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The relative importance of selfishness and social capital motives

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ABSTRACT

This study measures the relative importance of selfishness and social capital motives using resource allocation data collected in hypothetical surveys and non-hypothetical experiments. Social capital motives allow an agent's well-being to be influenced by his sympathetic relationships with others. The assumption that selfishness can explain nearly all resource allocations is rejected.

1. Introduction

The purpose of this study is to compare the relative importance of selfishness and social capital motives. The selfishness motive assumes that an agent's allocation of a scarce resource is independent of his relationships with others. In contrast, social capital motives assume that an agent's allocation of a scarce resource may be influenced by his sympathetic relationships with others.

The relative importance of motives on resource allocations is important because the standard neoclassical utility (SNU) model assumes agents' motives are selfish. If it can be demonstrated that relationships have an important influence on resource allocations, then the SNU model can be improved by extending it to account for social capital motives.

To begin, this paper briefly restates the support for the selfishness motive. Then we review the support for social capital motives that depend on agents' sympathetic relationships with others. A framework that allowed us to measure the relative importance of motives is developed by introducing social capital coefficients into the SNU model. The resulting model is then estimated using data collected in both hypothetical surveys and non-hypothetical experiments.

To measure the relative importance of selfishness and social capital motives, an early effort asked respondents about their allocation of a scarce resource when their choices could alter the well-being of others in a hypothetical prisoner of war setting (Robison, 1996). This paper adds to that earlier effort by asking hypothetical questions about resource allocations in more general settings and by conducting non-hypothetical experiments in which respondents allocate actual dollars. After reporting the results of these experiments and additional surveys, this paper concludes with a discussion of the need to more fully integrate social capital considerations into resources allocation related research.

2. The assumption of selfishness

The SNU model assumes the decision maker's well-being depends only on his own consumption bundle and that relationships with others have no effect on his resource allocations (Telser and Higginbotham, 1977). The literature supporting the selfishness motive is well-known. Edgeworth, the famous 19th century economist, wrote that: "The first principle of economics is that every agent is actuated only by self-interest" (Rescher, 1975). Mueller (1986) added that only the assumption of egoism was essential to a descriptive and predictive science of human behavior. Tullock wrote: "The average human being is about 95 percent selfish in the narrow sense of the term" (Mansbridge, 1990, p. 12). Smith declared: "It is not from the benevolence of the butcher, the

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brewer, or the baker that we expect our dinner, but from their regard to their own interest" (Smith, 1776, p. 25).

Summarizing the focus on selfishness, Etzioni (1991, p. 3) wrote: "The neoclassical paradigm, we have seen, attempts to show not merely that there is an element of pleasure (self-interest) in all seemingly altruistic behavior, but that self-interest can explain it all."

3. Evidence that relationships matter

Few would argue that economic agents are often motivated by selfishness. On the other hand, an increasing amount of evidence supports the view that what an agent considers to be in his self-interest is modified by relationships, social bonds, and values (Swedberg, 1991). Indeed, Fehr and Fischbacher (2002) point out that economists can misunderstand fundamental economic questions when they disregard social preferences.

Everyday events support the view that relationships alter economic behavior. Realtors recognize that the sale price of a particular parcel of land depends on the relationship between the seller and buyer and only "arms-length" sales between unrelated individuals can be used to reflect the market value of land. Nepotism laws impose restrictions on close relatives being hired by the government in the same agency. These laws recognize the tendency of government employers to grant advantages to their relatives. Civil rights laws prevent employment being denied when the basis of the discrimination is race. These laws recognize that race, a special kind of relationship, sometimes influences employment decisions.

Many persons make significant efforts to return lost items even though they belong to a stranger. The reason for such actions may be based on a relationship to one's ideal self that to be positively maintained requires actions consistent with an internalized set of values. This internalized relationship is sometimes referred to as one's conscience.

Many donate food, other material, time, and money to victims of natural disasters or misfortunes. Rarely do these donors seek for recompense or earn public recognition. For many, seeing the well-being of another improved as a result of their sharing is reward enough.

Other groups of people who fail to fit the selfishness of preference caricature include those who vote even when the outcome is not in doubt and individuals who buy life insurance for beneficiaries from whom no reciprocal action is expected. Other individuals frequently exchange gifts without any enforceable contract for a repayment in kind. The explanation for the gift giving most often is that there exists a special relationship between the gift provider and the gift recipient (Webley and Lea, 1993).

Relationships, it turns out, influence the terms and levels and with whom we exchange goods and services. Gwilliams (1993) found that 89% of Michigan farmland leases were between friends or family. Between related individuals, farm land leases tend to be oral and more successful than leases between unrelated lessees and lessors (Johnson et al., 1987). Researchers estimate that at least 90% of the businesses in the United States are family owned and controlled and that family businesses paid half of total wages paid (Ibrahim and Ellis, 1994).

Selfishness cannot adequately explain our charitable donations—which are significant. In 2006, Americans gave around \$295 billion in contributions to charities. In addition to money, American's annually donate nearly \$150 billion in time, assuming their time is valued on average at \$18.04 per hour (Brooks, 2008). Finally, in the United States, about 61.1 million people, or 26.7%, volunteered through or for an organization at least once between September 2005 and September 2006 according to the US Bureau of Labor Statistics.

Frank (1988, p. ix) summarizes the conflict between the assumption of selfishness current in economics and observed preferences influenced by relationships by stating: "Economists, for their part, point with pride to the power of self-interest to explain and predict behavior, not only in the world of commerce but in networks of personal relationships as well. And yet, the plain fact is that many people do not fit the "me-first" caricature. They give anonymously to public television stations and private charities. They donate bone marrow to strangers with leukemia. They endure great trouble and expense to see justice done, even when it will not undo the original injury. At great risk to themselves, they pull people from burning buildings, and jump into icy rivers to rescue people who are about to drown. Soldiers throw their bodies atop live grenades to save their comrades. Seen through the lens of modern self-interest theory, such behavior is the human equivalent of planets traveling in square orbits."

Some economists concede that relationships matter, but not in important ways. Economists, who support this view, including Hirshleifer (1994) and Gardner (1995), believe that we can continue business as usual with selfish preferences as the foundation for our models. Still others accept that relationships matter, but wonder if their influence can be measured? So the questions become: can we measure the relative importance of selfishness and social capital motives? And if we can measure the relative importance of the selfish and social capital motives, how selfish are we?

4. Social capital and the SNU model

The SNU model assumes that rational agents with stable preferences and given income levels chose bundles of goods and services for their own consumption that maximize their utility (Quirk and Saposnik, 1968). In this paper the assumptions that decision makers are rational and maximize their utility are maintained. However, in the extended SNU model to be defined, an agent's self-interest depends not only on his own consumption but also on the consumption levels of others with whom sympathetic relationships exist.

The intellectual foundation for the extended SNU model can be traced to Smith who recognized that an individual's perception of the well-being of others could influence his own economic choices. Smith wrote: "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it" (Smith, 1759, p. 3).

Smith not only noted that preferences were influenced by our relationships with others, but that they varied according to the strength of the relationship. "Every man feels his own pleasures and his own pains more sensibly than those of other people. . .After himself, the members of his own family, those who usually live in the same house with him, his parents, his children, his brothers and sisters, are naturally the objects of his warmest affection". Thus, for Smith, the essence of relationships was sympathy in which one agent internalized the well-being of another (Smith, 1759, p. 321).

We employ the concept of sympathy to define social capital and to capture the potential influence of relationships on resource allocations. Others have defined and used the concept of social capital differently. One reason for such diverse definitions and uses of the concept of social capital is because of its multi-disciplinary nature. Well-known definitions have been proposed by Putnam (1995), Woolcock (1998), Coleman (1988), Lin (2001), Burt (1992), and Portes (1998) to name a few.

Robison et al. (2002) reviewed and rejected several proposed definitions of social capital because they lacked capital-like properties or were not in fact definitions. They proposed that social capital