Public Choice in Theory and Practice

Lecture - WS 2016/17

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Week 7 : Social Norms

Goals of this session

- Economic understanding and conceptualization of social norms

- Differentiating requirements, impediments and efficiency issues of social norms

- Introducing the evolutionary perspective towards social norms

What are social norms?

- Customary rules that help to coordinate interaction

- Effective restriction of behavior ($\rightarrow$ New Institutional Economics)

What is New Institutional Economics?

- „The **New Institutional Economics** (NIE) is an interdisciplinary enterprise combining economics, law, organization theory, political science, sociology and anthropology to understand the institutions of social, political and commercial life."

- "It borrows liberally from various social-science disciplines, but its primary language is economics. Its goal is to explain what institutions are, how they arise, what purposes they serve, how they change and how - if at all – they should be reformed."

  - (International Society for New Institutional Economics)

What are social norms?

- About norms
  - Self-enforcing (no external sanctions)
- How norms are held in place:
  - Cooperation game ("convention")
  - Sanctions against deviation (outrage, social costs…)("norms")
  - Norms are idiosyncratic equilibria

- Q: Which norms do you observe in your daily life?

Why do social norms exist?

- Construction of social order (Hume 1739)

- Quick coordination (Focal point)

- Reduces transaction costs
  - ✓ Reduce uncertainty
  - ✓ Facilitates bargaining
  - ✓ Prevents conflicts

Social norms and game theory

- Hume's analysis of norms: earliest examples of game-theoretic reasoning

- Not every equilibrium of a game is a norm

- Norm x equilibria

How are social norms enforced?

(1) pure coordination problem

		Player 2	
		Right	Left
Player 1	Left	1 / 1	0 / 0
	Right	0 / 0	1 / 1

(2) Punishment (at personal cost):reputation, first- or third-party enforcement, internal emotional regulation

How are social norms enforced?

- Internalization of norms of proper conduct.
    - You feel bad, if you do not behave properly (emotions of shame)
    - Very useful in large-scale societies
    - Ex: Tipp, litter (in other places)
    - Problem: absence of social rules in some situations Ex: bike Station in Rio

Social norms and efficiency

- Coordinate expectations

- Reduce transaction costs in interactions with multiple equilibria (Wärneryd, 1994)

- Economic value: if norm creates a solution to a coordination problem

Social norms and efficiency

- About norms:
    - Are not chosen
    - Arise from:
        - Historical accident
        - Accumulation of precendent
- About the development of norms:
    - Society with „superior norms" displace others (growth, conquest, migration)
    - Societies with „inferior norms" imitate
    - Norms changes come from within

Excess uniformity

- Is imposed on behavior
- Serve an important signalling function
- In practice contacts exihibit a high degree of uniformity
- Ex: Contract on shares between landlord and tenent
- Create a focal solution in a situation with many possible solutions
- Reduces transaction costs

Evolutionary perspective

- 3 ways in which norms become estabilished:
  - Bottom-up (every-day-interaction)
  - Top-down (judiciary)
  - Lateral influences (analogy to other domains)
- How to explain the emergence of specific social norms?
  - Agricultural bargaining:Different partition norms observed across countries → a matter of chance or other explanation?

Evolution and fairness norms

- Multiple equilibria:

		Player 2		
		A	B	C
Player 1	A	5 / 1	0 / 0	0 / 0
	B	0 / 0	3 / 3	0 / 0
	C	0 / 0	0 / 0	1 / 5

- Forces driving towards efficient equilibrium or path dependency?

- All three norms are efficient: none of them Pareto dominates another

- evolutionary process favors B

General Implications

- Different societies employ different norms for the same situation

- Local conformity/global diversity

- Some norms are more stable or durable (stochastically stable norms)

Issue „Morals and Markets" (Falk, Szech 2013)

Group A: explain the background of the experiment

Group B: explain individual, bilateral and multilateral treatment

Grup C: explain hypothesis and results

Issue „Morals and Markets" (Falk, Szech 2013)

Laboratory experiment: Saving a mouse life versus receiving money („willingness to kill the mouse")

– Individual decision vs bilateral vs. multilateral market

– Result: markets erode ethic behavior

– Implications? Experi-mental setup?