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

by

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Social capital refers to features of social organization such as trust, social norms and networks that facilitate collective action for mutual benefit. It provides an internal commitment mechanism to resolve social dilemmas and free-riding problems, and thus 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 approaches adopted by researchers in a wider spectrum of social science disciplines. We argue that social capital research in economics has much to benefit from alternative, non-neoclassical approaches, which emphasize a more pluralistic view of economic behaviour.

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INTRODUCTION

Social capital refers to features of social organization such as trust, social norms and networks that facilitate collective action for mutual benefit. It provides an internal commitment mechanism to resolve social dilemmas and free-riding problems, and thus 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 approaches adopted by researchers in a wider spectrum of social science disciplines. We argue that social capital research in economics has much to benefit from alternative, non-neoclassical approaches, which emphasize a more pluralistic view of economic behaviour.

Social capital as a term 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 contemporary economists. Theories of cooperation and game experiments were employed to highlight the importance of non-economic activities, such as voluntary work, donations and charity, and to introduce 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.

In the following we argue that, despite important steps towards this direction, the dominant framework is the standard neoclassical model of rational choice. 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 personal benefit, ignoring the social and moral content of aims and means. But as members of the wider social and political sphere, individuals engage in interaction according to values of social justice and equality, and thus build 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. This is a reality that *can* be included in economic analysis by moving beyond the rational principal of mainstream economic theory and adopting a more pluralistic view of the concept, capabilities and priorities of human behaviour to include its social and moral aspect.

DEFINING SOCIAL CAPITAL

Before addressing these issues let us elaborate a bit more on the definition of social capital. An approach that remains central to social capital research is expressed by the political scientist R. D. Putnam. In his seminal work, *Making Democracy Work* (1993), Putnam conducts a comparative study of Italian regions and attributes the divergence in institutional and economic performance between the North and the South to differences in their relative endowment of what he calls social capital. According to Putnam (1993), social capital includes "the features of social organization, such as trust, social norms and networks that can improve the efficiency of society by facilitating coordinated action" (p. 167). Cooperation is often required between workers and managers, among political parties, between the government and private groups, between firms and voluntary organizations. Social norms and networks "provide defined rules and sanctions for individual participation in organizations" (op. cit., p. 166), and promote reciprocity and cooperation "founded on a lively sense of mutual value to the participants of such cooperation, not a general ethic of the unity of all men or an organic view of society" (op. cit., p. 168). On the whole, norms and networks provide for an internal mutual commitment mechanism such that "rational individuals will transcend collective dilemmas" (op. cit., p. 167).

In this light, Putnam uses indices of civil society and political participation to measure the stock of social capital. These are indices of participatory behaviour and express the extent to which individuals fulfill obligations as citizens (voter turn-out referenda) and members of social groups (number of professional, cultural and leisure associations). Most of the empirical literature continues to use indices of civicness and group membership, along with indices of generalized interpersonal trust, to measure social capital.

But not all types of social connections and organizations have a positive effect on social efficiency and economic performance. As J. Coleman, from the sociological perspective, puts it, although "a group within which there is extensive trustworthiness and extensive trust is able to accomplish much more than a comparable group without that trustworthiness and trust" (1988, p. S101), "a given form of social capital that is valuable in facilitating certain actions may be useless or harmful to others" (p. S98). M. Olson (1971), from the economics perspective, sets it bluntly when he refers to the activity of special-interest groups. Special-interest organizations for collective action represent a narrow segment of an economy's income-earning capacity and yet manage to redistribute more of society's income to themselves through lobbying and monopolistic competition. These distributional coalitions, as Olson calls them, make the economy less productive and socially efficient.

Another question that arises is how norms and networks evolve. The point to note from Putnam's work is the public goods nature of norms and networks, which "increase with use and diminish with disuse" (1993, p. 170). A similar point is made by the political scientist E. Ostrom (2000): "[s]ocial capital may … improve with use so long as participants continue to keep prior commitments and maintain reciprocity and trust … Using social capital for an initial purpose creates mutual understandings and ways of relating that can frequently be used to accomplish entirely different joint activities at much lower start-up costs" (p. 179). Although Putnam's main focus appears to be the accumulation of social capital as a path dependent process through time, Ostrom's emphasis is on self-consciously designed rule systems. Indeed, for Ostrom to create social capital "individuals must spend time and energy working with one another to craft institutions – that is, sets of rules that will be used to allocate the benefits derived from an organised activity and to assign responsibility for paying costs" (op. cit., p. 178). In this manner, social capital is determined by the feedback processes of a learning curve.

There are also other factors affecting the creation or destruction of social capital. M. Levi (1996), a political scientist herself, points to the role of governments: trust in government is key to generating generalized interpersonal trust and minimizing the adverse effects of narrow-interested organizations. This is achieved through rules and institutions that ensure transparency, fairness and credibility of government actors. Rothstein and Stolle (2001), from the same field, offer empirical evidence in favor of the positive impact of the institutional impartiality of government officials on generalized trust. Furthermore, Ostrom (2000), by citing case studies from the developing world, expresses the view that large-scale governmental institutions can facilitate the creation of social capital when considerable space for self-organisation is authorized to citizens outside of the realm of required governmental action. However, she continues, when national or regional governments take over full responsibilities for large realm of human activities, they crowd out other efforts by active citizens and social groups to enter these fields, destroying a considerable and often indispensable stock of social capital.

Others, for instance the economist E. Glaeser, stress the role of individual characteristics, such as income and education, in determining the stock of social capital in which individuals invest to obtain influence, social status and access to networks. The empirical literature confirms the impact of individual characteristics on group membership (e.g. Glaeser et al., 2000; Costa and Kahn, 2001). For instance, higher levels of income and education coincide with a strong probability for group membership and interpersonal trust from the part of the individual. This may lead to the idea that not all individuals may enjoy access to the stock of social capital available in a society, on account of low income or other characteristics that lead to social exclusion and hinder their incentive to cooperate, such as income inequality and poverty rates (Knack, 1999). Such conditions not only have adverse effects on the physical ability of individuals to respond to their role as social actors in groups, but also create sentiments of discrimination, injustice and distrust towards others in society.

Apparently, distrust towards government and social groups, especially in authoritarian regimes and sectionalist societies, may hinder incentives for collective action and the development of social capital. B. Fine (2001), an economist and critic of the concept of social capital, becomes skeptical of whether social capital could overcome conditions of extreme social divergence, conflict and power relations and resist the pervasive forces of parochial groups. A response to this sort of skepticism may come from the sociologist P. Heller (1996). From his studies of the restructuring of the region of Kerala in India, he observes that "[its] high level of social development and successful redistributive reforms [beyond those achieved in any other Indian state] are a direct result of mutually reinforcing interactions between a programmatic labor movement and a democratic state" (1996, p. 1055). In a similar fashion, J. Fox (1996), a political scientist, observes, following his long-term regional case studies in rural Mexico, that the development of social capital can be co-produced by the state and local societal actors, such as grassroots and regional organizations. State reformists would create political opportunities and secure political, civil and social rights, while local groups would produce social energy, shared values and common goals.

Ultimately, the expansion of social capital depends on the willingness and ability of individuals to pursue collaboration that substitutes group-specific and narrow-interested norms and networks with generalized norms and institutions of shared values (Levi, 1996; Anderson, 2001). We could say that we define social capital as a social *aim* which incorporates a set of *generalised* norms and networks of cooperation, which are established through social interaction and public debate.

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 Sugden, 2000; Dasgupta, 2000). 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 principal of rational choice. As a result, the social and moral aspects of trust, norms and networks were reduced to manifestations of strategic choices of self-interested agents.

However, it is important to distinguish the type of cooperation produced by social capital from that predicted by standard game theory. Putnam (1993) states "game theory underestimates the ability of cooperative human behaviour, and actually underpredicts voluntary cooperation" (p. 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. But "success in overcoming social dilemmas of collective action", Putnam contends, "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. 166). He speaks of a type of cooperation that "articulates the use of pre-existing social connections between individuals to help circumvent problems of imperfect information and enforceability" (op. cit., p. 169).

Pre-existing social connections between individuals range from kinship ties to networks of civic engagement that encompass broader segments of society and support collaboration at community and regional level, such as professional groups, sports clubs, cooperatives, mutual aid groups, rotating credit associations, cultural associations and voluntary unions. The essence of social norms and networks is that they are built up for reasons other than their economic value to participants. Putnam's claim was that membership in associations strengthens political and economic efficiency even though the associations themselves play no role in either the polity or the economy. As the economist K. Arrow (2000) describes the concept: "Much of the reward for social interactions is intrinsic, i.e. the interaction is the reward, or at least the motives for interaction are not economic. People may get jobs through networks of friendship or acquaintance, but they do not, in many cases join the networks for that purpose ... This is not to deny that networks and other social inks may also form for economic reasons. One line of reasoning is that the social networks guard against market failure that is caused by asymmetric information; they are supplementary activities that exploit monitoring devices not otherwise available” (p. 3).

Evidence produced by empirical game experiments reveals much more cooperation between individual participants than predicted by standard game theory assumptions. Based on these results, researchers examine the hypothesis that the positive ‘residual’ of cooperation observed in these games is attributed to social capital, inducing individuals to overcome free-riding considerations and collective dilemmas. To illustrate, we shall briefly refer to a trust game called the ultimatum game. The ultimatum game is a one-shot game in which the experimenter holds a specific amount of money to be distributed amongst two players. The money is offered to one of the players (the “proposer”, “allocator” or “sender”), who decides what fraction of that amount will be given to the other player (the “responder” or “recipient”). However, if the responder refuses to accept the amount offered, then none of the players receive any money. What standard game theory predicts within this setting is that if each of the players were as rational as to be interested *only* in the amount of money *she herself* receives, then the proposer would offer a minimum amount to the responder, who would then accept. But this contradicts actual outcomes observed in these experiments, where 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, p. 258-270; Dasgupta, 2000, p. 349).

A common explanation to this result is that some of the subjects may be primarily motivated by considerations of fairness. The responder would reject a distribution she would have regarded as “unfair” or “unequal” at her expense, even if it means foregoing a positive, albeit small, pecuniary benefit. On the other hand, the proposer would choose an offer that she considers to be “fair” or “equal”, even though it might be higher than what would by standard game theory assumptions be considered the “optimum” amount.[1] And this is the case despite the fact that the game is not repeated, thus ruling out explanations that would appeal to tit-for-tat strategies, systems of meta-norms or knowledge on past behaviour of participants. In

[1] A possible counterargument particularly with regards to the proposer’s part is that she chooses to offer a more generous amount because she foresees the responder’s willingness to reject an offer less than what she considers to be “fair”. As Camerer and Thaler (1995) observe, in experiments based on dictator games, a version of the trust game in which the responder’s privilege to reject has been withdrawn, although offers are smaller than the ultimatum game, they are still positive (p. 213). In general, Kahneman et al. (1986) conclude from such experiments that fair allocations are observed even under conditions of complete anonymity with no possibility of retaliation. Their view is that this is stronger evidence for the prevalence of fairness to strangers than in the ultimatum game where the allocator’s fear of rejection on behalf of the recipient could have explained fair allocations (pp. S290-S291).

general, 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 emotions "as those that prompt one to make 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 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).

Dispositions and beliefs, emotions and norms of trustworthiness, reciprocity, fairness and equity are concepts related to the term social capital.[2] But questions arise: Where do these dispositions and beliefs, emotions and rules come from? How do they take form and evolve across peoples and time? Why do individuals call upon them to sustain participation and cooperation in the provision of public goods? In response to these questions, social capital theorists had taken into account the major role played by social, political and cultural factors in determining the conditions and outcomes of interaction between individual agents. Researchers had come to recognize that individuals also displayed acts of altruism or sympathy, that is, direct concern for the *other's* well-being or welfare, beyond their own. Additionally, individuals were seen to portray moral behaviour revealed through acts of *commitment* or *obligation* to fulfilling (moral) norms and values against conditions that are considered to be "unfair" or "unjust". Furthermore, attention was drawn to the wider *social* or *cultural context* which affected (normative) expectations of individuals and thus the strategic environment of interaction.

However, procedures such as the formation and evolution of elements of social capital were interpreted from a neoclassical point of view, based on rational choice assumptions of standard game theory. Non-selfish behaviour or acts of altruism and sympathy are attributed to *other-regarding preferences* or, alternatively, *external social constraints*, which constitute

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[2] It would be misleading to confound trustworthiness, honesty and reciprocity, as well as dispositions, beliefs, norms and values, networks and institutions into one single term, that of social capital, which has also been interpreted as trust, civic engagement and group membership. It is beyond the scope of the present analysis to engage in a detailed discussion of similarities and differences. What we argue here is the consequences of evaluating both practice and policy proposals by using a particular theoretical framework to interpret such aspects of human behaviour.

means to serving the ultimate end of personal benefit. They are not considered for their value in securing *public* benefits, which derives from a sense of *collective identity* and *shared values of reciprocity and fairness*, and is shaped by collective mechanisms of social, political and cultural interaction and debate. In this way, more emphasis was offered to *privileges* of contributors to social outcomes, not to *obligations* towards providing them. Finally, they are not assessed for their *intrinsic* value, as an aim to be pursued as an end in itself, which emphasizes ideas of solidarity and cooperation and thus reinforces commitment to securing outcomes that benefit all. We examine these issues in detail below.

Is social capital "other-than-self" or merely "self"-regarding?

The neoclassical paradigm of rational choice attempts 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, as Hausman and McPherson (1996) describe it, an agent is *rational* if and only if *her preferences are rational* and *she chooses what she most prefers* among those things she can get (p. 27). Preferences are rational if they are transitive and complete (op. cit., pp. 27-28). In other words, agents are rational if and only if their preferences may be represented by *utility functions* and their choices *maximize utility* (op. cit., p. 29). This constitutes a positive statement in economic theory if we also assume that individuals *actually* make choices based on preferences (op. cit. p. 38).

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). This does not follow from axioms of rationality but, according to Hausman and McPherson (1996), by further "assumptions that the objects of preference are bundles of commodities to be *privately* consumed and that there are *no interdependencies* among the preferences of different individuals" (p. 52, emphasis added). Then, 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. Hence, rational choices must also be self-interested (op. cit., p. 53). In other words, it is necessary and sufficient for an action to be rational that it maximizes one's *self-interest*. When utility theory is also interpreted as a theory of actual choice, it reveals that *altruistic and moral* *behaviour* is actually self-interested (op. cit., p. 53). Consequently, it is within this context that gestures of trust, honesty, reciprocity and fairness, i.e. elements of social capital, are identified with acts of a calculative, instrumental weighing of benefits and costs in order to maximize personal utility or self-interest.

But in a theory of rationality, 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). Hence, in positive economics, maximizing utility simply translates as satisfying one's preferences. 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).

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 game experiments in order to empirically test for the determinants of trust and trustworthiness by choosing from a pool of factors including individual characteristics and features of social connections of players, used as measures of social capital. The basic structure of the experiment follows a typical trust game between two players in which the sender offers an amount of money to the recipient who then decides what proportion of that amount she is willing to return to the sender. Transfers from the sender are assumed to be indicative of levels of trust, whereas transfers from the recipient reveal levels of trustworthiness. Glaeser et al. (1999) theorise that, in general, 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 (p. 7). Thus, according to the authors, 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 interacting with the other player, 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, p. 7-8).

Pecuniary benefits include the amount initially offered to the player net the amount returned to her by her counterpart. It also includes a "continuation payoff" to capture long-run penalties imposed on the player from cheating in a potential repeated game. This depends on the probability of meeting again in circumstances unobserved in the experiment, as in cases of prior acquaintance between the players, and is equated to the player's *beliefs* concerning the others' altruism or trustworthiness. The psychic gains that determine internal benefits to trust include: (i) expressing (reciprocal) altruism; (ii) satisfying a 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). Thus, the more intense these gains, which represent *altruistic preferences* in a broader sense, the higher the net amount of transfer to the other player.

But, according to the authors, an individual's willingness to trust depends not only on beliefs of others' trustworthiness and on her altruistic preferences, but also on her *ability to elicit trustworthiness* from others (op. cit, p. 6). This ability is assumed to be affected by factors of *social status*, *power* and *charisma* offered to the individual as a result of participating in certain groups and networks or, in other words, of obtaining access to *social capital* (op. cit., p. 3, 9). Thus, the higher the level of status or power, i.e. social capital, exercised by the sender, for instance, the higher the amount of transfers will be returned to her by the recipient, which means the higher the level of trustworthiness of the recipient. In the present analysis, measures of social capital, representing social status and power, are derived from observations with regards to the players' social background, and include working for pay, the father's level of education, group membership, social connections and popularity amongst colleagues (op. cit., p. 28-30). The importance of this point is to stress the impact of social capital on the resources provided to the individual from gaining access to networks.

The econometric model employed by Glaeser et al. tests for the determinants of trust (by the sender) and trustworthiness (by the recipient), by regressing the amount sent and received on a set of individual and social characteristics of the players. In one case, having controlled for the probability that players would meet again beyond the experiment, on account of friendship, prior acquaintance, common friends, nationality and race, the amount returned appears to rise more than one-for-one with the amount sent. This finding, according to the authors, is consistent with the presence of reciprocal altruism, as a factor that induces trust (op. cit., p. 21). Another indication of reciprocal altruism or perhaps, as the authors speculate, of prevailing norms about fair play, is that people generally return back as much as they are sent (op. cit., p. 27).[3] By explicitly testing for altruism, measured with indices of trust towards strangers, past positive experience of generosity and honesty, the authors observe that trust towards strangers positively affects the amount sent; past experience of generosity and honesty have no statistically significant impact, which by the authors means that there is no support for the notion that trust should be seen as a cognitive bias induced by past experience (op. cit., p. 25).

In another case, it appears that elements of social capital as defined here, namely family background, group membership and time spent volunteering that accrue to the sender have a stronger positive impact on the money returned, that is, on the level of trustworthiness, and less on the money sent or on the ability to trust (op. cit., pp. 29-30). Hence, the authors conclude, natural social status variables of individuals predict the ability to induce others to behave in a trustworthy manner (op. cit., p. 30). In this light, by regressing the overall financial returns of players on the social capital they possess, controlling for other personal characteristics, they find that "all of the social capital variables that increase the financial returns for the sender decrease the returns to the recipient. As such, these social capital variables appear to generate *private*, not *group*, returns, and emphasize the importance of distinguishing between individual and group-level social capital" (op. cit., p. 32, emphasis added).

We do not deny that access to forms of social capital might provide the individual with resources for personal benefits. But the reader should not overlook the implications for potential non-selfish intentions present in acts of reciprocal altruism, evidence of which was offered in the previous set of empirical findings. In an attempt to reconcile these findings with results on social capital, the authors apparently interpret the altruistic preferences of players as the ability of the individual to elicit trustworthiness from the counterpart or, in other words, to induce reciprocation of their trusting, altruistic or generous gesture towards them (op. cit., pp. 8-9, 24). In other words, the individual's social status, derived from family background, membership and volunteering, becomes the sole source or motive for reciprocal altruism. In this manner, the negative impact of social status characteristics on financial returns to the *other* players is interpreted as the pursuit of *personal benefits* of players who exploit their relatively favourable social traits, reinforcing the idea that these traits are specific to the individual (op. cit., pp. 5-6).

[3] Since, on average, the amount of money returned as a proportion to that received is 0.45, after the experimenter doubles the amount received (Appendix, Table 1).

Overall, social capital and then altruism are defined as characteristics of the individual to extract private returns, and then empirical findings on the correlation between financial returns and individual characteristics become evidence of the individual's pursuit of self-interest. However, when social capital variables are reduced to personal characteristics of social status, they might lead to private benefits. According to Casson (1997), social status is "a relative position in society … defined in terms of a rank order" (p. xxiv). He argues that when status is ascribed on the basis of performing socially useful tasks which are difficult to reward through conventional market mechanisms, then stimulating the desire to earn status can stimulate cooperation (op. cit., p. xvii). For instance, the provision of public goods, such as useful inventions, whose value is difficult to appropriate through contractual means, may be stimulated by rewarding inventors with status instead. However, Casson stresses "an improvement in one person's status usually implies a reduction in someone else's status, so that the search for status tends to be a zero-sum game" (op. cit., p. xvii).

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" (op. cit., p. 155). These desires are (weakly) self-referential, in the sense that they would cease to exist or take a different form if it were not for the fact that those things or persons to which they are directed already stand in certain relations to oneself. But this does not imply some hidden concern for pleasure or power or private experiences (op. cit., p. 154). 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).

Hence, there is a principle of altruism, based on these other-regarding desires, which, nevertheless, does not compete with the principle of self-love (no-competition thesis, Blackburn, 1998, 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). In this context, financial returns gained by the sender in the trust game experiment above 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, p. 32), to think strategically and discount the allocation of total transfers in the game due to imperfect information or lack of social trust.

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 the problem in terms in which an agent sees her situation. That is, 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. For instance, if our preference rankings resemble those of the agents described in the theoretical context of the prisoner's dilemma,[4] then we will choose not to cooperate (op. cit., p. 177). However, by changing the theoretical game to introduce ethics or expand people's set of concerns, based on sympathy or identification with the common good, cooperation is more likely (op. cit., pp. 180-181).

Similarly, Anderson (2001) speculates on how it can be rational for any of the parties to cooperate under prisoner's dilemma conditions where non-cooperation is the dominant strategy (p. 25). One may suppose that parties have *sympathetic or altruistic preferences*, or that the act of *cooperation is valued instrinsically*, as a consequence in itself. However, as Anderson continues to argue, neither proposal shows that it is rational to cooperate in a prisoner's dilemma (op. cit., p. 25-27). On the one hand, by assuming that underlying preferences are altruistic, i.e. that people value public goods for the sake of others besides themselves, 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 the general outcome. On the other hand, to postulate that people enjoy cooperation as a consequence in itself, which would thus enter the utility function as a preference for cooperation, cannot rationalize cooperative action, as "[p]eople would not find a value in cooperative acts if there were no causal connection between them and the production of public goods" (op. cit., 27). Overall, what makes cooperation difficult is not preferences per se, but rather a principle of rational choice that "evaluates an individual's act solely according to its marginal causal impact on valued

[4] That is, free-riding at other's expense is preferred to cooperating, followed by choosing the non-cooperative solution and being deceived and losing from counterpart's free-riding behaviour, in that order.

[social] outcomes" (op. cit., 27). That is to say, following Anderson (2001), 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). The value of different possible outcomes of action is measured by considering the sum-total of utility in each of them (Blackburn, 1998, p. 26). In this sense, the preference-based rational choice theory of economics has *normative implications*: the act which maximises *preference fulfillment*, regardless of how narrow or broad the meaning of self-interest is to be defined by excluding or including altruistic or moral preferences, is also thought to be morally right to do. This also constitutes the principle of the normative theory of economics, which identifies the *good* to be maximised or the preferences to be satisfied with the concept of *welfare*. A utilitarian is a consequentialist who identifies the good with welfare (Hausman and McPherson, 1996, p. 101), thus providing a link of positive statements of rational choice to the moral principle of utilitarianism.

Utilitarianism 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). As documented in the work of Collard (1975, 1978), it was Edgeworth himself, known for his contribution to contract and exchange theory, who proposed that we must modify the utilitarian integral in order to represent the weights an agent attaches to the utilities of others compared to her own. In particular, Edgeworth assumes that the object which an agent tends to maximise, is not P, which represents his own utility but $P + \lambda\Pi$; where λ is a coefficient of effective sympathy (Collard, 1975, p. 356). Moreover, Edgeworth asserts, with J. S. Mill, a *normative utilitarianism* "in virtue of its moral peculiarities … [in] satisfying the Sympathy of each with all, the sense of justice and utilitarian equity" (op. cit., p. 355). However, as Collard (1978) notes, voluntary and spontaneous cooperation produced by such altruism, even if it is perfect (λ=1), is negatively affected by expectations on free-riding behaviour (pp. 14, 30-31). For instance, in situations where positive transaction costs and asymmetric information characterise exchange between individuals, the need for coordinated action to redistribute resources and secure socially optimal solutions might not be met by relying on perfect utilitarian considerations (op. cit., p. 13). 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). According to this principle, if the interest of the action can without self-contradiction be universalised it is morally possible (op. cit., p. 14). Kantian analysis is not grounded on the strategic rationality of conduct, or on the idea that if one follows the maxim, then others are more likely to reciprocate (Sen, 1997, p. 771, footnote 54).[5] 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, in accordance to consequentialist considerations of choice. Rather Kant's claim was that a person has a reasoned *moral obligation* to follow such a maxim no matter what others do (op. cit., 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). Thus, the Kantian altruist chooses to cooperate when the perfect utilitarian fails to do so, because her behaviour is based on a *sense of moral obligation* or *duty*. 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 requiring trusting others (p. 8, footnote 11, and p. 27), even though this type of action was then interpreted as a preference for altruism or social status held by the individual for personal benefit.

Overall, reasons for human action are not limited to self-interest and sympathy; they extend to a sense of *commitment*. As Sen (1977) notes, Edgeworth maintained self-interest as the primary motive of human action in trade and contract, by demolishing the acceptability of utilitarianism as a description of actual behavior in this sphere of interaction and adopting self-interest as a principle of economic behaviour (pp. 317-318). But as Sen argues "between the claims of oneself and the claims of all lie the claims of a variety of groups – for example, families, friends, local communities and peer groups, and economic and social classes. The concept of family responsibility, business ethics, class consciousness, and so on, relate to these intermediate areas of concern, and the dismissal of utilitarianism as a descriptive theory of behaviour does not leave us with egoism as the only alternative. The relevance of some of these considerations to the economics of negotiations and contracts would be difficult to

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[5] Collard is quite unclear with regards to the non-instrumental or non-consequentialist nature of the Kantian principle. This is particularly evident in Collard's work with references to Harrod (1936), who purports that a Kantian principle can be incorporated and interpreted within a utilitarian principle which considers altruism as a moral concern.

deny” (op. cit., pp. 318-319). To explain human action across this range of groups, Sen introduces notions of sympathy and commitment (op. cit., pp. 326-328).

Hence, 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” (Sen, 1997, 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., p. 27, 29).

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). But as Anderson emphasizes, this does not show that it is irrational to follow the principle of expected utility and choose not to cooperate in prisoner’s dilemma. What principle of choice it 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 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).

In this sense, social capital is far from simply being a resource to the individual for exploiting personal benefits, as implied in economic approaches of social capital and trust, such as in Glaeser et al. (1999, 2000). It is true that in these accounts the range of human action is extended beyond the traditional neoclassical assumption of self-interest, to the degree that mention is offered to cooperation resulting from acts of altruism and commitment. But the act-consequentialist approach of standard normative economic theory prevents conceptions of cooperation based on collective agency, shared values and public discourse, reducing it thus to a mere preference with an ultimate end to serve personal welfare. As Bruni and Sugden (2000) note: “a society is being understood as a network of relationships between egoistic individuals which generate the right kinds of incentives to make trust worthwhile” (p. 26). Thus, we need a more social conception of what persons are and a role-related account of their obligations (op. cit., p. 26). Nevertheless, we shall see that economists maintain the tendency to focus on “individualistic” aspects of social capital.

How “individualistic” can “social” capital be?

Another implication of neoclassical rational choice theory with concern to the concept of social capital is its adherence to the principle of *methodological individualism*. According to Arrow (1994), methodological individualism is “the point of view that it is necessary to base all accounts of economic interaction on *individual behaviour*” (p. 1, emphasis added). In general, 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). And the story of the prisoner's dilemma and the accompanying game matrix provided a simple yet powerful model that could be used to represent the structure of all these interactions.

However, 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* (p. 5). Outcomes of games are based on expectations of strategies of other players, i.e. on common knowledge, which is a *social good*, produced from individual *interrelationships* (op. cit., p. 5). Lukes (1973) takes the argument further and asserts that some individual attitudes and actions are only identifiable in social terms, such as political actions of voting or economic transactions of cashing cheques (pp. 125, 127). Moreover, an individualistic principle tends to overlook the process of *social channelling* as a crucial part of individual behaviour, involving reference to features of both small groups and the wider social structure (op. cit., p. 128).

A version of individualism is what Lukes refers to as *social individualism*, which contends that social institutions and structures are to be understood as founded and maintained by individuals in order to fulfill their ends[6] (op. cit., p. 124). Although at the individual level, values are defended with instrumental reasons using utilitarian arguments, at the aggregate level they are defended with the functionalist argument that they are beneficial (efficient) for the economy as a whole (Staveren, 2001, p.30). Thus, social formations, such as trust, norms and networks are merely devices constructed by individuals as a *means* to achieving *given* ends (Tsakalotos, 2005, p. 7). In this sense, institutions, norms and networks “are conceptualised as solving the type of agency problems that arise in neoclassical theorising about decentralised markets” (op. cit., p. 7). As Adaman and Madra (2002) point out, non-market activities of the third sector – voluntary organisations and associations – are visualised as sustaining values and institutions of reciprocity and other-regarding concerns in order to supplement market transactions in the light of information asymmetries and contract incompleteness (pp. 1054-1055). Furthermore, these activities are viewed as another variant of market exchange, as considerations and choices made for the production of third sector services appear to follow utility maximisation concepts of neoclassical economics (op. cit., pp. 1054, 1067). However, when the personalised forms of exchange and obligation in the third sector appear to threaten the superior institutional arrangements of the formal market and legal system, then they are seen as primitive and inefficient (op. cit., p. 1067).

On the whole, these activities are seen as another type of *enforcement mechanism* on individual behaviour, when state and market systems fail to exercise coercion and enforce contracts to promote mutual interaction and agreements between individuals (op. cit., p. 1054). In this sense, non-market economic activities are inserted into the realm of *contracts* and the effects of political, cultural, and ethical institutions over the individual are theorised

[6] As discussed in the previous section, the neoclassical paradigm of rational choice accepts as the ultimate end of human action either satisfaction of preferences or utility in a positive sense, or achievement of personal welfare in a normative sense.

as *external or exogenously determined mechanisms* that exert force on her. Therefore, instead of shaping, transforming and modifying the preferences and ends of individual agents, they merely constrain, enforce and obligate them (op. cit., 1054). No attention is drawn to aggregate factors that determine social outcomes and individual preferences and appeal to a sense of *collective identity*, *shared values* and *public discourse*.

According to Sugden (1997), "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 to explain the existence and survival of institutions in a market economy, we need a richer model of human beings than is provided by the rational, self-interested agent of neoclassical theory, accompanied by assumptions of bounded rationality or altruism (op. cit., p. 75). In an article with Bruni (2000), he observes that 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).

For the author, a basic element of a theory of values is distinguishing *moral sentiments*, i.e. sentiments of approval (or disapproval) towards a class of actions, generated by compliance (or transgression) to a set of social norms, from the individual's preferences and utility (op. cit., pp. 75, 77). 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). As Sugden argues, choices such as tit-for-tat strategies have been attributed to preferences that represent players' moral commitment to reciprocity. However, game theory shows how players' beliefs concerning their opponents' taste for reciprocity can generate expectations that others will behave in this manner; it does not explain how these values come to be, because preferences are assumed to be *exogenous* in traditional neoclassical theory (op. cit., p. 74). Thus, if we fed in different assumptions about the moral tastes of non-standard players, we would derive correspondingly different conclusions about the behaviour of standardly rational ones (op. cit., p. 74).

In general, 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. As the author notes, 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., 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-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 will be treated as an *additional* motivating factor, or as *constraints* not included in the payoffs (op. cit., p. 95). In the author's account of how normative expectations might affect behaviour in the conventional Hawk & Dove game, 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., 80). Rules of justice originate as a kind of agreement, or regularity, or convention in behaviour to which most people in society expect most other people to conform, and thus becomes in the interest of the individual to conform to it as well. When individuals offer moral approval to institutions, such as rules of justice, that work for the general good, it is then that these rules become norms. 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. But sympathy with the public interest could not motivate anyone to be the first person to follow any particular rule of justice. Thus, an explanation of how a convention first comes into existence has to rely on self-interest.[7] The natural disposition for sympathy and moral approbation merely offer *additional* motivation or

[7] In later work, Bruni and Sugden (2000), attempt to depart from such a self-interested orientation to the emergence of values of trust and reciprocity. In this work, dispositions towards virtues of friendship, trustworthiness and reciprocal assistance are seen to be cultivated within the non-market relational networks of social capital. However, dispositions still precede networks or societies, which are seen as a *means* for generating widespread compliance (op. cit. pp. 42-43).

a *means* for individuals to comply with rules of justice, even if it is contrary to self-interest in certain situations.

Above all, 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 recognized 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). Sugden further states the fact that 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).

Within this context, institutions and values cannot be interpreted as deliberate choices of non-selfish individuals, motivated by their collective agency to serve the general interest. Deliberation can be based on moral reasoning, i.e. a dialectic on what *ought* to be considered right and wrong, just or unjust. It also depends on procedures of public discourse, which offer a forum for debate between different views, as well as on processes of socialization by institutions such as the family, the education system and the state, which transmit values and systems of justice, reasoning and discourse.

But the model analysed above reduces these mechanisms to an outcome of individual disposition and spontaneously achieved social order to self-impose constraints on egoistic behaviour. Such an assumption might be consistent – and immaterial – in the creation of norms with regards to driving on the right 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. But conventions that favor 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 mechanisms of social reform and political debate.

Certain accounts have attempted to explain the origin of values and institutions, such as those included in the work of Frank (1987, 1997) and Axelrod (1997). Both Frank and Axelrod share Sugden's view that norms are not always a result of strategic choice behaviour and function as an internal commitment mechanism to overcome social dilemmas. However, dispositions for non-selfish, self-imposed action appear to be created through a process of *natural selection*, according to which "social traits" sustain themselves across generations in an environment which ensures the (material) survival of those who possess them. For Frank the reproduction of social traits depends on individuals' genetic inclination to altruism and reciprocity; for Axelrod it depends on social processes, namely power relations, ideology, membership, social proof and conflicts, which instead of "genes" remind us of so-called "memes", i.e. a unit of cultural information, such as a cultural practice or idea, that is transmitted verbally or by repeated action from one mind to another.

But even though an evolutionary approach to human behaviour does *not* imply that humans are likely to be motivated by self-interest alone, such a hypothesis subsumes social and political processes of the formation of values and institutions to a biological or cultural determinism. These deterministic views are unable to explain change through conflict and resolution, disagreement and debate, which involve rejecting and replacing norms by assessing their meaning and as values in themselves and their effectiveness in securing the wider public interest. Thus, by deploying a bioevolutionary approach to explain the process of replicating norms, cultural traits and habits through mimicking and copying, the emergence of norms of reciprocity are interpreted as the consequence of the fitness of prosocial traits. According to Adaman and Madra (2002) "[t]heorising the plurality of behavioural traits in this manner entails leaving the terrain of individualism and entering that of structuralism … [T]his leaves no theoretical space for conceptualising the moment of *agency* of the economic subject" (p. 1069).

A possible reason why models fail to take into account collective agency and public discourse to explain norms is the *naturalistic approach* of traditional neoclassical theory. "To be a naturalist", describes Blackburn (1998), "is to see human beings as frail complexes of perishable tissue, and so part of the natural order. It is thus to refuse unexplained appeals to mind or spirit, and unexplained appeals to knowledge of a Platonic order of Forms or Norms … So the problem is one of finding room for ethics, or of placing ethics within the disenchanted, non-ethical order which we inhabit, and of which we are part" (pp. 48-49). Sugden (1997) explicitly endorses such a view when he states that "a desirable property for a theory of values [is] the property of naturalism" (op. cit., 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* (Hausman and McPherson, 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 norms and expectations of conformity towards conventions of behaviour.

However, 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, emphasis added). However, Staveren adds that these are all *individual (liberal) values*. Although 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" (op. cit., p. 31, emphasis added). These social values, included in works of pro-market economists, such as Friedrich Hayek and Milton Friedman, refer to concepts of "public values expressed as norms and rights valid for everyone", as well as "interpersonal values that embody responsible relationships between people" (op. cit., p. 31). Particularly, 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" (op. cit., p. 43), are not novel concepts: they have been studied since Aristotle, up until David Hume (sympathy and affection) and Adam Smith (sympathy and moral sentiments) (op. cit., p. 38).

But as Staveren notes, the caring values that build social capital have hardly been recognised in contemporary economic theory (2001, p. 43). As Tsakalotos (2005) argues "[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). In general, according to the author "economic models that purport to avoid values while at the same time privileging certain behavioural traits, such as self-interest, can never hope to be *value-free*" (2005, p. 5).

Indeed, *homo economicus* is related to a set of values. Based on Tsakalotos' account, we can summarise these values to include: (i) satisfying given preferences to consume bundles of private goods, rather than investing in relationships to produce and share collective goods, values and identities, which in turn influence actors' perception of means and ends; (ii) engaging in exchange, mainly through markets or contracts, until choosing to "exit" at a breach of trust, rather than socialising with others in the community to "voice" needs and opinions through persuasion and self-realisation; (iii) supporting negative freedom, i.e. minimising the interference to preference satisfaction and market exchange from other agents and the state, rather than promoting a sense of positive freedom, which identifies freedom with collective self-government in determining social ends and public discourse; (iv) relying on market efficiency to secure socially beneficial and thus acceptable outcomes, instead of confronting actual market inefficiencies, which give rise to social inequality and conflict and are not sufficiently resolved through further liberalisation and productivity (op. cit., pp. 5-6). 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) might offer empirical evidence of value-reducing activities. The authors observe that "increasing the penalties of enforcement institutions enhances cooperation in nonreciprocal environments, but actually *diminishes cooperation* among cooperators in reciprocal environments"[8] (p. 175,

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[8] According to the authors' definition, a nonreciprocal environment is one in which the subject's optimal response is defection, and is contrasted to the reciprocal environment in which the optimal response is cooperation, based on values and practices of reciprocity, or social capital (Lubell and Scholz, 2001, p. 162).

emphasis added). 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, 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 keep the environment waste-free, as well as respond to the pressing need to process the waste in a certain area (op. cit., p. 197).

However, as Adaman and Madra stress (2002), the prevalence of markets does not in itself guarantee the prevalence of market *norms* based on the *homo economicus* prototype (pp. 1051-1052). Despite the forceful tendency of the expansion of markets and the market-oriented rationale of human behaviour, it is only justifiable to presume that markets can only operate within a given socio-organisational structure, determined by multiple forms of integration (op. cit., p. 1051). Following what they term a substantivist / institutionalist approach, the authors purport that the economic subject is shaped and constituted by the social or institutional context in which she is situated (op. cit., pp. 1046-1048). Since, there are multiple forms of social integration, besides the market, in which she actively participates, there will be more than one way in which the subject will be shaped and constituted. In particular, by drawing from the work of Polanyi, the authors point to two other forms of integration, namely redistribution and reciprocity, which are distinguished from a third, that of market exchange (op. cit., pp. 1049-1050).

On the one hand, redistribution “entails the collection and redistribution of different economic subjects by a regulating / facilitating centre”, which usually identifies with the state and welfare institutions (op. cit., p. 1050). On the other hand, reciprocity “involves the movement of funds between economic subjects … that are situated symmetrically with respect to one another in a symbolic network”; it includes “services donated to self-help organisations, gifts and counter-gifts, child-care and intra-community support networks” (op. cit., p. 1049-1050). According to the authors, this form of integration, which we often relate to the concept of social capital, characterises activities of the third sphere. Hence, in any given society, subjectivities nourished outside the market, through the effect of moral obligations and altruistic emotions, exist and might come to undermine or shape differentially the ways in which subjects behave in different economies (op. cit., p. 1052). As Adaman and Madra observe, participating in an economic process, a subject may deploy some of the habits and ideas she deploys in cultural or political processes: “[f]amily, school, church, and workplace are all social *and* economic institutions and sites, where the subject is constructed in contradictory ways” (p. 1052). Some of these behavioural patterns constructed in non-market forms may affect and facilitate the conduct of exchange processes in contractual relations; others 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.

Thus, norms and networks of reciprocity and fairness, i.e. social capital, are pursued in a substantive sense for the promotion of human well-being. Values and institutions constitute ends in themselves and are pursued for reasons beyond individual interest and market efficiency. The social capital literature has offered fertile ground for attempts to adopt a less self-oriented and non-instrumental approach to economic behaviour and to move towards a more social- or value-oriented interpretation of cooperation, as we observed in most of the studies mentioned above. However, the naturalistic and value-free views maintained by researchers tend to ignore aspects of agency and moral reasoning in the emergence of norms and cooperation. Individuals are seen to create social formations to constrain self-interested behaviour by self-imposing rules and norms. This reduces social capital to another kind of resource available to rational actors, which differentiates from other types only in that it inheres in the structure of relations between them.

CONCLUSIONS

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). To assume that third sector activities are an outcome of individual, calculative behaviour is to ignore the role of the social and institutional context in shaping economic behaviour. In other words, to accept that such behaviour results from an uncontroversial scientific *fact*, is to overlook 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” (op. cit., p. 1049). Hence, the expansion of the market should be understood as more than simply the efficient satisfaction of preferences, as noted in Tsakalotos (2001). In his words: “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" (op. cit., p. 10).

To say that the choice-theoretic approach is applicable to all human behaviour, across cultures and time, leads to the so-called *economistic fallacy* (Adaman and Madra, 2002, p. 1046). Because of the reductionist standpoint applied to both describing and evaluating human behaviour, the economistic fallacy impedes our capacity to anticipate and explain alternative, non-market socio-economic arrangements. For instance, 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, can be studied with the *tools of price theory* (Glaeser et. al., 1999, p. 33). Furthermore, 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).

It is true that in these studies acts of trust, altruism and commitment are recognized as a different set of incentives to human behaviour beyond notions of self-interest, personal preference and strategic choice implied by traditional neoclassical theory. However, such models could be employed to explain only part of the mechanisms that contribute to the creation of incentives for cooperation and association. The case was similar for bioevolutionary explanations of the emergence of rules and patterns of behaviour towards less self-oriented dispositions and priorities. But individuals and societies cannot rely on genes and memes to bring about the amount of cooperation and resolution necessary at times when individuals are called upon to take imminent action. For instance, non-environment-friendly practices of firms and consumers might become evolutionarily extinct by genes and memes; but it is implausible to wait for them to make adjustments while life itself is being threatened.

In the work of Anderson (2000) and Adaman and Madra (2002), *collective agency* and *shared values* constitute an alternative rationality against an individualistic, act-consequentialist and value-free perception of human behaviour. 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 only represented but also shaped and modified through interaction and debate. In this sense, deliberation does not coincide with a rationality that sees the collectivity of the group, rather than the individual, as the utility maximiser, constrained by the relative institutional or cultural context in which groups function and interact. People's aims and values, as stressed in the work of Sen (1977), 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, which is prominent in economic theory, should not only be pursued because of the utility or efficiency it achieves, but also because it is important in itself.

Hence, an understanding of social capital, in both its economic *and* social sense, implied by the term itself, requires a move beyond the gravitational force exerted by traditional assumptions of neoclassical theory. According to Kahneman et al. (1986), the most important lesson to be learned from game experiments, is that "fairness rules are not describable by the standard economic model or by a simple cost-plus rule of thumb" (p. S299). Complicating the model by lengthening the lists of non-economic motives or cognitive errors that might affect economic behaviour will do little to improve prediction or even understanding of fairness (op. cit., pp. S298-S299). From our analysis above we conclude that it might be a matter of changing the concept of fairness and reciprocity from one related exclusively to self-interest and individualism, to one based on the plurality of human motives, aims and actions to include notions of public interest and committed action.

In this context, 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* (Anderson, 2001, p. 36). According to Anderson (2001), 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 (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). That is, by enhancing social capital, as shared values and committed action, not only do people build an understanding of the significance of collective agency in confronting social and economic problems; they also recognise the role for cooperation and identification with a wider social unit. People learn to trust, join forces and pursue common aims by balancing individual and social priorities through social interaction and public discourse.

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