimed. (14) What lends authority to an act or an institution is that it
can be supported by reasoning which relates that act or institution to the
commonly-held values and beliefs of the community. Authority is therefore
inseparable from tradition. "The greater the tradition, the more authoritative
the reasoning based upon it. The American Constitution, Magna Carta, the
Corpus Juris Civilis, the Code Civil - they all owe their authority to their
being embodiments of a political tradition". (15)

Hayek cites a third reason for voluntary obedience to rules, and
its relation to tradition requires no elaboration:

"Man is as much a rule-following animal as a purpose-
seeking one. And he is successful not because he knows
why he ought to observe the rules which he does
observe, or is even capable of stating all those rules
in words, but because his thinking and acting are
governed by rules which have by a process of selection
been evolved in the society in which he lives, and
which are thus the product of the experience of
generations." (16)

Preservation of society, Hayek argues, rests on the overall order that
emerges from the actions of separate individuals; but the way that order
emerges may be unknown and in comprehensible to most people. Man, therefore,
tends to follow rules which have been proved to work rather than choose courses
whose consequences he cannot predict.

The process that generates, fosters and sustains tradition is not
precisely understood, but the evolutionary approach advanced by Hayek provides
a plausible explanation. Put very briefly, this view states that a norm or
rule which happens to "work" will be preserved once adopted because it
enables the group in which it arises to prevail over others.

"The structures formed by traditional human practices
are neither natural in the sense of being genetically
determined, nor artificial in the sense of being the
product of intelligent design, but the result of a
process of winnowing or sifting, directed by the
differential advantages gained by groups from
practices adopted for some unknown and perhaps purely
accidental reason." (17)
Recent work on Prisoners' Dilemma games has shown that practices of cooperation can arise within a small group from purely selfish motives if the members of the group are allowed to engage in recurrent interaction, as opposed to the single, once and for all, interaction of the standard game. (18) In an iterated Prisoners' Dilemma game each player's current strategy will have to take into account not only his payoff from defection in this period, but also the present value of any possible retaliation (defection) that his present strategy might invite from other players in future periods. Mutual cooperation can emerge as the equilibrium in such a game as long as the discount rates of the players are sufficiently low. The crucial assumption in this result is that the group is small enough so that the players can recognize one another and know one another's previous strategies. Once the group exceeds this limit, explanation of cooperation must rely on a process of internalization and transmission of norms which were generated and proved useful in small groups.

Norms so transmitted act as an invisible hand guiding man's behaviour in the society he finds himself in. They serve to restrain those of man's natural instincts which are not compatible with the social order of his community. Georgescu-Roegen has likened their function to that performed by innate codes in social insects:

"...unlike the social insects, man is not born with an endosomatic code capable of regulating both his biological life and his social activity. And since he needs a code for guiding his complex social activity in a tolerable manner, man has had to produce it himself. This product is what we call tradition. By tradition man compensates for his 'birth defect', for his deficiency of innate social instincts." (19)
To the extent that members of society are guided by tradition they are led spontaneously to internalize the social effects of their behaviour. It follows that in societies where the strength of tradition is high, individuals will tend to abide by appropriate rules of conduct implicitly, making explicit enforcement unnecessary. At one extreme, when people freely respect the minimum behavioural norms for an ordered society, we get an anarchist's utopia – an ordered society without formal law or government. At the other extreme, when man's avarice is restrained only through force or fear, we get Hobbes's Leviathan.

Thus, tradition can be viewed as a substitute for explicit policing in the production of social order. We can express the relationship between social order (S), police resources (P) and strength of tradition (T) by the following equation:

$$ S = f(P,T) $$

where $$ \frac{\partial f}{\partial P} > 0 $$ and $$ \frac{\partial f}{\partial T} > 0 $$

The cross partial derivative is positive on the assumption that police efforts (or explicit law) in addition to discouraging anti-social behaviour directly do so indirectly as well by reinforcing community norms and values. Policing efforts of course include more than public spending on police forces, courts and the penal system. They also include the considerable private spending on security services (e.g. private guards, double locks, and Saturday night specials).
Tradition as Capital

In light of the above, tradition fits the definition of a capital good in that it represents a productive asset which yields a flow of services over time. To fully appreciate the value of these services (and hence the value of tradition) it is important to recall that social order, the good that tradition helps produce, refers to much more than a relative absence of criminal activity in a community – the usual meaning of "public order". Order refers to that state of affairs that emerges when the relationships among the constituent elements of a set exhibit a regularity of pattern that allows us to draw inferences about the whole from a knowledge of only a subset of the elements in the set. (20) Applied to society, this refers to the order that emerges from stability or consistency in the behaviour of individuals in the performance of their various social roles. From an economic standpoint, the significance of social order is that it enables cooperation and exchange to occur, and hence gives rise to the gains that can ensue from the division of labour.

Although the social order that we observe is the joint product of explicit rules and tradition, if we go beyond the mere fact of social order and inquire into the quality of the good being produced, it becomes apparent that policing is a very poor substitute for tradition. Without a relatively large share of the latter in the production mix, economic progress beyond a very primitive stage becomes impossible. Formal rules are intrinsically inflexible. "Working to rule" is a guaranteed method to bring production to a halt in any plant or office. Extend the principle to the whole society and life grinds to a halt. Man's social activities in any developed society are simply far too complex to be regulated by explicit
rules. Without the implicit agreements of trust and respect, mutual regard and forebearance, exchange and cooperation, to the extent that they took place at all, would surely be much less efficient. Policing is a very poor substitute for these intangible forces.

In fact, no other input will do either, and we can note therefore as one characteristic feature of tradition that it has a very low elasticity of substitution with respect to any other capital good.

A second attribute of tradition that differentiates it from other capital goods is that it cannot be reproduced by means of other capital assets. In this respect tradition is similar to a mineral resource, such as petroleum or copper for example. It differs from mineral assets, however, in this important respect: while it can be destroyed, it cannot get depleted by consumption - in fact it grows with use! In this, tradition is perhaps the closest example we have to the 'first law of economics' which states that there is no such thing as a free lunch.

Nevertheless, it does not come free. While there is a presumption that on the whole only socially useful norms and practices will survive in tradition, there is no guarantee against the transmission of deleterious norms and practices as well. And once embedded in tradition, such norms and practices can plague a society for many generations to come. It is no criticism of tradition to say that it obstructs change, for in the obstruction of precipitous change, tradition yields perhaps its greatest benefits. But it can obstruct welfare-improving changes as well and thereby retard progress. As Kenneth Boulding has stressed, some alienation is necessary for progress, for "if everybody is socialized into conformity with what is, nobody dares have a dream of what might be". (21) This
suggests that there is an optimal level of tradition as there is of any other capital good, a notion which is captured forcefully, if not precisely, by the following quote from Carl Friedrich: "Too much tradition ossifies a political order; too little tradition dissolves the community and its order."(22)
NOTES

I wish to thank Kevin Dow, John Palmer, and Ron Wintrobe for helpful suggestions and comments.


(2) Ibid.


(4) There is a consensus on this score among philosophers, sociologists and anthropologists that stretches at least as far back as Aristotle. Few would take issue with the following statement by Alfred Adler: "The communal life of man antedates the individual life of man. In the history of human civilization no form of life whose foundations were not laid communally can be found." Alfred Adler, Understanding Human Nature (New York: Premier Books, 1954), p.35.


(9)

(10) A similar argument is made in James Buchanan, The Limits of Liberty - between Anarchy and Leviathan (Univ. of Chicago Press, 1975).


(15) Ibid., p.113.


(20) Hayek, op.cit., V.1: p.36.
