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New Frontiers of Cooperation in the Economy

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ABSTRACT

In this paper I study the role of social capital in a just society. In such a world, the most fruitful first step in considering communities as economic institutions isn't to ask what social capital might be, but to ask instead a fundamental question facing any group of people who have agreed on a joint course of action: under what contexts can the members be sanguine that the promises they have made to one another are credible? I show that answering the question leads us to a tight and useable notion of social capital in a just world.

KEY-WORDS

COOPERATION, INSTITUTIONS, COOPERATIVE ENTERPRISES, PRO-SOCIAL BEHAVIOR, SOCIAL CAPITAL, CIVIC CAPITAL, TRUST

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1. Motivation

One of the most acute problems facing modern industrial societies today is to discover ways to de-link *output* from *employment*. If the loss were shared, there would be nothing catastrophic for people in a country where the average income is 35,000 international dollars a year to suffer from an income loss of even 25 per cent, let alone 5 per cent. Average income in the United Kingdom (UK) in 1990 was about 25 per cent less than what it was in 2005. From responses to questionnaires on "life satisfaction", it is hard to maintain that the average citizen in the UK experienced a significantly lower level of personal well-being in 1990 than he or she did in 2005. Revival of work on competitive consumption (more narrowly, the Veblen Effect) suggests that a general rise in consumption in a population already enjoying a high standard of living brings little gains in life satisfaction.[1]

On the other hand, when a 25 per cent drop in average income is accompanied by a corresponding 25 per cent of the work force being laid off and unable to find employment, it is a tragedy. In a sharing and shared economy a decline in output and income would be experienced by all in a fair manner, it would not lead to greater inequality in well-being. Modern industrial societies haven't been able to devise an economic system that prevents horizontal inequity in employment from rearing its head in difficult economic times.

1.1 Extended Recessions in the Post-War Period

Since the Great Depression there have been two occasions when economic stresses have prompted economists to pay especial attention to systems of production and exchange for the West that are alternatives to the capitalist-wage economy we live in. The first was the period of "stagflation" that followed the rise in oil prices in late 1973; the second is the period we are in now. Meade (1986) was written in response to the first of the two crises; Zamagni and Zamagni (2010) is a response to the one we are living through today. It pays to contrast the two books, because each is founded on the authors' understanding of the source of the crisis to which their books are a response: an external shock in the one case; un-civic (even unruly) behaviour in the other.

Stagflation followed the famous OPEC-led rise in the price of crude-oil. A common interpretation is that the four-fold price increase injected a perturbation to industrial market economies to which the capitalist-wage system was incapable of responding quickly. Meade (1986) was an analysis of alternative structures of production and payments in a modern economy. He studied four types of firm structure and concluded by advocating what he named "discriminating labour-capital partnerships". A firm in that institutional structure is composed of capitalists and workers (the insiders) who jointly take business decisions, compensate other work and capital (the outsiders) at pre-agreed contractually fixed rates, and share the residue of the firm's value-added on flexibly determined ratios. A key feature of the institution is that the distribution of the residue is not bound by the principle of non-discrimination.

Meade's excellent book is pure analysis. He provides no account of contemporary or past experiments with alternatives to the capitalist-wage based firm. Nor is there any speculation on possible relationships

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[1] The literature on life satisfaction is now sizeable. See, for example, Oswald (1987), Schor (1998), Easterlin (2001), Frey and Stutzer (2002), Blanchflower and Oswald (2004), Layard (2005), and Inglehart et al. (2008), for empirical explorations; and Arrow and Dasgupta (2009) for a theoretical account of the welfare consequences of competitive consumption.

between economic systems and a society's ethical character. Crucially, Meade's analysis is founded on the then commonplace assumption that trust is not a scarce commodity.

The roots of the recent economic crisis lie in a culture that not only tolerated but also encouraged what can only be called unseemly behaviour in financial dealings. Furthermore, globalization created strong positive correlations among the risks undertaken in various regions and sectors. It is not for nothing that the word "contagion" has been used routinely to describe the way in which the financial meltdowns have followed one another. So it shouldn't be surprising that the requirement of trust in social dealings forms the basis of the study undertaken by Zamagni and Zamagni (2010). From the central place of trust in human relationships to cooperatives as modes of production is not an immediate step, but it is a believable step. Although the authors provide a historical account of the emergence of cooperatives in insurance, credit, and production - a business system they advocate - they seek to uncover a bigger object: the emergence and sustainability of a civic society. In the civic society the link between output and employment would in principle be severed.

1.2 Communitarian Institutions

If economists have traditionally studied markets and political scientists the state, anthropologists and sociologists have tried to understand what could be called communitarian institutions, including the family. In recent years "social capital" has been seen by many scholars as the engine of economic development. If their combined efforts are to pay dividends, we will need a coherent account of the way their ideas relate to one another. This is a programme of research that has exercised many minds.

I myself have written extensively on the matter (Dasgupta, 2000, 2005, 2011, 2012) and have argued that in macro-economic statistics social capital would be reflected in total factor productivity. There is no general theorem, of the kind we have become accustomed to in economics, that relates social capital to total factor productivity; but there are special economies where the relationship is exact (Dasgupta, 2011: Appendix). In this paper I develop those earlier writings and address a number of additional questions that arise in connection with the operations of a society composed of civic-minded citizens. In Section 2 I present a review of the various definitions of social capital that have been offered; I also identify the idea that lies at the heart of the literature, namely, *trust*. Section 3 contains a classification of circumstances in which people trust one another to do what they said they would do. That discussion will show that mutual trust is a necessary condition for societal progress but not a sufficient condition. If they are to flourish, societies need more than mere trust among citizens. They need something like *social virtue*, an idea that has lost fashion in recent years. In Section 4 I briefly discuss what we have learnt from the literature on social capital about the way virtue can be sustained.

In their historical narrative on the birth and continued presence of cooperatives, Zamagni and Zamagni (2010) come very close to identifying social virtue as a necessary lubricant for social prosperity. They suggest cooperatives enable citizens to act together for something like the *common good* (another idea not in fashion today), and that virtuous citizens are more likely to choose cooperatives as their preferred mode of operation in the economic sphere. But it has been argued by many that cooperatives are unstable: they are unable to compete against capitalist-wage based firms. So in Section 5 I make use of a simple example to show that that instability can be lessened if citizens were to taking pre-emptory actions. The common good is a hard-won object. Section 6 concludes.

2. Social Capital: Definitions?

The idea of social capital, or civic capital as some would call it, sits awkwardly in contemporary economic thinking. Although it has a powerful, intuitive appeal, the object has proven hard to track as an economic good. Among other things, it is fiendishly difficult to measure; not because of a recognised paucity of data, but because we don't quite know what we should be measuring. Comprising different types of relationships and engagements, the components of social capital are many and varied and, in many instances, intangible.

In an early definition, social capital was identified with those "... features of social organization, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions." (Putnam, 1993: 167) Subsequently, Putnam (2000), came closer to what I am after here by writing, "... social capital refers to connections among individuals - social networks and the norms of reciprocity and trustworthiness that arise from them."

A number of authors have subsequently defined social capital still more inclusively, where even *attitudes* toward others - invariably benign - make their appearance: "Social capital generally refers to trust, concern for one's associates, a willingness to live by the norms of one's community and to punish those who do not." (Bowles and Gintis, 2002: F419.) Most recently, Guiso, Sapienza, and Zingales (2011: 419), in their survey of the literature on social capital, have defined the object of interest to be "... those persistent and shared beliefs and values that help a group overcome the free rider problem in the pursuit of socially valuable activities." The authors refer to the aggregate as "civic capital". The authors assume, as do other social scientists who have worked with the findings of large scale questionnaires, that people's responses to them concerning the degree of trust they have in others and in their institutions are indicative of the amount of social capital in a society.

The above definitions point to social (or civic) capital *as a good thing*. In fact a warm glow is the recurrent mood in the writings of most experts on social capital. Guiso, Sapienza, and Zingales (2011) in particular are concerned to show empirically that trust is invariably an object of positive social value; that is, an increase in mutual trust improves social well-being.

It isn't difficult to question that empirical move. International responses to questionnaires in which people are asked whether they trust one another are as difficult to interpret as are responses to questions that ask people whether they are happy. Here I will not go into the deep problems that beset attempts to build the empirical foundations of social capital on large scale questionnaires about beliefs, feelings, and attitudes. Instead I simply alert us to the possibility that it is misleading to define social (or civic) capital in such a way as to make it invariably a good thing. Just as steel can be converted into ploughshares for producing crops or guns for killing one another, social capital can be put to good or bad use. That is why it makes sense to work with a lean notion of social capital. In Dasgupta (2005, 2011), social capital was seen as *networks* of people, nothing more. The object of study there was to enquire into the uses networks are put by their members.

Social capital has a dark side. There is, for example, no obvious deficit of trust within communities that routinely practise discrimination along caste, age, or gender lines. Dasgupta (2000, 2005, 2011, 2012) showed that complete trust in one another to do what they said they would do is consistent with one group within a community exploiting another. More particularly, theoretical considerations caution us that communitarian relationships can involve allocations where some of the parties are *worse off* than they would have been if they had not been locked into the relationships, meaning that even though no overt coercion would be visible, such relationships may be exploitative. One can even argue that the theory in question makes precise the sense in which a relationship *can* be exploitative. In all those accounts, the engagements that rely on social capital occur somewhere between the individual and the State: they are conducted within informal institutions. Indeed, social capital is frequently identified with the workings of civil society (Putnam, 1993, 2000).

In this paper I eschew those concerns and study social capital in a *just* society. In such a world, the most fruitful first step in considering communities as economic institutions isn't to ask what social capital might be, but to ask instead a fundamental question facing *any* group of people who have agreed on a joint course of action: *under what contexts can the members be sanguine that the promises they have made to one another are credible*? I show below that answering the question leads us to a tight and useable notion of social capital in a just world.

3. Trust and Credibility

The fundamental problem facing people who would like to transact with one another concerns *trust*. Imagine a group of people who have discovered a joint course of actions that would lead to a mutually beneficial outcome. Imagine too that they have agreed to cooperate and share the resulting benefits in a specified manner. The institutions sustaining such arrangements could be rotating savings and credit associations, irrigation management systems, credit arrangements, civic associations, mutual insurance arrangements (Levi, 1988; Udry, 1990; Besley *et al.*, 1992; Ostrom, 1990; Narayan and Pritchett, 1999; Grootaert and van Bastelaer, 2002). Case studies of the management of local common-property resources in poor countries (e.g., fisheries, ponds and tanks, forests, grazing lands, and threshing grounds) have offered further insights into the character of those communitarian institutions that enable mutually beneficial courses of action to be undertaken by interested parties (Jodha, 1986; Ostrom, 1990; Bromley *et al.*, 1992; Baland and Platteau, 1996). Those are the kinds of activities I have in mind here.

If the parties don't trust one another, what could have been mutually beneficial transactions won't take place.[2] But what grounds could they have for trusting one another to do what they have undertaken to do? They would have grounds if promises were *credible*. So a general question arises: under what circumstances are promises credible? Five come to mind.

3.1 Mutual Affection

Promises would be credible if the parties care about one another sufficiently. Innumerable transactions take place only because the people involved care about one another and rationally believe that they care about one another (i.e., each knows that the others know that they care about one another, each knows that the others know that each knows that they care about one another, and so on) and thus trust one another to carry out their obligations. Economists model the situation as one where group members have interdependent utilities. The household best exemplifies institutions based on care and affection. As monitoring costs within the household are low (a group of people who cohabit are able to observe and to get to know one another), the institution harbours fewer problems of moral hazard and adverse selection than many other institutions. On the other hand, being few in number, members of a household, as a

[2] Even the famous "hold-up problem" in the theory of incomplete contracts is an interesting, subtle illustration of this general problem of cooperation. See Hart and Holmstrom (1987).

group, are unable to engage in those enterprises that require large numbers of people of varied talents and locations.

3.2 Pro-social Disposition

Promises would be credible if it was common knowledge that those making the promises were trustworthy, or that they reciprocated by keeping their promise if others displayed trust in them.[3] Evolutionary psychologists have argued that, because of selection pressures that operated among our hunter-gatherer Pleistocene ancestors, we are adapted to have a general disposition to reciprocate. Others have argued that such a disposition is to a greater or lesser extent formed through communal living, role modelling, education, and receiving rewards and punishments, and that the process begins at the earliest stages of our lives.[4]

For our purposes here, we don't have to choose between the two theories: either would do. In any event, they are not mutually exclusive. Thus, evolutionary psychologists have argued that our capacity to have such feelings as shame, affection, anger, elation, reciprocity, benevolence, and jealousy has emerged under selection pressure. No doubt culture helps to shape preferences and expectations (thus, behaviour), which are known to differ widely across societies. But cultural coordinates enable us to identify the locus of points *upon* which shame, affection, anger, elation, reciprocity, benevolence, and jealousy are put to work; they don't displace the centrality of those feelings in the human makeup. The thought I am exploring here is that, as adults, we not only have a disposition for such behaviour as paying our dues, helping others at some cost to ourselves, and returning a favour, we also practise such norms as those which prescribe that we punish people who have hurt us intentionally; and even such higher-order-norms as shunning people who break agreements, on occasion frowning on those who socialise with people who have broken agreements; and so forth. By internalizing specific norms, a person enables the springs of her actions to include them. She therefore feels shame or guilt in violating the norm, and this prevents her from doing so, or at the very least it puts a break on her, unless other considerations are found by her to be overriding. In short, her upbringing ensures that she has a disposition to obey the norm, be it moral or social. When she does violate it, neither guilt nor shame would typically be absent, but frequently the act will have been rationalized by her. For such a person, making a promise is a commitment, and it is essential for her that others recognise it to be so.

Often enough, the disposition to be honest would be toward members of some particular group (clan, or neighbours, or ethnic group), not others. This amounts to group loyalty. One may have been raised to be suspicious of people from other groups, one may have even been encouraged to dupe such others if and when the occasion arose. Society wastes resources when the disposition for honesty is restricted to particular groups.

In the world as we know it, the disposition to be trustworthy at both the personal and impersonal spheres exists in varying degrees. When we refrain from breaking the law, it isn't always because of a fear of being caught. When an employee in an unorganised sector works overtime, it may simply be a gesture

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[3] The new behavioural economics emphasises this aspect of human character. See, for example, Fehr and Fischbacher (2002), among many others.

[4] See, for example, Hinde and Groebel (1991), which contains accounts of what is currently known of the development processes through which people from their infancy acquire pro-social dispositions; for example, by learning to distinguish accidental effects from intentional effects of others' actions.

of benevolence, helping out an employer in unexpected need. Recent work in behavioural economics has re-affirmed that benevolence isn't alien to human nature. On the other hand, if say, relative to the gravity of the misdemeanour the pecuniary benefits from malfeasance were high, some transgression could be expected to occur. Punishment assumes its role as deterrence because of the latter fact.

3.3 The Need for Incentives to Keep Promises

The promises the parties have made to one another to keep to their agrement would be credible if they could devise an institution in which keeping promises would be in the interest of each party if everyone else were to keep them. The problem therefore is to devise an institution in which keeping to the agreement is an *equilibrium strategy*. Recall that a strategy is a sequence of conditional actions. It involves counterfactuals. Strategies assume the forms, "I shall choose X if you choose P; I shall choose Y otherwise", or "I shall do X if Q happens; I shall do Y otherwise", and so on. If promises are to be credible, it must be in the interest of those making promises to carry them out if and when the relevant occasions arise. It would follow that the concept we need to track is that of *equilibrium beliefs*, by which I mean a set of beliefs about one another, one for each party, such that it would be rational for each party to hold his or her belief if everyone else were to hold their respective beliefs.

Societies everywhere have constructed solutions to the credibility problem, but in different ways. What all solutions have in common, however, is their insistence that those failing to comply with agreements without cause will suffer punishment.

Broadly speaking, there are three types of situation where parties to an agreement could expect everyone to keep to their words.[5] Each gives rise to a set of institutions that capitalize on its particular features. (In practice, of course, the types would be expected to shade into one another.) Let us study them.

3.4 External Enforcement

It could be that the agreement is translated into an explicit contract and enforced by an established structure of power and authority; that is, an *external enforcer*.

By an external enforcer I imagine here, for simplicity, the State. (There can, of course, be other external enforcement agencies; e.g. tribal chieftains, warlords, and so forth.) Consider that the rules governing transactions in the formal market-place are embodied in the law. So markets are supported by a legal structure. Firms, for example, are legal entities. Even when you go to a supermarket, your purchases (paid in cash or by card) involve the law, which provides protection for both parties (the grocer, in case the cash is counterfeit or the card is void; the purchaser, in case the product turns out on inspection to be sub-standard). The law is enforced by the coercive power of the State. Transactions involve legal contracts backed by an external enforcer, namely, the State. It is because you and the supermarket owner are confident that the State has the ability and willingness to enforce contracts that you and the owner of the supermarket

[5] Of course, none may be potent in a particular context, in which case people would find themselves in a hole they cannot easily get out of, and what could have been mutually beneficial agreements will not take place. The behaviour reported in the Mezzogiorno by Banfield (1958) is an illustration of this possibility. See below.

are willing to transact.

What is the basis of that confidence? After all, the contemporary world has shown that there are States and there are States. Simply to invoke an external enforcer for solving the credibility problem won't do; for why should the parties trust the State to carry out its tasks in an honest manner? A possible answer is that the government worries about its reputation (Section 3.5). So, for example, a free and inquisitive press in a democracy helps to sober the government into believing that incompetence or malfeasance would mean an end to its rule, come the next election. Knowing that they worry, the parties trust them to enforce agreements. Even if senior members of the ruling party are getting on in years and therefore don't much care what happens in the future, younger members would worry that the party's reputation would suffer if the government were not to behave.

The above argument involves a system of interlocking beliefs about one another's abilities and intentions. Consider that millions of households in many parts of the world trust their government (more or less!) to enforce contracts, because they know that government leaders know that not to enforce contracts efficiently would mean being thrown out of office. In their turn, each side of a contract trusts the other not to renege (again, more or less!), because each knows that the other knows that the government can be trusted to enforce contracts. And so on. Trust is maintained by the threat of punishment (a fine, a jail term, dismissal, or whatever) for anyone who breaks a contract. We are in the realm of equilibrium beliefs, held together by their own bootstraps.

Unfortunately, cooperation isn't the only possible outcome. Non-cooperation can also be held together by its own bootstrap. At a non-cooperative equilibrium the parties don't trust one another to keep their promises, because the external enforcer cannot be trusted to enforce agreements. To ask whether cooperation or non-cooperation would prevail is to ask which system of beliefs is adopted by the parties about one another's intentions. Social systems have multiple equilibria.

3.5 Reputation as Capital Asset

Political parties are not the only entities that view reputation as capital asset. Individuals and firms view it that way too. Consider someone who doesn't care what his reputation will be after death. Even he would care to build a reputation for honest dealing if he could cash in that reputation at the time of retirement. Brand names are an instance of such cases. The person or persons who own the brand name no doubt change over time, but the name itself remains. People can have a strategic reason for creating a reputation for honesty because of life after retirement. Consider a firm whose dishonest behaviour has been exposed. Suppose too that customers deal only with firms that have an unsullied reputation. On retirement, the owner of the dishonest firm would find no buyer. Knowing this in advance, the owner may well wish to maintain the firm's reputation for honesty. If the owner cared sufficiently about his quality of life after retirement, honesty would then be an equilibrium strategy, just as boycotting ill-reputed firms would be a corresponding equilibrium strategy for customers.

Of course, even in situations where reputation can be a capital asset, there is an equilibrium where reputation is not maintained. It cannot be repeated often enough, social systems possess multiple equilibria.

The formal analysis of reputation as capital asset is similar to one involving parties who expect to face transaction opportunities repeatedly in the future. I turn to a study of such situations.

3.6 Mutual Enforcement in Long-term Relationships

Suppose the group of people in question expect to face similar transaction opportunities in each period over an indefinite future. Imagine too that the parties cannot depend on the law of contracts because the nearest courts are far from their residence. There may even be no lawyers in sight. In rural parts of sub-Saharan Africa, for example, much economic life is shaped outside a formal legal system. But even though no external enforcer may be available, people there do transact. Credit involves saying, "I lend to you now with your promise that you will repay me"; and so on. But why should the parties be sanguine that the agreements won't turn sour on account of malfeasance?

They would be sanguine if agreements were mutually enforced. The basic idea is this: *a credible threat by members of a community that stiff sanctions would be imposed on anyone who broke an agreement could deter everyone from breaking it*. The problem then is to make the threat credible. The solution to the credibility problem in this case is achieved by recourse to social norms of behaviour.

By a *social norm* we mean a rule of behaviour (or strategy) that is followed by members of a community. For a rule of behaviour to *be* a social norm, it must be in the interest of everyone to act in accordance with the rule if all others were to act in accordance with it. Social norms are equilibrium rules of behaviour.

To see how social norms work, imagine that the private gain to a party from breaking the agreement unilaterally during a period is less than the losses he would suffer if all other parties were to punish it in specific ways. Inflicting a punishment could involve refusing to engage in any transactions with the erring party in the following period, shunning it in other ways for suitable numbers of periods, and so on. Call a party *conformist* if it cooperates with parties that are conformists but punishes those that are non-conformist. This sounds circular, but it isn't, because the social norm requires all parties to start the process by keeping their agreement. It would then be possible for any party in any period to determine which party is conformist and which party is not. For example, if ever a party were to break the original agreement, it would be judged to be non-conformist; so, the norm would require all parties to punish the non-conformist. Moreover, the norm would require that punishment be inflicted not only upon those in violation of the original agreement (first-order violation); but also upon those who fail to punish those in violation of the agreement (second-order violation); upon those who fail to punish those who fail to punish those in violation of the agreement (third-order violation); ... and so on, indefinitely. This infinite chain makes the threat of punishment for errant behaviour credible because, if all others were to conform to the norm, it would not be worth any party's while to violate the norm. Keeping one's agreement would then be mutually-enforcing.

4. The Civic-Minded Citizen

I believe the classification I have just offered exhausts the reasons people may have for trusting others to keep their word. Certainly, the enormous literature on social capital has been implicitly based on the above classification. The literature has assumed also that the members of the community under scrutiny have reached agreement on how to share the benefits from a mutually beneficial course of actions.[6] The five-way

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6 Witness, for example, the definition of civic capital advanced by Guiso, Sapienza, and Zingales (2011), which was quoted in Section 2.

set of reasons that we have identified in Section 3 were about the means to ensuring that an agreement is implemented, they say nothing about how that agreement had been reached.

What about the agreement itself? From the failure of the international community to reach an agreement to limit the emission of carbon to the failures of governments to reach an agreement on taxing financial transactions in ways that would prevent capital flight, what we see is failures to agree. That's a first order failure, not a second order failure a community would suffer from if it were unable to implement an agreement its members had reached. And it seems to me, in a well-ordered society, agreements on fair allocations of burdens and benefits are reached not only without coercion, but also without strategic manipulation (misinformation, lies, duplicity, and other devices).

There is evidence that cooperation breeds cooperation (Seabright, 1997). There is evidence too from developmental psychology that childhood exposure to the idea of the common good helps to inculcate in people not only a general desire to cooperate, but also a common perception of a fair division of the burdens and benefits associated with cooperation (Hinde and Groebel, 1991). But experts on evolutionary biology have noted that trustworthiness as a disposition (Section 3.2) is an unstable trait unless it comes allied to an urge to inflict punishment on those who break agreements (Sethi and Somanathan, 1996). Pure goodness and compassion are not enough; if it is to survive goodness cum compassion have to come in alliance with toughness. Civic minded citizens are not only sympathetic toward others, but are also hard-nosed.

The toughness I speak of here bears on one's treatment of others. Our *ethical* dilemmas, however, arise mostly in connection with our own temptation to go against our best interests. In what follows I want to open a discussion of that by considering a problem we face today as members of our local communities.

5. Supporting Our Neighbourhood Stores

The most common defence of globalization is that it exploits economies of scale in production, marketing, and distribution. Consumers benefit because scale economies enable a far greater variety of goods to become available, at lower prices; or so it is argued. Of course, it can be argued that the scale economies are greatly aided and abetted by cheap oil. As they come at a huge future price (global climate change), the reduced prices of current goods are something of a chimera. Here I ignore that feature of globalization and consider the fact neighbourhood businesses close when multi-nationals and other large retail concerns introduce their outlets in the neighbourhood. I want to argue that such closures are a current cost to community life.

Neighbourhoods stores are unable to compete against supermarkets because the latter are able to undercut them. When supermarkets apply for entry into neighbourhoods, residents are known to object. They do so in order to preserve their community. However, it is commonly argued that such objections are born of privilege, even hypocracy. Wouldn't those same objectors take their business to the supermarket once the local authorities granted them permission to enter? Evidence suggests they would. That is why neighbourhood stores go out of business. But for the communitarian the prior objection is every bit serious. Below we see why.

Even though economists mostly think of consumption as an activity of solipsists, a large body of evidence tells us it isn't. As social animals we are both competitive and communitarian. The competitive trait is built on the desire for status (Veblen's "conspicuous consumption"); the communitarian trait, which is what I want to develop here, is built on our need to belong, to do as others do (Douglas and Isherwood, 1979; Dasgupta, 1993). Fads and fashions are a reflection of that trait (Blume and Durlauf, 2001). But the trait also offers a reason residents protest against an encroachment of their neighbourhoods by supermarkets, but abandon the local shops when the local authorities permit supermarkets to enter.

Consider the simplest of models. A neighbourhood consists of residents who hold identical values and have identical preferences. Other things being equal, they prefer to purchase from a store that offers a lower price, but they also like to purchase from a store where their neighbours shop (preferably in their neighbourhood shop). The latter is a reflection of their communitarian trait.

Imagine that each resident would prefer to visit the neighbourhood store for their purchases so long as more than 60 per cent of the neighbourhood were to purchase from there, but if the figure were less than 60 per cent, they would prefer to do their shopping in the supermarket. (Each resident would be indifferent between the two options if precisely 60 per cent were to shop at the supermarket.) It is then immediate that if both the neighbourhood store and the supermarket outlet were present, there would be two stable equilibria: (i) Everyone purchases from the supermarket; (ii) everyone shops in the neighbourhood store despite the higher price. Of course, if equilibrium (i) were to come about, the neighbourhood store would go out of business, whereas if (ii) were to come about, the supermarket would in due course close down through lack of business.

We are to think of the objection raised by residents as an action in the first of a two-stage game. Objecting to the supermarket is the rational strategy for each resident in the first stage of the game because of the risk that, should it be allowed to enter, the community ends up in equilibrium (i) in the second stage.

It is often thought that because the two equilibria are ranked in the same way by every resident, only (ii) could prevail. That is a mistake. Equilibrium (i), being based on a self-enforcing set of beliefs, can prevail. So long as each resident *believes* that more than 60 per cent of the community will shop at the supermarket outlet, everyone would shop at the outlet. An especially strong sense of group solidarity would be required to prevent equilibrium (i) to take hold. Developing civic attitudes is a way of ensuring that the preferred equilibrium is attained. And the idea of the common good helps residents agree on what *is* the preferred equilibrium.

6. A Final Comment

The now enormous literature on social capital has identified trust as the basis of cooperation and has focussed on ways in which societies implement agreements on behaviour that are mutually beneficial. The prior problem of reaching agreement has been studied far less. But without an agreement the question of implementation doesn't arise. Recent work among behavioural economists has re-affirmed the findings of development psychologists, that the disposition to cooperate can be formed and nurtured in early years (Section 3.2), and that a society where people have a sense of the common good and a shared belief about fair divisions of the benefits and burdens of cooperation is most likely to thrive. We should have known this all along.

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