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Cultural relativism and ideological policy makers in a general equilibrium model with for-profit and non-profit enterprises

Luigi Bonatti

Department of Economics, University of Trento, via Inama 5, 38100 Trento, Italy

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Abstract

This paper shows that two societies differing because of the people's initial propensity to devote time and efforts to non-profit activities may never converge. This lack of convergence is interpreted as the tendency of the cultural values and attitudes dominant in each society to perpetuate because of the economic behavior and the social processes that they contribute to elicit. Furthermore, it may not be possible to rank the different steady states toward which these two societies converge according to the Paretian criterion. Finally, the paper examines policies that promote values and attitudes non-coincident with those that are currently dominant.

Keywords: Economic policy; Multiple steady states; Social capital; Altruism; Non-profit

1. Introduction

Cultural relativism is the principle that an individual's beliefs and convictions make sense in terms of his or her own culture. Economists pay their methodological tribute to this principle as they abstain from normative judgements and maintain that economic outcomes should be evaluated in terms of some function of the preferences and tastes of those individuals whose well-being is affected by these outcomes, no matter what these preferences or tastes may be ("De gustibus non est disputandum"). Economists are also increasingly interested in the endogenous formation of preferences and beliefs and in the process whereby cultural values and economic outcomes mutually condition each other.[1] An important – although still largely unexplored – implication of the hypothesis that cultural traits and socio-economic configurations tend to co-evolve in close interaction is that the individuals living in a society may prefer the economic outcomes prevailing in their own society to the economic outcomes of another society, while the individuals living in the latter may prefer the economic outcomes of their own society to those prevailing in the former: given the different preferences that have emerged in each society, individuals strictly prefer the equilibrium configuration characterizing their own society to that characterizing the other society. In these cases, economists should consistently suspend any judgement about which of the two socio-economic equilibria is more desirable.

E-mail address: luigi.bonatti@unibg.it.

[1] Among the significant contributions concerning the formation, transmission and evolution of norms and cultural values, see Arrow (1974), North (1990), Becker and Madrigal (1994), Denzau and North (1994), Greif (1994), Becker (1996), Kreps (1997), Posner (1997), Bisin and Verdier (1998), Bowles (1998) and Fernandez and Fogli (2005).

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This sort of agnosticism is not necessarily shared by policy makers. Indeed, there are policy makers who implement policies that draw their inspiration from values and moral norms and that aim at affecting society's attitudes and propensities. In this case, it is inappropriate to model the public policies as the result of the maximization of some function of individual preferences. Indeed, the scope of this kind of policy maker is not to select policies that optimally reflect the society's current preferences, but rather to push an ideological agenda aimed at influencing people's firm beliefs and convictions.[2]

In the last few years economic models have started analyzing the interaction between public policies and the evolution of tastes, attitudes and values. It has been recognized that the Lucas critique should be extended to any economic policy evaluation which assesses the effects of alternative public choices by treating individual preferences as invariant with respect to these choices.[3] This recognition amounts to consider that "the effectiveness of policies and their political viability may depend on the preferences they induce or evoke" (Bowles, 1998, p. 104).[4] This notwithstanding, the theory of economic policy still neglects the conceptual difficulty that arises when the welfare criterion adopted by the policy maker rests on individual preferences that are influenced by its own actions.[5] Furthermore, this theory ignores that – even in democratic societies – it is not rare the case of policy makers which intend purposefully to utilize their policy instruments for promoting cultural and moral values, or for encouraging (or discouraging) propensities and attitudes that are highly controversial and sometimes shared only by a minority of the population.[6]

This paper addresses these issues by considering an economy where profit-maximizing firms and non-profit organizations coexist. In this context, the non-profit organizations have an "altruistic" objective, and the people's attitudes toward working in one of them may depend on the degree of cohesion, generalized trust and altruism existing in the social environment, namely on the stock of "social capital" existing in the society.[7] Hence, a peculiar hypothesis underlying the general equilibrium model proposed in this paper is that the people's propensity to devote time and efforts to non-profit activities depends on the outstanding endowment of social capital.[8] In its turn, the formation of social capital is stimulated by an increase in the aggregate volume of activities undertaken by the non-profit

[2] Research on social psychology and public opinion challenges the notion that individuals possess firmly structured belief systems and find that individual preferences and attitudes can be relatively easily influenced (e.g., Zaller (1992)).

[3] Aaron (1994) was the first – to my knowledge – to have noted that it applies to values or tastes what holds for Lucas with regard to expectations, namely that it is incorrect to assess the relative merits of alternative policies by treating expectations as invariant with respect to changes in policy.

[4] One of the few formal analysis of the interdependence between policy and preferences is conducted by Bar-Gill and Fershtman (2005) with an evolutionary model of subsidizing contributions to a public good. Some recent papers model the role of legal policies in shaping individual attitudes toward trustworthiness, honesty and fairness (Huck, 1998; Bohnet et al., 2001; Bar-Gill and Fershtman, 2004). The impact of policy interventions on the intergenerational transmission of values is modeled by Hauk and Saez-Marti (2002). Palacios-Huerta and Santos (2004) focus on the role of market arrangements in affecting individual preferences by modeling the influence of the extent of markets on risk attitudes.

[5] Von Weizsacker recognizes the essence of this difficulty: "The efficiency or Pareto optimality properties of general equilibrium models rest on the assumption of fixed tastes. Are these efficiency theorems relevant to a world with changing tastes? Surely, purely exogenous changes of tastes (from the point of view of the economist) will essentially not alter these theorems... But what about Pareto optimality if endogenous variables of the economic system influence tastes?" (Von Weizsacker, 1971, p. 346).

[6] On the conflict between the idea that society "may have to opt for a metapreference in favor of challenging the prevailing preferences of its members and to ask if and how these preferences can perhaps be improved" and the idea that there should be no "person or group of persons who from their 'superior' point of view dictate the values of society" see Von Weizsacker (1971).

[7] The concept of social capital used here is close to the definition of Putnam et al. (1993), according to which the social capital has to be intended as those networks of human relations and those systems of norms and shared values that make co-ordination and co-operation easier. It is worth emphasizing that – differently from physical and human capital – social capital conceived in this way cannot be privately appropriated, since it is embedded in the community that generated it. Moreover, the accumulation of social capital is often to be considered as a byproduct of individual or collective behavior aiming at other scopes, and not as a result of actions made intentionally by individuals, organizations or groups in order to increase its stock.

[8] There is a vast literature which has recognized a fundamental characteristic of many non-profit organizations in the motivational mix of those operating within them, whose behavior is not exclusively self-interested. Indeed, the mission inspiring the existence and actions of those organizations allows them to rely also on altruistic and ethical motives. Thus, the non-profit organizations are able to mobilize resources that otherwise would be left unused (for instance, voluntary labor, social engagement and care that without them would not find the ways and the reasons for being activated). This tends to occur mainly in organizations whose aims are prevailingly social and altruistic and not merely coincident with the interests of those directly involved in their functioning: the "external social benefits generated by the firm employing the worker" may play an important role in motivating the firm's employees (see Preston (1989, 1993), Mirvis (1992) and Borzaga (2000)). As a matter of fact, the prevailing evidence seems to confirm that – in comparison to the workers employed in for-profit or public enterprises – those working in these organizations are willing to accept lower wages or to give more effort and time because of their extra-monetary motivations, without experiencing lower levels of satisfaction (see e.g. Brown and McIntosh (1998), Almond and Kendall (2000a,b) and Borzaga (2003a)).