ECONOMY AND COMMUNITY

Economy / State	No Market Failures	Market Failures
No State Failures	Both *laissez-faire* and planning can support optimal allocations	Keynesian and other state interventions can support optimal allocations
State Failures	*Laissez-faire* with minimal state can support optimal allocations	market/state/community complementarity can support second-best optima

Bowles & Gintis (2000)

Community?

- The task of comparative institutional analysis today, having left behind the plan vs. market debate, is to clarify what class of problems are handled well by differing combinations of institutions
- The capacity of communities, like that of markets and states, to provide successful solutions to the problems that people confront in their contemporary social lives

Community?

- By `community' we mean a structure of social interaction characterized by high entry and exit costs and non-anonymous relationships among members
- Like groups, but unlike firms and families, communities lack a centralized structure capable of making decisions binding on its members
- Examples of communities include residential neighborhoods, old boy networks, ethnic associations, and many business, trade and artisanal groupings

Community?

- (a) frequent interaction among the same agents;
- (b) partly as a result, low cost access to information about other community members;
- (c) a tendency to favor interactions with members of one's own community over outsiders; and
- (d) restricted migration to and from other communities

These structural characteristics contribute to the ability of communities to promote ***pro-social behavior***

Community?

- Why do communities persist despite their inability to exploit the efficiency-enhancing properties of markets and the advantages of universal enforcement of rules provided by states?
- One reason is the capacity of communities to foster cooperative behavior
- Communities align the individual and collective benefits and costs of people's action
- Communities are thus specifically adapted to settings that make formal property rights systems untenable and preclude the efficient centralized determination of outcomes.

Norms and Structure

- `Norms' mean cultural traits governing actions that affect the well-being of others but that cannot be regulated by costlessly enforceable contracts
- The `structure of social interactions' mean the rules governing how members of the population meet, what actions they may take in their common activities, and what are the outcomes of these actions

Coordination

- The importance of pro-social norms arises in interactions structured such that the uncoordinated (technically `non-cooperative') actions of individuals lead to outcomes inferior to those that would have been attainable had coordination of the individual actions been possible
- Examples are prisoner's dilemmas, hawk dove games, and interactions with multiple equilibria some of which are unambiguously superior to others
- These interactions are generically called '***coordination problems***' and the associated inferior results are termed '***coordination failures***'.

Coordination

- ‘***Coordination failures***’: the benefits and costs motivating individual action do not take appropriate account of the related beneficial or costly consequences of the action on others
- Communities overcome free-rider problems and punish `anti-social' actions, by supporting behaviors consistent with such pro-social norms as truth telling, reciprocity, and a predisposition to cooperate towards common ends.
- These norms are often considered to be the historical legacy of a traditional culture supported by intentional indoctrination and virtually universally adhered to in a population

- **First**, communities influence the evolution of norms because they structure social interactions in ways that affect the benefits and costs of norm governed actions, and the acquisition and retention of norms is influenced by the associated payoffs.
- **Second**, communities support equilibria with substantial frequencies of pro-social norms.
- We conclude that communities persist because they attenuate coordination failures not easily addressed by markets, states, and other competing institutions

Community Governance

- The structure of interactions in communities contrasts with that of markets and states, at least in their idealized forms.
- **Market** interactions are characterized by ephemerality of contact and anonymity among interacting agents
- **Idealized state bureaucracies** are characterized by long-term anonymous relationships.

State vs. Market vs. Community

	Ephemeral	Enduring
Anonymous	Markets	States
Personal	—	Communities

How might the structure of the community nonetheless induce universal cooperation?

- **First: Reputation effect of community**
- A high frequency of interaction among community members lowers the cost of gathering information, and raises the benefits associated with discovering the characteristics of those with whom one interacts.
- The more easily acquired and widely dispersed this information, the more will community members have an incentive to act in ways beneficial to their neighbors.
- Thus when agents engage in repeated interaction, they have an incentive to act in ways that build their `reputation' for cooperative behavior

How might the structure of the community nonetheless induce universal cooperation?

- **Second: Retaliation effect of community**
- Since in a community the probability is high that members who interact today will interact in the future, there is an incentive to act favorably towards one's partners to avoid future repercussions
- The more multifaceted is the relationship among people involved in the interaction, the more opportunities there are for the later redress of opportunistic treatment

How might the structure of the community nonetheless induce universal cooperation?

- **Third: Segmentation effect of community**
- Pro-social and anti-social behaviors typically involve conferring benefits and inflicting costs on others, in a situation where the costs and benefits in question are not subject to cost effective contracting.
- In a large population of many communities, the greater likelihood of interacting with a member of one's own community than with a randomly selected member of the population enhances the frequency of likes interacting.
- A result is that pro-social behaviors are more likely to be rewarded, those with prosocial norms being more likely to interact with other pro-social agents, and conversely for anti-social behaviors

Community Governance

- Communities solve problems that might otherwise appear as classic market failures or state failures: namely, insufficient provision of local public goods
  - Such as neighborhood amenities, the absence of insurance and other risk-sharing opportunities even when these would be mutually beneficial, exclusion of the poor from credit markets, and excessive and ineffective monitoring of work effort
- Communities can sometimes do what governments and markets fail to do because their members, but not outsiders, have crucial information about other members' behaviors, capacities, and needs

Community Governance

- Communities thus may make an important contribution to governance where market contracts and government fiats fail because the necessary information to design and enforce beneficial exchanges and directives cannot effectively be used by judges, government officials, and other outsiders
- This is particularly the case where ongoing relationships among community members support trust, mutual concern, or sometimes simply effective multilateral enforcement of group norms

Communities and Incentives

- **Markets** are attractive because of their ability to make use of private information
  - So where comprehensive contracts may be written and enforced at low cost, markets are often superior to other governance structures
- **The state** is attractive because it alone has the power to make and enforce the rules of the game that govern the interaction of private agents

Communities and Incentives

- Community governance relies on dispersed private information often unavailable to states, employers, banks, and other large formal organizations to apply rewards and punishments to members according to their conformity with or deviation from social norms.
- In contrast with states and markets, communities more effectively foster and utilize the incentives that people have traditionally deployed to regulate their common activity:
  - Trust, solidarity, reciprocity, reputation, personal pride, respect, vengeance, and retribution, among others.

Community Failures

- Like markets and governments, communities also fail.
- The personal and durable contacts that characterize communities require them to be of relatively small scale, and a preference for dealing with fellow members often limits their capacity to exploit gains from trade on a wider basis.
- Moreover, the tendency for communities to be relatively homogeneous may make it impossible to reap the benefits of economic diversity associated with strong complementarities among differing skills and other inputs.
- But compared to bureaucracies and market, which specialize in dealing with strangers, the limited scope of communities often imposes inescapable costs

Community Failures

- The composition of groups is likely to be more culturally and demographically homogeneous than any of the members would like, thereby depriving people of valued forms of diversity.
- If individuals sort themselves among the communities there will be a strong tendency for all of the communities to end up perfectly segregated
- Integrated communities would make everyone better off, but they will prove unsustainable if individuals are free to move

Community Failures

- When insider-outsider distinctions are made on divisive and morally repugnant bases such as race, religion, nationality or sex, community governance may contribute more to fostering parochial narrow-mindedness and ethnic hostility than to addressing the failures of markets and states.
- This downside of community becomes particularly troubling when insiders are wealthy and powerful and outsiders are exploited as a result

Community Failures

- **“Community-yoke” thesis: Pro-Market viewpoint**

[Adam Smith/Friedrich A. Hayek/Milton Friedman]

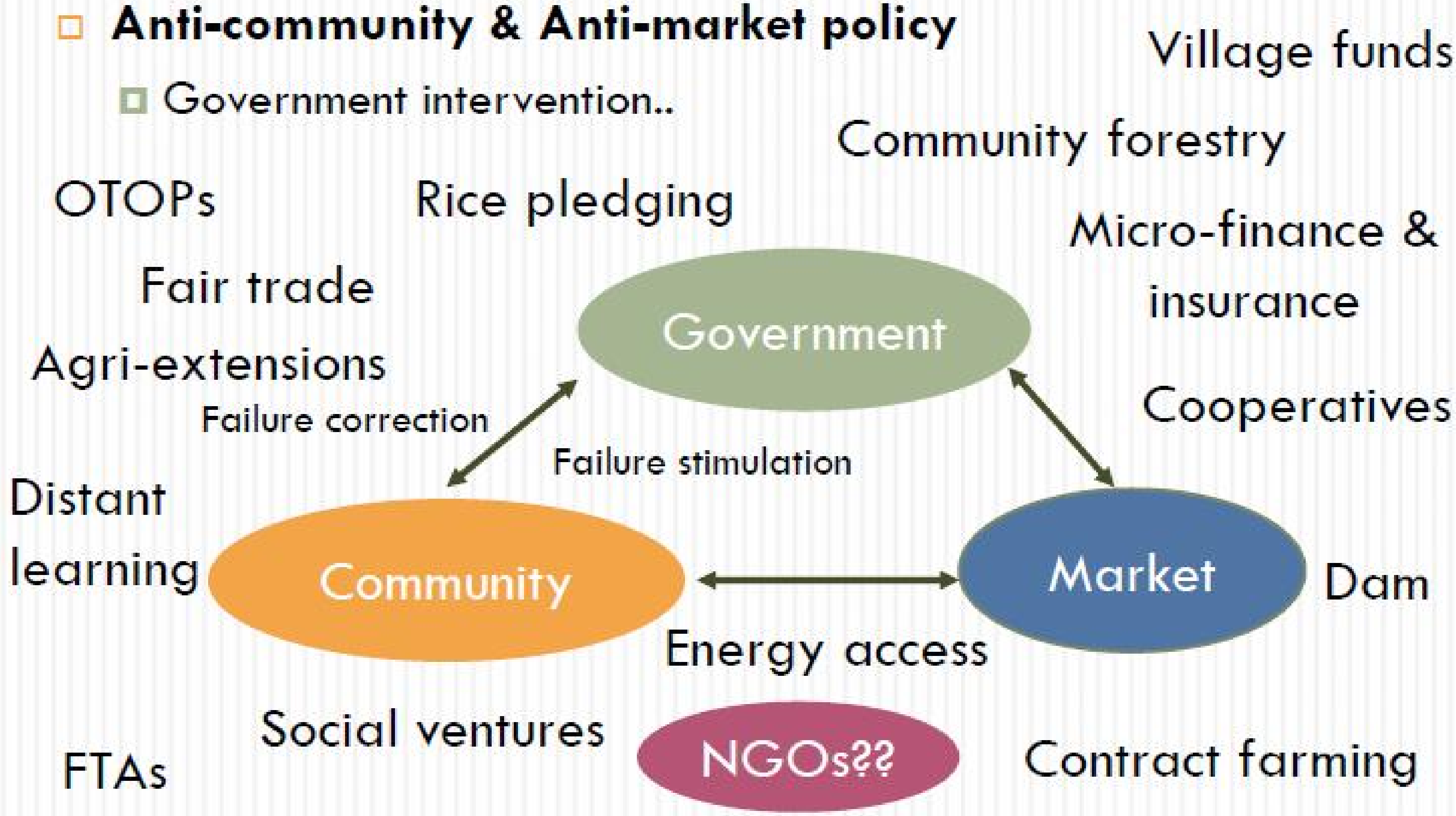
- “Market” is efficient in resource allocation and also provides the ‘rules of justice’
  - Transition from pre-capitalist communities to modern economies is beneficial to a majority of the poor
- “Community” ‘traditional ties and despotism’
  - Bound by hierarchical status, traditional customs, and personal ties

Community Failures

- **“Evil-market” thesis: Anti-Market viewpoint**
- “Community” -There are morals that are considered necessary for the efficient functioning of a market economy, which are based on the contracts among free individuals
- E.g. honesty/trust/restraint/mutual help/income sharing
  - Bound by common religion and mutual love
  - Exchange of labors/use of communal property
  - Secures minimum subsistence for all community members
  - Patron-clients relationship –> provides informal social controls on the better-off member to redistribute wealth
- “Market force”→“demoralizing and self-destructive”
  - the release of self-interests and material greed
  - Destruction of rural community relations
  - Dependency & external variation factors

Are ‘community-yoke’ and ‘evil-market’ thesis rival or complementary?

- **Anti-community & Anti-market policy**
  - Government intervention..



Case of Community-based Resource Management

Type of Goods

		Subtractability of Use	
		High	Low
Difficulty of excluding potential beneficiaries	High	*Common-pool resources*: groundwater basins, lakes, irrigation systems, fisheries, forests, etc.	*Public goods*: peace and security of a community, national defense, knowledge, fire protection, weather forecasts, etc.
	Low	*Private goods*: food, clothing, automobiles, etc.	*Toll goods*: theaters, private clubs, daycare centers

Natural Resources?

- Most natural resources –> “Common-pool resources”
- Non-excludable & Non-rivalrous
- Forest, Fish stocks, Open water → Renewable resources
- Global CPR → Ocean, Ozone layer

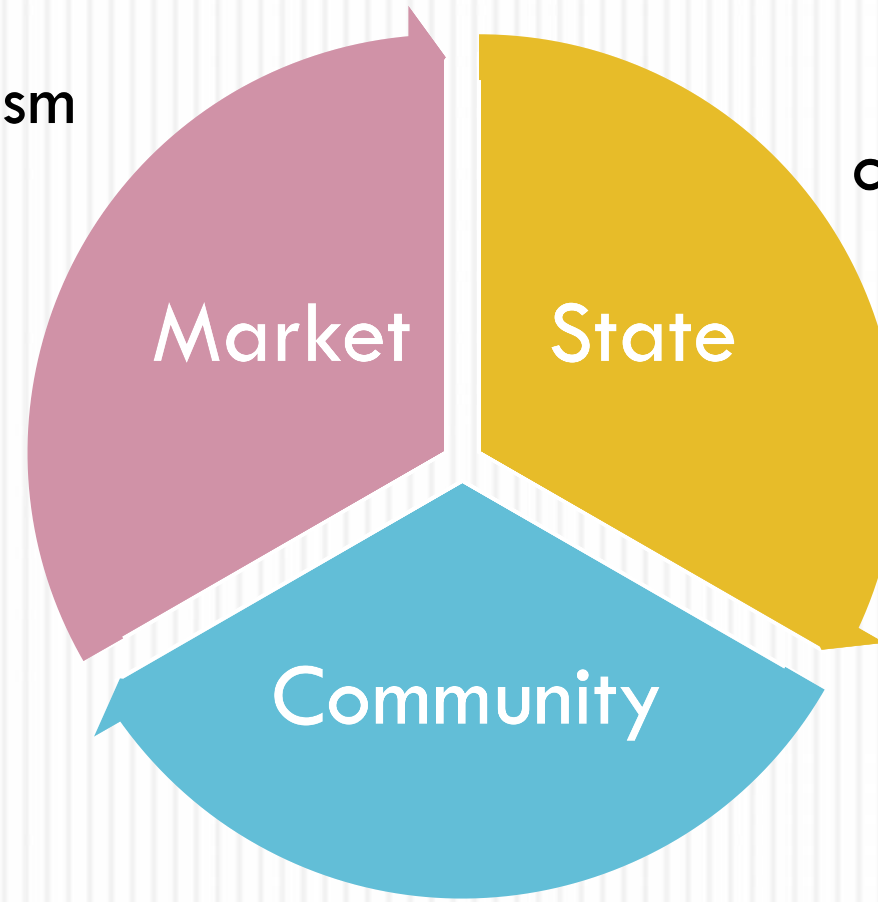
Governance regime

- Who is allowed to appropriate resource units
- Timing, quantity, location, and technology of appropriation
- Who is obligated to contribute resources to provide or maintain the resource system itself
- How appropriation and obligation activities are to be monitored and enforced
- How conflicted over appropriation and obligation activities are to be resolved
- How the rules affecting the above will be changed over time with changes in the performance of the resource system and the strategies of participants

Governance mechanism

Price mechanism

Command and control mechanism



"Self-governance (Collective choice)"

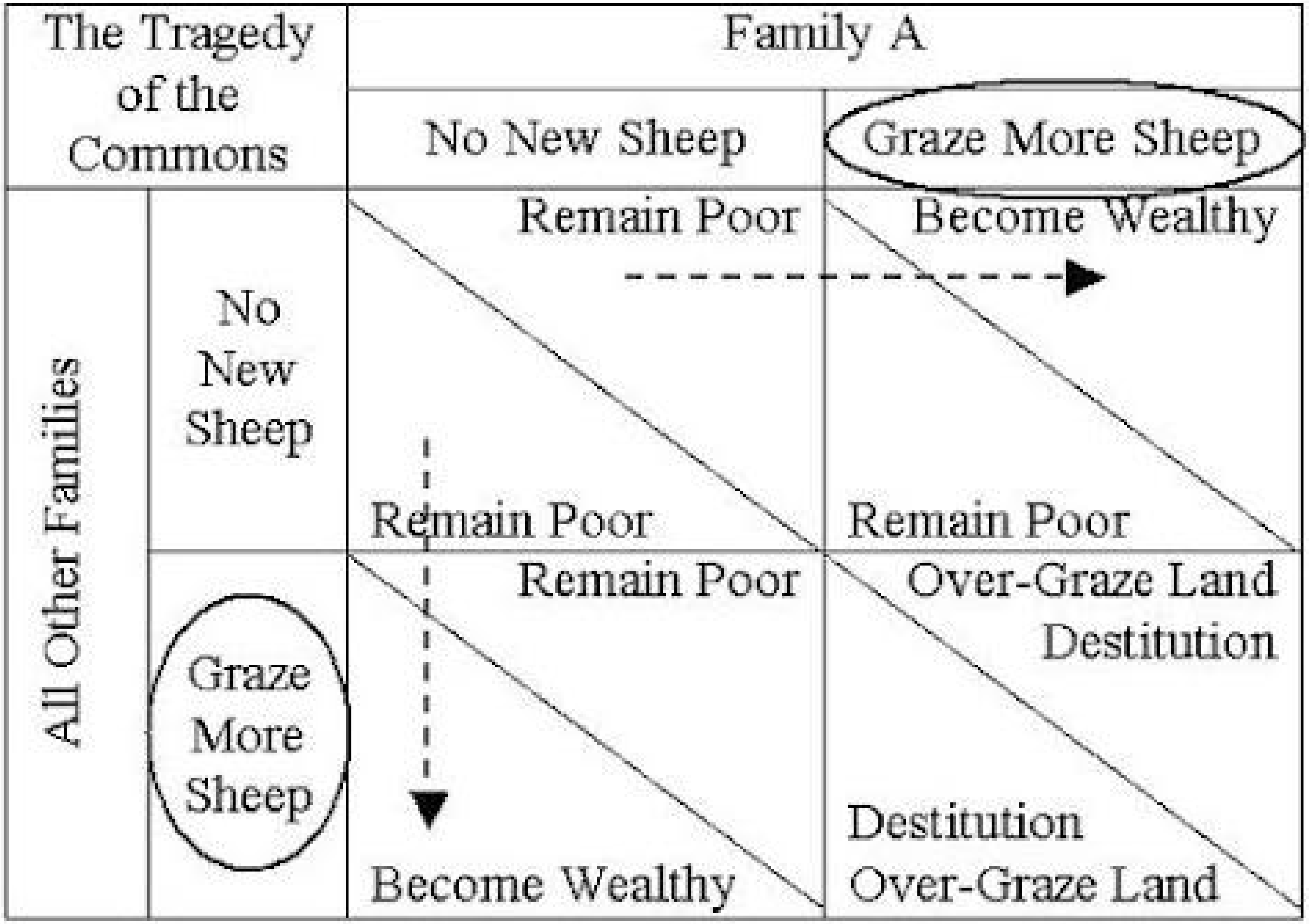
Market-based management

- Market Failure
- Open access → over-exploitation/ pollution
- No management incentives
- “Tragedies of the Commons” by Garrett Hardin in 1968

Market-based management

- Graze land → Open Access to All
- Sheepherders → free access but future cost from land degradation
- Equal share of this cost
- If sheepherders are rational → maximize benefits today before degradation

Market-based management



Management by state

- Market-failure → well-defined property rights
- Policy makers → No common-pooled resources should be left ‘open’, but state-owned
- State-owned property → with cost privatization through taxes or other mechanism

Management by state

1. Direct governance

- Protected areas, public irrigation, world heritages
- Assumption: government have better information and have perfect enforcement

2. Concession

- Assumption: Private sector has good incentives in resource management

Management by state

- **Government failure**
- Lack of efficiency
  - Limited capacity: human resources/ budgets
  - Rent-seeking behavior/ conflict of interest
  - No incentives for monitoring the performance of concession contract

Management by state

Khao lam, Karnchanaburi

Tublan, Korat

Management by state

Sirinat, Phuket

Phrae

Management by state

- Sand exploitation, Kalasin

Community-based management

- Elinor Ostrom : "Governing the Commons" (1990)

Community rights can successfully manage the ***'Common-pooled resources'*** without the centrally-controlling government or resource privatization

2009

Community-based management

- Why community?
  - More knowledge
  - Norms! → members' behaviors
  - Monitoring and Social Sanction with relatively low enforcement costs
  - 'Learning' from actions/experiences → more information on costs/outcomes from actions → better alternatives

Community-based management

Laboratory & field experiments

- more communication → more collaboration
- The samples are willing to pay some costs for monitoring & enforcement
- The enforcement from outside → reduce the level of voluntary cooperation

Community-based management

- Community rules: 3 levels

  1) Operational Rules

     - When/how many resources to be utilized / by which mean

  2) Collective-Choice Rules

     - how the resources be manage

  3) Constitutional Rules

     - who have rights to participate the rules-making

Community-based management

Making change?

$$Di = BNi - BOi$$

$$\text{If } Di > (C1i+C2i+C3i) \rightarrow \text{Change occurs!}$$

C1 : Costs of time and efforts spent devising and agreeing upon new rules

C2 : Short-term costs of adopting new appropriation strategies

C3 : Long-term costs of monitoring and maintaining a self-governed system over time

$$Dk > (C1k+C2k+C3k)$$

Community-based management

- Some common factors
  - Salience: Appropriators are dependent on the resource system for a major portion of their livelihoods
  - Common understanding: Appropriators have a shared image of how the resource system operates and how their actions affect each other and the resource system
  - Discount rate: Appropriators use a sufficiently low discount rate in relation to future benefits
  - Distribution of interests: Appropriators are similarly affected by a lack of coordinative patterns

Community-based management

- Some common factors
  - Norms of trust, reciprocity, and punishment: Appropriators trust one another to keep promises and relate to one another with reciprocity
  - Autonomy: Appropriators are able to determine access and harvesting rules without external authorities countermanding them
  - Local leadership and prior organizational experience: Appropriators have learned at least minimal skills of organization through participation in other local associations

Community-based management

- Institutional designs
  - Clearly defined boundaries
  - Fair distribution of benefits
  - Collective-choice arrangement
  - Monitoring
  - Sanction
  - Conflict resolution mechanism
  - Minimal recognition of rights to organize

Community-based management

- Community failures
  - Market forces
  - Rent-seeking behaviors
  - Population growths
  - Inappropriate rules