

*Estratto da:*  
**ECONOMIA, IMPRESA E MERCATI FINANZIARI**

**RIVISTA QUADRIMESTRALE**

**CENTRO DI STUDI ECONOMICI, BANCARI,  
FINANZIARI, ASSICURATIVI E AZIENDALI**



**2007/3**



**CACUCCI EDITORE - BARI**

# ECONOMIC THEORY AND RECIPROCITY: A NOTE

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## 1. Introduction

This note<sup>1</sup> focuses on the role developed by the informal relationships that attain to the sphere of the human activities as reciprocity, solidarity and cooperation. These behaviours have played a key role in the evolution of the mankind, especially when the exchanges among agents were limited. Such relationships, known also as "strong reciprocity", are important in those contexts where a greater part of exchanges do not involve money. It is possible to think that the permanence of such relationships prevent rather than favour economic growth.

When informal relationships (reciprocity and others) have the possibility to give a real contribution to the economic activity and its development? This happens into those economies that have already reached the so-called maturity.

## 2. Neoclassical theory and reciprocity

The role developed by reciprocity, altruism and cooperation into the economic development have been neglected by economists for a long time. The main contribution of economic theory does not consider sufficiently the influence of social, political and institutional features. Such aspects were intended as an external frame within which consumption, production, exchange and optimal allocation of available resources should be studied.

The idea was that such frame could perfectly fit to enhance all the activities necessary for the solution of the aforesaid problems. In order to reach such results sound institutions, social evolution and enforcement of legality, trust and perfect information are required.

Economists have considered reciprocity and social capital as belonging to other disciplines: economic phenomena have their own autonomy, which

JEL Classification: A13, D64, L31

Keywords: Reciprocity and Neoclassical Theory, Non Profit Enterprises, Mature Economies and Reciprocity

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<sup>1</sup> It was presented to the Congress: "Reciprocity: Theories and Facts", organised by the University of Milano-Bicocca and CISEPS (Centre for Interdisciplinary Studies in Economics, Psychology and Social Science), held on 22-24 February 2007 in Verbania (Italy).

permits a rigorous theoretical analysis, and therefore, they can be separately studied by those which influence the institutional and political frame. According to others, economic activity influences the external structure in a more direct measure and this should increase the importance of economic analysis.

This beginning would seem to suggest that economists would not have anything to say on issues like reciprocity, solidarity and cooperation or, following Zamagni, on the so-called “civil society”<sup>2</sup>, without working together with psychologists, anthropologists, neurologists, scientists of politics, etc. etc... But this is not the case.

They can give their contribution, using tools Schumpeter already considered useful for economists and, more precisely, using economic history and statistics. These instruments seem us still suitable and not entirely replaceable with experimental economy, which many economists think could have a brief life and results not always unequivocal. An ample space remains for game theory, which is preferred by economists in the non cooperative form.

### 3. Alternative economic theories

During the last century other schools arose. On this purpose, we can mention the position of institutionalists, more recently, the branch of “Political Economy”, and the economists of “Evolutionary Political Economy”. They mainly focus on the formation and evolution of the institutional and social frame, blaming traditional theory to neglect fundamental problems in the civil society.

Recently, a strand of the neo-institutional theory have appeared, adopting a different paradigm from the neoclassic economists. According to such theory, the new paradigm would overcome the neoclassic one, whose main task was to highlight the role of the material relationships between factors of production and the firm and the exchange of goods in the market.

Neo-institutionalists, therefore, claim that it is necessary to take into account also the *immaterial relationships* concerning the production and exchange of knowledge, the institutions and organizations. In this way, it will be possible to give a better explanation of spontaneous order, which would include also the concept of market equilibrium. This broader concept expresses an idea of equilibrium which is more rational and where an economic agent is able “rationally” to find more convenient “to collaborate” rather than “to compete” with the other agents.

<sup>2</sup> Bruni, L. and Zamagni, S. (2004). It's possible to read a discussion on “ Civil Economy” in Porta, P.L. (2004).

Among the neo-institutional theories a key role has been played by Zamagni, who makes explicit reference to the idea of reciprocity and to its effects on economic development<sup>3</sup>. We will go back to its position at the end of this note, when the role of *non profit firms* will be faced in the advanced economies<sup>4</sup>.

#### 4. Social capital and reciprocity

Recently, economic theory has become aware of the crucial difference between the industrialized countries and developing ones. The different level of development among such countries is not only explainable through the endowment of productive factors, political institutions, human capital and technology. The emphasis now has been placed on the so-called “social capital”, which however remains an elusive concept because it is based on a variety of empirical variables that have normally been reassumed in the term of reciprocity<sup>5</sup>. Such word would include the trust in others, the amplexness and the density of the social network and honesty. Anyway, the process with which social capital is accumulated and put in practice remains somehow mysterious.

This is even more true at the micro level. Social capital is considered necessary to reduce the costs of transaction or cooperation. The theory of repeated games suggests that cooperation is easier to achieve in contexts where the parties are engaged in a repeated interaction and therefore, are well informed on the characteristics of the contractors.

From this perspective, many developing countries seem in ideal conditions for contracting, since contracts are made in economies based on kinship and patron-client relations. In reality, there are many studies showing that in developing economies agents are able to maintain a notable level of cooperation, using sophisticated informal contracts supported by repeated games and personal network.

Therefore, one could wonder why economies that seem to meet ideal conditions for efficient contracting have a worst performance than others, where transacting parties are strangers and do not interact repeatedly.

<sup>3</sup> The economic development has been seen as a long process toward the strengthening of markets, which allowed an elevated level of efficiency of the productive factors. The so-called famous *take-off* of Rostow, which was considered as the determinant moment for creating a self-enforcing development toward the realization of an industrialized economy with elevated rates of growth, was the one into which the old social relationships were broken.

<sup>4</sup> On the same position are: Bolton, G. and Ockenfels, A. (2000), Fehr, E. and Schmidt, K.M. (1999).

<sup>5</sup> Fukuyama, F. (2000), Putnan, R.D. (1993), Glaeser, E.L., Laibson, D. and Sacerdote, B. (2002).

The answer this note proposes is that less developed economies may be well endowed with social capital, but their characteristics are not suited for development. Some economists think that we are in front of a kind of social capital which is not appropriate. In reality, it is possible to distinguish between two types of social capital: one takes the form of social and family connections based on the patron-client relationship and on a deep mutual knowledge of the economic operators. The other type of social capital, always related to solidarity, trust and cooperation behaviours, i.e. "reciprocity", is supported by the full use of suitable institutions as courts, auditors, credit and commercial law. The presence of these institutions turns out to be efficient in order to sustain transactions also among foreigners.

To conclude, the first type of social capital works better when economic activity is mainly local, the second instead is essential to create broad markets, specialization and division of labour, essential requirements for developing a sustainable process of industrialization.

## **5. Historical aspects about social capital**

The historians have tried to explain the reason why the phenomenon of industrialization has essentially happened in Europe instead of China and India, that had at that time a better technological endowment, or in the Islamic Middle East where existed already a superior scientific and cultural level. They mainly found that the culture, religion and political failures of those other countries were an obstacle to industrialization.

Beside the classical explanation, recently economists have introduced another explanation which highlights the crucial role of social capital. This explanation is based on the distinction just made of the existence of two different types of social capital.<sup>6</sup>

The pre-existing social capital in countries which have not been able to industrialize their economy allowed for the attainment of levels of welfare higher than the ones existing in Europe in the period before the industrial revolution. This was an insurmountable obstacle for these countries to adopt the new type of social capital, which allowed for the creation of material and social conditions required to boost the industrialization process.

In Europe, the limited presence of a social structure of the type existing in India, China and into the Islamic Middle East was not able to act as a constraint and therefore, Europe succeeded to develop a more efficient system of social relationships to exploit the opportunities offered by the process of industrialization.

<sup>6</sup> Fairbank, J.K. (1992), Bayly, C.A. (1985).

Another example originates from the study of the unequal development recorded in the United States of America after the War of Secession. The States of the North brought forward fully industrial development, while the States of the South lost for a long time this chance.

A possible explanation of this phenomenon can be found again in terms of social capital. The slavery gave life to a social system not very efficient and dynamic in the States of South, but its elimination after the War of Secession did not do any good to them. Despite the common institutional structure with the States of the North, they maintained the original social capital without modifying the social behaviours, especially, towards ex-slaves.

Such example shows that in order to promote economic development the institutional and political structure must be accompanied by a suitable social capital. Also in Italy we can observe a situation that confirms this result, i.e. the existence of an economic dualism between the South less developed compared to the North, despite the uniformity of political and institutional structure.

## **6. Problems of advanced economies: the role of reciprocity**

Developed economies have a high level of culture and knowledge and a formidable possibility of communication compared to the ones that the mankind has had in the past. It can reach widest groups and therefore can make simple informal relationships. But these economies struggle to maintain their standard of development, either because of the complexity reached by the economic system or because of the variety of needs and aspirations of every single agent. Such problems were already described by Keynes, which suggested to overcome them through the socialization of investments.

This note suggests that reciprocity, defined as the propensity to help who in the past has come to you in the moments of need, the capacity to develop activity with other people with the purpose to reach entirely not formalized common objectives and finally the cooperation, it is an activity that can be found also in the behaviour of men in countries economically advanced.

The re-evaluation of human behaviours seems tied up to the present crisis in which developed countries lay at the moment. Their economy is based both on the presence of private and public firm. It's known that after the numerous failures of public action, which has tried to attenuate the other failures of market economy, in the economic literature a great interest has risen toward another type of firm: the so-called *non profit firm*.

The *non profit firm* represents a possible instrument in order to solve the problems of mature economies, representing a more dynamic opportunity with greater flexibility in the relationships among its components, compared



to the one that characterize the *firm for profit*, especially as far as concerns the relationships among entrepreneurs and workers, and in the public firm, based upon administrative hierarchies, which risk to record elevated levels of inefficiency and productive sclerosis.

Within the *non profit firms* flexibility and better relationships among employees create the incentive to face particularly delicate productive choices, often neglected by private firm.

Thanks to the increasing number of this new type of firm, the economic activity can pursue not only the individual interest but also establish a social capital sustained by principles of solidarity, reciprocity and cooperation, which, as some anthropologists emphasized, remains in the DNA of mankind as inheritance of his own ancestors.

The arrive of *non profit firm* not only increases the emphasis towards solidarity, reciprocity and cooperation among the components of the firm, but also between them and those agents who demand their services and products. *Non profit firms* can contribute to solve the problems of mature economies such as investments and unemployment<sup>7</sup>.

<sup>7</sup> Akerman, S.R. (1996), Borzaga, C. and Musella, M. (2003), Zamagni, S. (1998).

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