

# Social-Self-Interest

by

Colin Ash

## Abstract

*This paper is about rational sociality. Retaining rational choice as its basic framework, it aims to enrich it by taking seriously a well-established cultural, social and psychological phenomenon: that some inter-personal relationships have intrinsic value. These are termed primary. Because of the risk of adverse instrumental outcomes, agents offer primary relationships on certain terms and conditions. Whether or not these supply prices are accepted depends on the social-self-interest of the tentative partner. Norms, etc. therefore result from rational choice. The model encompasses standard economic choice theory as a special case, while explicitly recognising that self-interested agents make choices that are sometimes group dependent. Methodologically, it offers an alternative to 'individualism versus collectivism'.*

## 1. Introduction.

*"Homo economicus and homo sociologicus reflect two aspects of the social world. Just as there is rational strategic calculation in politics and social practices more generally, so there are rule-governed and normative aspects to the economy. We have no theoretical paradigm that adequately integrates the two - nor are we likely to have one". A Weale (1992) p. 71.*

But we can at least try. This paper provides a bridge between (stereotypical) economic and sociological models of individual behaviour. Such an attempt at bridge-building may indeed be timely: for example, recent volumes of the *Journal of Economic Literature* bear witness to a burgeoning interest in the interface between economics, psychology and sociology - see Barton and Hannan (1994), Bergstrom (1996), Bowles (1998), Elster (1998), Hodgson (1998), Lewin (1996), Rabin (1998). Otherwise we face the following dilemma.

On the one hand, autonomous economic agents behave instrumentally in the pursuit of self-interest. Their choices are the best they can make given their own goals

and perceptions of constraints. They act efficiently to achieve their own ends. Rational, self-interested behaviour of this sort may quite possibly be altruistic. Alternatively, the self is viewed as socially constituted, individual preferences are downplayed, and behaviour is bound by norms, rules and conventions as individuals often willingly act out roles in relationships: “economic action...is embedded in ongoing networks of personal relationships rather than carried out by atomised actors. (Granovetter, 1992, p.25). This tension between economics and sociology is neatly captured by Duesenberry’s (1960, p.233) celebrated aphorism: “economics is all about how people make choices; sociology is all about how they don’t have any choices to make”. From a simple and, some may say, simplistic economic perspective, adherence to norms and conventions of behaviour is fundamentally irrational for the fewer constraints the better, *ceteris paribus*. Thus the question: is it possible to be rational and genuinely social?

Just as adherence to rules and standards can be an efficient antidote to negative externality and free-riding, so also similar actions may sometimes promote external benefits. However, the standards needed to sustain efficient outcomes must be buttressed by sanctions. This in turn creates a second-order problem of potential free-riding: all may benefit from the imposition of sanctions, but the cost of their imposition falls on the individual(s) whose job it is to enforce them, and so on in infinite regress, a point discussed at length and resolved by Coleman (1990, Ch.11). Conformity, in the sense of imitating those thought to be better informed, can lower the costs of decision-making under uncertainty (see e.g. Bikhchandani *et al* 1992, and Conlisk 1980). Conventional procedures and norms can be used to co-ordinate choices when games present multiple Nash equilibria. If cooperation can lead to individual gain, it is rational to develop a reputation for reliability and trustworthiness. A couple of caveats should be noted

however. First, in the context of the usual Prisoners' Dilemma game, there are always short-term advantages in cheating. Second, while cooperative characteristics may evolve in a population over time, is it possible to conceive of individuals having preferences about their preferences without becoming trapped in an infinite regress that would undermine the concept of self-interest?

Several authors resolve the conundrum of rational norms by addressing directly the preferences and the associated utility function of individual agents. For Akerloff (1980) an individual's utility is defined on his or her reputation; deviation from social norms is punished by a loss of reputation. In similar vein, popularity or esteem motivates Bernheim's (1994) agents, who lose popularity by norm-deviation. Jones (1984) posits a model of brute conformity in which agents' objective is to minimise the distance between their own behaviour and that of others in their group.

The process of socialisation internalises prevalent social conventions: preferences are changed so that agents choose to conform. This poses a problem for the model of individual rational choice, which takes preferences as given. Casson's (1991) response is to integrate reason and emotion in a model of (moral) leadership. Leaders, with given preferences, determine the rules. They optimally manipulate the behaviour of their optimising followers in the direction of conformity by means of emotional rewards and punishments.

All the above approaches have their respective merits and limitations. This essay offers a simple and equally plausible alternative. In a nutshell we propose that people sometimes matter - that some interpersonal relationships have intrinsic value to agents, a point generally neglected in the economics literature. A notable exception is Gui (1996), who analyses the strategic implications of investing in relationships which provide both

instrumental and intrinsic benefits. For the most part, ignoring interdependent utility functions, people matter only instrumentally for the analysis of economic transactions: preferences are defined either directly upon a commodity vector or, as in Lancaster's (1971) model of consumption technology, upon a vector of characteristics which are 'produced' when commodities are consumed. Thus in Becker's (1974) analysis of family and other personal relationships, the utility function is defined on a vector of basic wants, which in turn are produced by the characteristics of others. For example, one element in a utility function might be that individual's reputation in a job, in turn depending on the opinion of that individual held by others. Interpersonal relations here are thoroughly instrumental. Indeed in this standard framework consumers might just as well buy from vending machines as from other people. Firms should trade with and employ robots rather than humans in order to minimise external transactions and internal monitoring costs, and the costs of Casson's moral manipulation. Even those authors such as Gui (1996), Uhlaner (1989), Coleman (1990), Dasgupta (1988) and Ben-Porath (1980), who do explicitly recognise the importance of sociality, also almost instinctively tend to reduce relationships to 'relational goods', 'social capital', and 'flows of services that originate from non-material capital assets implicit in relationships', which then may enter either production or utility functions.

In what follows, a model is developed which strongly resists this reductionist tendency. Some relationships, those which have intrinsic value, enter directly into agents utility functions. These relationships are termed primary. Secondary relationships are purposefully instrumental: they are a means to an end rather than an end in themselves. While the motivation for forming a primary relationship is its intrinsic value, its formation also opens up instrumental possibilities as by-products. Agents wishing to insure against

adverse instrumental outcomes offer to “supply” a primary relationship at a reservation price: a vector of obligations, responsibilities, etc. which constrain the (instrumental) behaviour of their potential partners in relationship. If a primary relationship is then established, it is because it is in each individual’s social-self-interest to accept these usually reciprocal constraints. So norms, etc., result from rational choice.

The paper proceeds as follows: Section 2 argues that social-selves pursue social-self-interest. It presents the case for defining preferences on primary relationships, along with the usual commodity vector. Section 3 articulates the basic model. It establishes the equilibrium conditions for the existence of a primary relationship, and illustrates the ease with which this analysis can be accommodated within standard economic consumer theory. Section 4 suggests a wide range of applications. Section 5 concludes the paper with a brief summary of what has gone before. It highlights some uncomfortable trade-offs implied by the theory, and proposes a methodological alternative to ‘individualism versus collectivism’.

## **2. Social-Selves**

Though mainstream economics has largely ignored the evidence from other intellectual disciplines, most readers of this paper would no doubt consider it to be axiomatic that some interpersonal relationships are primary - that is, some relationships have intrinsic value to their participants. This axiom is built on a deeper foundation than the hardly surprising conclusion to a research paper in social psychology that “social relationships are a major source of happiness” (Argyle *et al*, 1989, p. 189). Social relationships are also a major source of unhappiness. And relationships which engender happiness may do so instrumentally. Nor are we simply appealing to abundant evidence

that people adopt attitudes, opinions, tastes and goals by imitation of, for example, partners, playmates, teachers, neighbours, etc. As noted in Section 1, imitative behaviour too may have instrumental intent. Rather, our position here is that personal identity is fundamentally ambiguous and contingent. The extent to which the ambiguity of the concept of the person or self pervades philosophy, anthropology and psychology can be gauged from the papers in volumes edited by Carrithers *et al* (1985) and Elster (1986). Furthermore, we follow Argyle (1994) in concluding that the origins of the self-image lie mainly in the reactions of and comparison with significant others, in social roles, and in identification with others as models. We are social-selves and the pursuit of self-interest is an inherently social project. The remainder of this section summarises evidence in support of this position.

Consider personal identity. On the one hand there are Cartesian egos, or other separately existing monads. An alternative, reductionist account is proposed by Parfit (1984): personal identity comprises psychological ‘continuity and connectedness’ - a chain of memories of past experiences, actions which fulfil prior intentions, and the persistence of other psychological characteristics. Because the degree of psychological connectedness can vary over time, personal identity can be indeterminate. This has far-reaching implications. If personal identity is indeterminate then, Parfit argues, the self-interest theory of rationality is undermined. Also, the ‘boundaries between persons’ have less moral significance than they would be given in non-reductionist accounts of personal identity. As Parfit himself is aware, the reductionist position is not confined to any one intellectual tradition or culture. For example, Indian philosophical traditions are either strictly reductionist in flatly denying the reality of any soul, self or ego (Collins, 1982), or they are concerned with the unlimited extension of the self, emphasising the continuity of

one's self and other selves (Nakamura and Wiener, 1964). Similarly Odin (1996) argues that in both classical American philosophy, especially in the Chicago School pragmatism of G.H. Mead, and in modern Japanese philosophy, especially Zen, there has been a 'paradigm shift' away from the Enlightenment's monological 'atomistic self' towards a more social, relational or communicative concept of selfhood.

Anthropological and psychological studies provide strong empirical support for this thesis that the self concept varies across cultures, and is, to a greater or lesser extent, socially determined. Surveying the relevant literature, Smith and Bond (1998, Ch.5) elaborate on the "distinction between an independent conception of the self fostered by many individualistic cultural systems and an interdependent conception of the self fostered by many collectivist cultural systems". To cite three from numerous examples: Markus and Kitayama (1991), Roland (1988) and Shweder and Bourne (1984) demonstrate that people in the United States hold strikingly different constructs of the self, others, and the interdependence of the two than do their contemporaries in India and Japan.

American culture - perhaps more accurately male WASP-American culture - promotes a view of the self which is individualised, independent, autonomous, bounded, and comprises a unique combination of inner attributes. By contrast, many other cultures - African, Latin American and Southern European, as well as Asian - emphasise the fundamental relatedness of individuals to each other: the experiential sense of self is of a 'we-self', familial, porous, and highly relational in different social contexts. Behaviour is oriented more towards harmonious interdependence with significant others than towards the expression of individual difference and self assertion. Modes of communication, including language, reflect this socially contextual self: in the Thai language, for example, there are seven different words for the first person, "I", and eleven different words for the

second person, “you”. Which personal pronoun is used depends on the relative social status of the individuals involved (Cooper and Cooper, 1982, p. 86-90). As anthropologist Clifford Geertz (1984, p. 225) puts it:

“The Western conception of the person as a bounded, unique, more or less integrated motivational and cognitive universe, a dynamic centre of awareness, emotion, judgement and action organized into a distinctive whole and set contrastively both against other such wholes and against its social and natural background is, however incorrigible it may seem to us, a rather peculiar idea within the context of the world’s cultures.”

Lest it be thought that the social-self is a characteristic only of those cultures on the remoter margins of mainstream economics’ intellectual empire, it needs to be emphasised that the social formation of personality is a well established field of enquiry within the disciplines of sociology, social psychology, psychology, linguistics and philosophy. An excellent interdisciplinary overview of the subject, not least indicating its long pedigree, is provided by Burkitt (1991). Like Odin (1996), Burkitt gives great weight to the work of the American philosopher and social psychologist, George Herbert Mead (1863-1931). Mead was a student of William James, colleague (briefly) of Charles Horton Cooley and colleague and friend of John Dewey. James (1890) proposed that one’s self-image depends on recognition by others; Cooley (1918) theorised a ‘looking-glass self’, reflecting the primary groups to which it belongs; Dewey (1925) formulated a philosophy of self-realisation through a dynamic process of organic and social interactions between an individual and his/her surroundings. All four, James, Cooley, Dewey and Mead, describe a process in which the sense of self evolves and is constantly modified through interaction with others. This process is most clearly articulated by Mead (1934), for whom a sense of identity stems from the human capacity for self-reflexivity: seeing oneself from the perspective of others. Mead assigns great value to language in the process of communicative interaction, as described by Ziller (1973, pp. 130-1) as follows:

“Both self and others may respond to an individual’s speech. The speaker may put himself in the place of the other and ‘take the attitude of others towards himself’ (Mead 1934, p.90). By repetition, a concept of the ‘generalised other’ emerges. The attitudes of this generalised other towards the individual become organised, so that the individual becomes an object until himself - ‘I’ and ‘me’”.

Burkitt (1991, Ch.6) describes how language plays a similar role in the developmental psychology of the Soviet ‘cultural-historical’ school. Here again the self is formed within the family or in other groups by adapting to others via communication. Alone, people think - and think about themselves - using the common social currency of language with its shared word-meanings. There is also evidence to suggest that the foundations of the social-self are laid well before children have acquired linguistic competence. Fundamental dispositions and inclinations are formed in the earliest years through the child’s non-verbal interaction with parents and other carers. They continue to operate in later life as a subconscious influence on behaviour (Burkitt 1991, pp. 152-5).

A complementary perspective on the social-self is provided by social identity theory. Hogg and Abrams (1988, pp. 152-155) summarise the essence of this approach as follows:

“society is treated as a heterogeneous collection of social categories which stand in power and status relative to one another...People derive their identity (their sense of self, their self concept) in great part from the social categories to which they belong. The group is thus in the individual...Individuals belong to many different social categories and thus have a repertoire of many different identities to draw upon. It is inconceivable that two persons’ life experience can be identical. In this way we can account for the apparent uniqueness of each individual human being: every individual is *uniquely* placed in the social structure and is thus unique.”

As one of the main objectives of this paper is to explain how norms, rules and conventions emerge from the rational behaviour of genuinely social agents, it is relevant to note that from the social identity perspective “...the contours of social categories or groups are

furnished precisely by their respective norms, which serve to describe and prescribe those attributes which characterise one group and differentiate it from other groups” (Hogg and Abrams, 1988, pp. 171-2).

So far we have tried to show that personal identity is contingent upon social context. We concur with Ziller (1973, p.111) that “others provide a frame of reference within which the self is located and evaluated. Self-meaning is not an absolute, but a social relative.” But self-meaning is a biological relative as well. Genetic relatedness between kin is a matter of mathematical probability. Developmental psychobiology provides information illuminating “...how inheritance contributes to both the progression and outcome of development. Inheritance tends to reduce the variability of developmental phenomena” (Michel and More, 1995, p. 239). Parents contribute to their children’s development by providing a genotype or genetic endowment. An individual’s genotype manifests in many ways. One of these is the capacity for self-awareness which, according to Nash (1978, Ch.19), is the distinctive inherited prime characteristic of the human species. Parents also contribute a social, emotional and intellectual environment. But genetic endowment and environment are not independent. The environment partly depends on the parents’ own genotypes, and because children share genes with parents, the children’s environment is necessarily correlated and compatible with their own genotypes. All of which points to the inheritance of psychological traits and dispositions - the social-self is in part a kin-self.

Dawkins (1989, Ch.11) goes much further. He asserts the likely existence of memes - cultural replicators or units of cultural transmission - which literally parasitise the brain by imitation. Memes ‘compete’ by dominating the attention of the brain over other memes, and in this way Dawkins proposes that the evolution of cultural traits can be

explained. The meme may seem a fanciful speculation; nonetheless in a recent book Wilson (1998) too advances the notion that there is an entity to be discovered that is the 'basic unit of culture' as the gene is the basic unit of heredity. Berger and Luckman (1966) sum up the development of the social-self in the following words:

“the genetic presuppositions for the self are...given at birth. But the self, as it is experienced later as a subjectively and objectively recognizable entity, is not. The same social processes that determine the completion of the organism produce the self in its particular, culturally relative form...Man's self production is always, and of necessity, a social enterprise” (pp.50-1)...The child learns that he *is* what is called...Subjective appropriation of identity and subjective appropriation of the social world are merely different aspects of the *same* process of internalization, mediated by the *same* significant others...Primary socialization creates...a progressive abstraction from the roles and attitudes of specific others to roles and attitudes in general...[T]he individual now identifies not only with concrete others, but with a generality of others, that is, with a society. Only by virtue of this generalized identification does his own self-identification attain stability and continuity” (pp. 132-3).

This section has appealed to evidence from many disciplines - philosophy, anthropology, sociology, social psychology, psychobiology - in support of the social-self. Because people matter in a fundamental way, in the section which follows we will articulate a model in which primary relationships - interpersonal relationships which have intrinsic value - enter directly into agents' preferences. Although we will take a somewhat broader definition, primary groups and primary relationships have long been recognised in sociology. Davis (1948), pointing up the distinction between *Gemeinschaft* (close communal relationship) and *Gesellschaft* (organized impersonal relationship) characterises primary groups as small, intimate, face-to-face groupings, cooperative, and of long duration. In these groupings there is mutual identification. Each member thinks in terms of 'we', and each pursues as one of his/her ends the welfare of other members. The relationship is an end in itself, inclusive of the complete person rather than based on any specific role, is voluntary and personal: the relationship disappears if the particular

individual disappears from it. Similarly Giddens (1991) describes what he terms the ‘pure relationship’ as “internally referential, that is, [it] depends fundamentally on satisfactions and rewards generic to that relation itself” (p.244). Here again we find a social relationship which is highly personal, has intrinsic value, is dependent on personal commitment and mutual trust, and in which “self-identity is negotiated through linked processes of self-exploration and the development of intimacy with the other” (p.97), creating tightly bound ‘shared histories’.

We turn now to an economic analysis of these social-selves, as they supply and demand primary relationships.

### **3. Rational Sociality.**

The previous section presents the case for taking the social-self seriously, certainly more seriously than is done in the standard economics literature. We turn now to an economic analysis of these social-selves, as they demand and supply primary relationships. Rational economic agents make choices which are the best, given their preferences and their perceived opportunity set. Here, the preferences of agents, who are both rational and social, are defined upon membership of primary relationships as well as on the consumption of commodities. The constraints which these agents face include, along with income, various restrictions on behaviour perceived to be necessary conditions for their participation in primary relationships.

A primary relationship has intrinsic value to its members. It is an end in itself: it is not ‘for’ anything, though it may incidentally also bring instrumental payoffs. It neither requires nor implies altruism. Colleagues, for example, may derive value and meaning from a relationship which at the same time is aggressively competitive. An altruistic

charitable donation does not imply any interpersonal relationship beyond the obvious act of giving. In the model of a primary relationship that follows, neither the utility nor the consumptions of others enter any individual's utility function. Rather, membership limits what any individual member may or may not do.

We define a primary relationship more broadly than Davis' (1948) primary group and much more broadly than Giddens' (1991) pure relationship, though both are particular examples of what we have in mind. Thus a primary relationship may be long-term or temporary, voluntary or involuntary – though the focus of this paper is exclusively on voluntary relationships. They may be individual-specific or anonymous. It is not necessary for encounters between participants to be either frequent or face-to-face. Group size is *a priori* immaterial.

Examples of groups or relationships which may have primary value to their members include: families, clans, tribes, friendships, neighbourhood communities, work groups, peer groups and reference groups, alumni networks, clubs and societies supporting leisure activities, crowds, political organisations, local religious congregations and global religious movements. Individual identity is often invested in widely shared personal characteristics, such as age, gender, sexual orientation, language, race and nationality.

Consumers' preferences are therefore defined on consumptions of commodities, as in the standard model, and on primary relationships. Unlike a commodity, which is continuously divisible and can be consumed in any positive quantity or none at all, a primary relationship is essentially binary: it either exists for the agent(s) in question, or it does not. While one may spend more or less time or money on producing and maintaining a relationship, one cannot meaningfully consume more or less of it. Relationships may

change in subjective quality, seeming to become more or less intense, for example, and change in importance in the individual's preferences over time. None of which affects their binary nature. They will be represented here as a bi-valued integer: 0, 1, and not otherwise quantifiable. Relationships are specified by the two or more individuals involved.

Let  $x$  be the vector of all consumption commodities, and  $r_i = 0,1$  be the vector of all possible primary relationships available to the  $i$ th individual. We assume that the consumer's preferences satisfy assumptions which allow them to be represented by the usual kind of quasi-concave, differentiable utility function  $U_i(x_i, r_i)$ . The consumer has a given income  $M_i$  and faces a vector of given commodity prices,  $p$ .

We assume there are no specific 'entry' or 'exit' costs of joining or leaving a relationship. However, joining a primary relationship for its intrinsic value also opens up instrumental possibilities that would not otherwise be feasible. These might include economies of scale, scope or specialisation in, say, household production activities, positive or negative externalities, free or cheap rides, and other gains or losses from strategic interdependence. Information about these (expected) instrumental opportunities may be incomplete, and/or hidden from one or more participants. It is to be emphasised that the motivation for joining or forming a primary relationship is not the opportunistic exploitation of such instrumental opportunities; however agents must in some way insure against being made worse off by joining a relationship and experiencing adverse instrumental outcomes. We assume they do this by setting a reservation or supply price which sets a security value – a minimum – to their utility function once the relationship is formed. This security value equals maximised utility outside the relationship. Then, for

each participant, joining a relationship can only be a Pareto improvement: *ex ante* one cannot be worse off in than out.

An individual's reservation price for supplying a relationship comprises restrictions imposed on the behaviour of potential partners. These restrictions may take many forms (see Argyle, 1994, Chs 6,7): norms or acceptable standards of behaviour, conventions, customs, etiquette, commitments, obligations, duties, responsibilities, procedures, routines, rituals, and prescriptive rules. They may be universal, requiring all participants in the relationship to behave in the same way, or particularistic: each dyad of named individuals having its own particular rules within the context of a larger primary group (Heimer, 1992). They may be contingent, implicit, or even imaginary. They may be narrowly defined on specific activities, or looser but altogether more pervasive – perhaps a matter of choosing to follow a particular lifestyle. Thus Giddens (1991) writes:

“A lifestyle can be defined as a more or less integrated set of practices which an individual embraces, not only because such practices fulfil utilitarian needs, but because they give material form to a particular narrative of self-identity. ...Lifestyles are routinised practices, the routines incorporated into habits of dress, eating, modes of eating and favoured milieus for encountering others; but the routines are reflexively open to change in the light of the mobile nature of self-identity (p.81)...Someone who is committed to a given lifestyle would see various options as ‘out of character’ with it, as would others with whom she was interacting. Moreover the selection or creation of lifestyles is influenced by group pressures and the visibility of role models, as well as by socioeconomic circumstances’ (p.82).

From now on we will somewhat simplify the size of the problem, the notation, and the terminology. The number of possible primary relationships available to the  $i$ th individual will be restricted to one, with the  $j$ th individual. Thus the vector  $r_i$  comprises just one element,  $r_{ij}$ ,  $i \neq j$ . To ease the notation we will drop the subscripts, letting

$r = 0, 1$  denote this relationship. And from now on the word relationship will be taken to be synonymous with primary relationship.

In the absence of a relationship between them, individuals  $i$  and  $j$  are independent, and  $r = 0$ . The utility maximisation problem for individual  $i$  is therefore:

$$\text{Max } U_i(x_i), \quad \text{s.t. } p \cdot x_i \leq M_i$$

This problem can be solved for the optimal consumption bundle  $x_i^*$ , the  $i$ th individual's demand for goods and services. The utility value of the utility maximisation problem is denoted

$$V_i(p, M_i).$$

This is the indirect utility function, equal to  $U_i(x_i^*)$ . Similarly, for individual  $j$  the independent utility maximisation problem is

$$\text{max } U_j(x_j), \quad \text{s.t. } p \cdot x_j \leq M_j$$

and the solution is shown in terms of  $j$ 's indirect utility function:

$$V_j(p, M_j)$$

We assume that both agents face the same price vector,  $p$ .

Within the relationship between  $i$  and  $j$ , the utility maximisation problem for individual  $i$  becomes:

$$\text{Max } U_i(x_i, r), \quad r = 1, \quad \text{s.t. } p \cdot x_i \leq M_i$$

Let  $V_i(p, M_i, r)$  denote  $i$ 's maximised utility in  $r$ . Individual  $i$  will offer to supply relationship  $r$  if he/she is at least as well off in the relationship as independent:

$$V_i(p, M_i, r) \geq V_i(p, M_i), \quad r = 1 \quad (1)$$

However entering a relationship with  $j$  also opens up the possibility of instrumental by-products. Some  $j$  choices,  $x_j$ , may have favourable or adverse consequences for  $i$ , relative to the independence option:

$$V_i(p, M_i, r, x_j^*) \stackrel{>}{<} V_i(p, M_i)$$

where  $V_i(p, M_i, r, x_j^*)$  is  $i$ 's maximised utility in  $r$ , given any optimal  $j$  consumptions  $x_j^* \in x_j(p, M_j, r)$ . Individual  $i$  therefore sets a reservation price,  $R_i$ , for supplying  $r$  to  $j$  which guarantees that  $i$  cannot be made worse off. As discussed earlier, this  $R_i$  comprises restrictions on the  $j$  choice set as follows:

$$R_i = \left\{ x_j \mid V_i(p, M_i, r, x_j) \geq V_i(p, M_i) \right\} \quad (2)$$

The supply conditions for individual  $j$  are similar. A relationship will be supplied by  $j$  if  $j$  cannot be made worse off by doing so. The reservation price, comprising restrictions on the actions of individual  $i$ , is intended to insure this outcome against adverse instrumental by-products of the relationship. These conditions are described respectively by inequalities (1a) and (2a):

$$V_j(p, M_j, r) \geq V_j(p, M_j), \quad r=1 \quad (1a)$$

$$R_j = \left\{ x_i \mid V_j(p, M_j, r, x_i) \geq V_j(p, M_j) \right\} \quad (2a)$$

Suppose that individual  $i$  is a representative member of a pre-existing primary group, which individual  $j$  seeks to join. The reservation price  $R_i$  offered to  $j$  as a condition for joining the group will be

$$R_i = \left\{ x_j \mid V_i(p, M_i, r_j, x_j) \geq V_i(p, M_i, r, R) \right\}$$

where  $r = r_j = 1$  denote the relationship respectively before and after  $j$ 's participation, and  $R$  denotes the pre-existing obligations, etc, constraining the behaviour of representative

group member  $i$ . In plain words, a group or relationship will admit a new member as long as it cannot be damaged by doing so.

The introduction of reservation prices, the ‘terms and conditions’ on which an individual is prepared to enter or offer a relationship, requires an obvious adjustment to the demand analysis. Each individual now maximises utility, subject to their own budget constraint and the constraints on their behaviour proposed by their potential partner. Thus the formal problem for the  $i$ th individual is:

$$\begin{aligned} \max U_i(x_i, r), \quad & r = 1 \\ \text{s.t. } p x_i & \leq M_i \\ & R_j \leq F \end{aligned}$$

Its solution in terms of the indirect utility function is:

$$V_i(p, M_i, r, R_j),$$

and  $r = 1$  is demanded by  $i$  if

$$V_i(p, M_i, r, R_j) \geq V_i(p, M_i) \quad (3)$$

Similarly,  $r = 1$  is demanded by  $j$  if

$$V_j(p, M_j, r, R_i) \geq V_j(p, M_j) \quad (3a)$$

Inequalities (3) and (3a) define the necessary and sufficient conditions for a reciprocal relationship.

We note a marked difference between our analysis of relationship and that of externality and free-riding. A well-known response to the latter phenomena are standards, which have to be buttressed by sanctions. Here, the  $R_i$  and  $R_j$  restrictions are potentially self-enforcing. Opportunistic behaviour in violation of these standards of acceptable

behaviour leads, if detected, to the break-down of a valuable relationship; other things being equal, it does not pay to cheat.

A market may be characterised by monopoly or monopsony power. In a relationship, there may be a similar asymmetry in the power to set reservation prices. One individual may be perceived to be the leader. He or she determines the rules of the relationship in the way previously described, that is, defensively as an insurance against opportunistic behaviour. Potential partners, the followers, optimise with respect to these leader-determined rules, and if they accept the offer of relationship they do so unconditionally. Similarly individuals, when deciding whether or not to join a pre-existing primary group and abide by its conventions, may well perceive it to be either impossible or unreasonable to insist on conditions of their own. Formally, if leader  $i$  supplies  $r = 1$  at reservation price  $R_i$ , and follower  $j$  accepts unconditionally,  $R_j = \mathbf{f}$ , then inequalities (4) and (4a) characterise the relationship:

$$V_i(p, M_i, r) \geq V_i(p, M_i) \quad (4)$$

$$V_j(p, M_j, r, R_i) \geq V_j(p, M_j) \quad (4a)$$

People may, of course, have mixed motives for forming a relationship. In a quasi-primary relationship, individuals may be motivated by both its intrinsic and instrumental possibilities. Friends, for example, may become business partners. This mixing of motives may be mutual, but here we will assume that only  $j$  acts with instrumental intent, while both perceive the relationship's intrinsic value. Individual  $i$  supplies  $r = 1$  at  $R_i$  as before. Suppose  $j$  accepts: the relationship has intrinsic value. Suppose also that once in the relationship there are some  $i$  actions, not necessarily optimal for  $i$ , that have additional favourable instrumental consequences for  $j$  so that:

$$V_j(p, M_j, r, R_i, x_i) > V_j(p, M_j, r, R_i)$$

$$x_i \mathbf{e} x_i(p, M_i, r)$$

Then in order to realise these gains  $j$  endeavours to constrain  $i$  with reservation price  $\tilde{R}_j$  as follows:

$$\tilde{R}_j = \{x_i | V_j(p, M_j, R_i, x_i) > V_j(p, M_j, r, R_i)\}$$

If  $i$  accepts, inequalities (5) and (5a) characterise the relationship:

$$V_i(p, M_i, r, \tilde{R}_j) \geq V_j(p, M_i) \quad (5)$$

$$V_j(p, M_j, r, R_i, \tilde{R}_j) > V_j(p, M_j, r, R_i) \geq V_j(p, M_j) \quad (5a)$$

Individual  $j$  optimises with respect to the constraints  $\tilde{R}_j$  imposed on his partner  $i$ . However, exploiting a relationship for personal instrumental gain is risky. If  $\tilde{R}_j$  is “too high”,  $i$  will decline the offer and  $r = 0$ . Not only does  $j$  lose a business partner but also a friend.

In the above analysis we have used terms such as demand, supply and reservation price to explain how primary relationships are formed. Use of this terminology was deliberate: we wanted to show how easily standard economic concepts and methods could be applied to sociality. We continue in this vein with a demonstration of the compatibility of relationship analysis with standard consumer theory.

For illustration, consider an individual whose choices extend over just two commodities and one primary relationship. Let  $x_1$  and  $x_2$  denote quantities of the two commodities, and  $r = 0, 1$  the primary relationship. Other than strictly quasi-concave, there is no *a priori* restriction on the form of the agents’ utility function defined on commodities and relationships. Here, for simplicity, we assume that it is quasi-linear:

$$U = f(x_1, x_2) + ar, \quad a > 0, \quad r = 0, 1$$

As is usually the case, the parameters of this utility function are exogenous to the model. Over time of course, preferences – including preferences regarding relationships – change. We might expect parameter  $a$  to increase if  $r$  became more intense, intimate or meaningful to those involved. The breakdown of a relationship can be caused by changes in relative prices and real income, as we shall see. Or the relationship may become less valuable: parameter  $a$  falls, and may become negative. That the parameter may change in size and even sign over time in no way invalidates the fundamentally binary nature of  $r$  itself.

Utility maximisation is subject to both a budget constraint and the obligations, responsibilities, etc. perceived to be necessary for  $r = 1$ . These restrictions may take many forms. Often the perceived requirement is for conformity to standards of behaviour which are acceptable to the potential partner(s) in relationships. We assume here that there are acceptable upper and lower bounds, denoted  $\bar{x}_1$  and  $\underline{x}_1$  respectively, on the agent's consumption of commodity 1 only.

The norms of behaviour which govern many relationships may be quite different from this illustration. The terms on which two idiosyncratic individualists can be friends may require that each one does the opposite of the other. Conspicuous consumers may be driven by a group dynamic of 'greater than' inequalities. And as these examples indicate each group member may influence the behaviour of all. Cournot-Nash equilibrium norms may then result from a process of interpersonal interaction. Setting these complications to one side, the constraints on individual choice in our simple model of conformity are:

$$p_1x_1 + p_2x_2 \leq M$$

$$\underline{x}_1 \leq x_1 \leq \bar{x}_1 \Leftrightarrow r = 1$$

Figure 1 shows the indifference curve associated with utility level  $U^0$ . Both outside and inside the relationship, it has the usual convexity property. The marginal rate of substitution between the two commodities diminishes continuously. However, upon entering the relationship the consumer is made better off, *ceteris paribus*. In order to maintain utility at  $U^0$  within the relationship, that is when consumption of commodity 1 lies within the boundaries  $\underline{x}_1$  and  $\bar{x}_1$ , smaller consumptions are required. There is a downward displacement in the  $U^0$  indifference curve over this range of  $x_1$  consumptions, and consequent discontinuities at  $\underline{x}_1$  and  $\bar{x}_1$ . These discontinuities have a straightforward interpretation. People are willing to make significant sacrifices to enter a primary relationship; they require significant compensation to leave it.

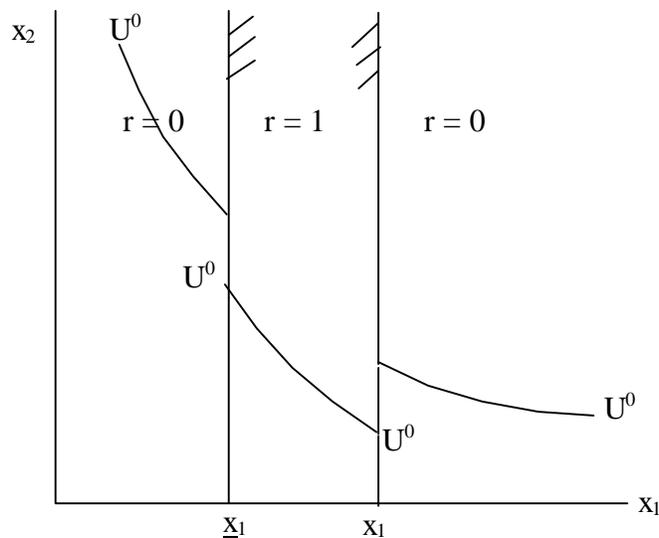


Figure 1

Figures 2 and 3 illustrate two cases of  $r = 0$ . In Figure 2 the relationship is non-feasible. The minimum level of consumption of commodity 1 needed to sustain the relationship is unaffordable:  $\underline{x}_1$  lies outside the budget constraint. Figure 3 shows an affordable relationship which is sub-optimal. Maximised utility, denoted  $U^*$ , occurs

outside  $r$  on the budget constraint, where the marginal rate of substitution between the two commodities equals their relative price.

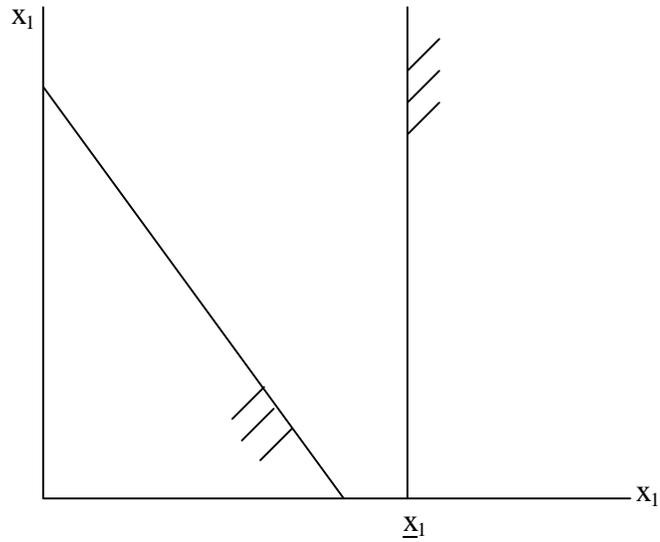


Figure 2:  $r = 0$ , non-feasible

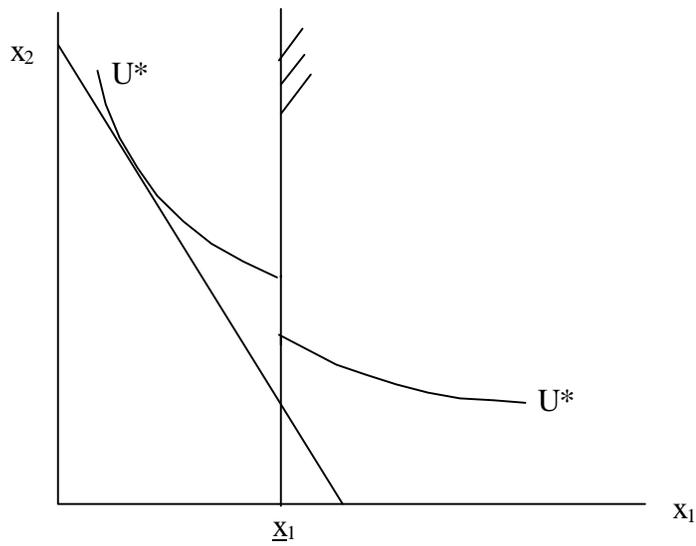


Figure 3:  $r = 0$ , feasible but sub-optimal

In Figures 4 and 5,  $r = 1$  is both feasible and demanded by the agent. Figure 4 shows a case there the conformity required by the relationship is costless. Neither upper nor lower relational constraints are binding. Whether in or out, consumption would be the

same; the relationship just makes the agent better off. In Figure 5 by contrast, one of the relational constraints is binding. The agent optimises on the lower boundary  $\underline{x}_1$ ; were it not for the intrinsic value of the relationship, he/she would demand even less of commodity one. The usual tangency conditions do not hold at this corner solution.

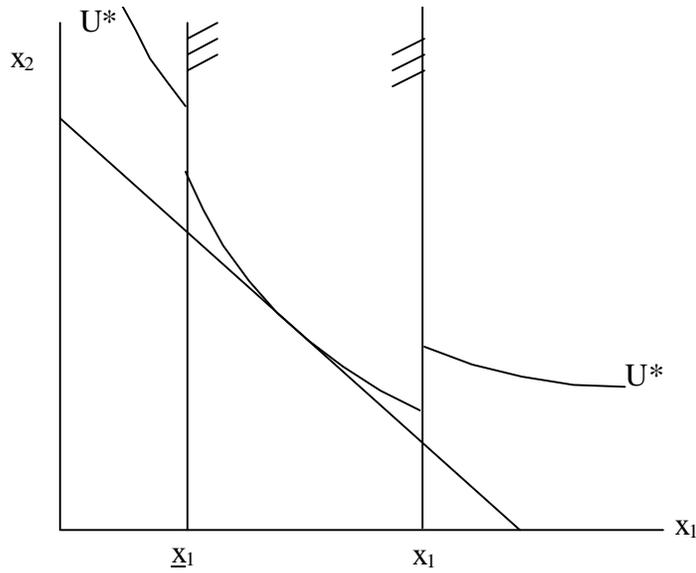


Figure 4:  $r = 1$ , costless conformity

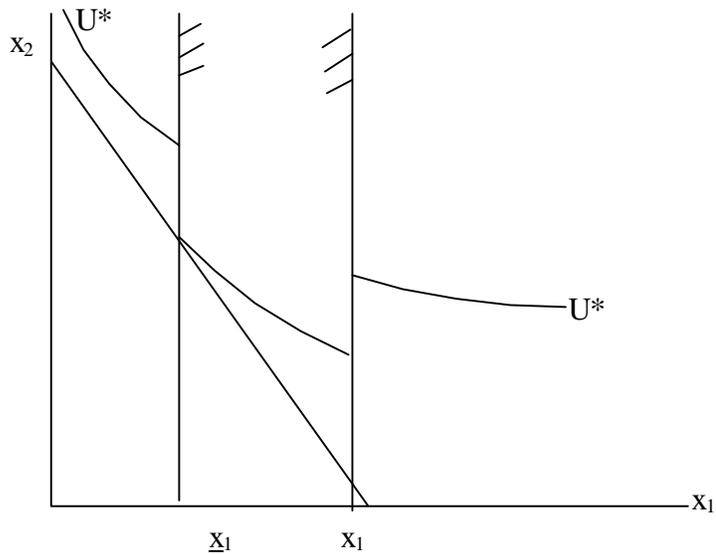


Figure 5:  $r = 1$ , corner solution

Social-selves are optimisers, in the best neoclassical tradition. However, besides optimisation, a second key property of the neoclassical economics paradigm is the tendency for (market) interaction between agents to lead to equilibrium. We might consider a self-organising market for a class of primary relationships in which interacting, adaptive agents adjust their own reservation prices so that eventually the market clears. For example, an individual who would accept others' reservation price but whose own reservation price is repeatedly declined will over time, in successive interactions, revise his/her reservation price down until eventually it does become acceptable. In this way a more or less identical pattern of behaviour may emerge as the (equilibrium) norm throughout a given class of relationship. Alternatively, Cournot-Nash equilibrium norms would be the solution to a process of sequential reactions by agents to each other's actual choices. This is the approach taken by Jones (1984), and discussed further in Section 4.

#### **4 Extensions and applications**

Social-selves are rational, pursue self-interest, and yet are authentically social. An attraction of this approach is that it enables neoclassical analysis to encompass a wider range of social phenomena. But if this is seen as an exercise in intellectual imperialism, it is not at all clear who is the imperialist: the economist or the sociologist. Because some relationships have intrinsic value, it may be entirely rational for individuals to voluntarily restrict their choices to those which are 'socially acceptable'. The upshot, as we shall shortly see, is sometimes at marked variance with neoclassical orthodoxy. The remainder of this section therefore introduces different applications of the theory of social self-interest. They are selected to illustrate the broad scope of this approach.

The first two, concerning allocative efficiency and market flexibility, reach distinctly unorthodox conclusions. Relational contracts and cooperative behaviour are subjects which are, respectively, peripheral to and problematic from an orthodox viewpoint, but which can be integrated easily into this framework. The final applications explore social exclusion, and the social dynamics of marketing strategy. The first of these is addressed in a disjointed, rather *ad hoc* manner by orthodox economic analysis. Rational sociality offers a unified treatment. The second receives only a cursory, superficial analysis from mainstream economics. As each application is discussed informally and in outline only, this section should be viewed primarily as an agenda for future research.

### *Efficiency and distribution*

The relational theory of individual choice integrates issues of efficiency and distribution. Indeed the two are inextricably linked. Suppose that production is technologically inefficient, occurring within the feasible set: more of one commodity could be produced at zero opportunity cost. According to standard analysis this is also Pareto inefficient. On the usual assumptions of non-satiety and independent preferences, a costless additional unit of output would make at least one consumer better off and no one else worse off. Instead consider an established two-person primary relationship in which one agent's consumption is already at an acceptable upper boundary, such as  $\bar{x}_1$  in the previous section. If more of commodity 1 is then costlessly produced and consumed by this agent, he or she may be made better off as a result. However, by raising his/her consumption beyond  $\bar{x}_1$  the relationship collapses. The agent's ex-partner is worse off.

Increasing output is no longer a Pareto improvement. How additional output is distributed clearly matters.

Furthermore the notion of productive efficiency itself becomes ambiguous, once the business enterprise is recognised as a social institution. To overstate the case, the firm is a community. It produces goods and/or services and, as by-products, primary relationships between employees. We might then define efficient production in one of two ways: either as maximum output for given technology, factor inputs, and workplace relationships; or, more radically, as Pareto efficient vectors of outputs *and interpersonal relationships* given technology and factor inputs. By endogenising workplace relationships we posit efficient production processes and management systems which at least in part respect the preferences for relationships among employees.

From our perspective the costs of economic growth - and decline - now include social fragmentation, including the breakdown of relationships across generations. Economic growth, unevenly distributed, will make some better off - and others worse off - as primary relationships disintegrate. Economic decline damages directly those individuals whose income falls or who are laid off work, and, because some group consumption norms may no longer be feasible or because valuable workgroups are eroded, many more besides.

#### *Flexible markets and stable relationships*

When relationships have intrinsic value it no longer follows that allocative efficiency is best served by flexible markets and a high degree of labour mobility. As Gui (1996) observes, when workers relocate in order to accept a more attractive job offer, relationships with family, friends and workmates may be fractured. Those left behind are

worse off. Similarly, when large retail stores replace small local shops, valuable local networks of interpersonal relationships are undermined. Cheaper goods and a wider variety of products may not provide adequate compensation. As with externalities, so in these examples of market failure price signals only reflect private costs and benefits; they omit the relational costs and benefits to others of individual choices.

By the same token, perceived rigidities in response to changes and differentials in relative prices may be efficient. Buyers may be willing to pay a premium to continue a valued relationship with a particular supplier. Workers may stay with an employer who pays relatively badly because of workplace friendships. And “the noneconomic value of such attachments partly explains the tendency of employers to recruit from amongst those they know, even in the absence of purely economic advantages to doing so” (Granovetter, 1992, p35). Hence this approach gives an ‘efficient’ account of some aspects of internal labour markets.

#### *Primary relationships and relational contracts*

The quasi-primary relationship, summarised by inequalities (5) and (5a) in Section 3, is borne of mixed motives. Its existence, for its intrinsic value as well as instrumental possibilities, highlights the social context of many business relations. We would expect quasi-primary relationships to be a fertile ground for relational contracting (Macneil, 1980). A contract which is relational “does not attempt the impossible task of complete contracting but instead settles for an agreement that frames the relationships”; and “an important adjunct to incomplete written contracts are the unarticulated but (presumably) shared expectations that the parties have concerning the relationship” (Milgrom and

Roberts, 1992, pp131-2). These important shared expectations comprise the reservation price at which the relationship is supplied.

In view of the prevalence of the social-self in Asian cultures (see Section 2), it is no surprise that a salient characteristic of Japanese business practice is what Dore (1983) calls obligated relational contracting, where the obligation is to try to maintain the relationship. Moreover Japanese industry until recently stood as exemplar of how implied relationships within and between firms have often provided the basis of competitive advantage for many companies. Writing on this theme, Kay (1996) uses the term 'architecture' to describe a structure of relational contracts. The internal architecture of a firm generates well known features such as a high degree of job security and "a flat remuneration structure, or at least one in which differentials reflect seniority as well as merit, and performance is measured by reference to intangible as well as tangible criteria" (p.98). External architecture concerns business networks: "groups of firms which make relational contracts with each other" (p.100). The instrumental advantage of these networks is that they facilitate the sharing of information, and encourage flexibility and speed of response. As recent events have shown, they also suffer from the instrumental disadvantage of elevating relational processes above cruder 'bottom-line' outcomes.

For Kay, the corporation is thoroughly embedded in a social environment. Because of the risk of opportunism, relational contracts within and between firms need to be supported by corresponding networks of social relationships. We would put the matter somewhat differently: obligated relational contracting provides a natural supporting framework for quasi-primary (mixed motive) relationships. Social-self-interest is the glue which binds the parties to their shared expectations, so that these relationships hold together under all but the extreme opportunistic tensions.

We will return shortly to the question of opportunism. Meantime we offer a brief coda to the above discussion of relational business practices. The quasi-primary model seems to be widely applicable - to the analysis of family firms, 'traditional' occupational choices, and business networks within ethnic and religious minority communities. The quasi-primary relationship manifests in less benign form in collusive behaviour, 'old-boy' networks, and 'crony capitalism'. Again it is East Asia which has attracted criticism on this account, though the recent collapse and rescue of the US Long-Term Capital Management hedge fund might indicate that such cronyism is by no means a uniquely Asian phenomenon (see *Financial Times* 3 / 4 October, 1998, p.10).

### *Cooperation and trust*

Cooperative behaviour is often observed in situations that can be formally characterised as one-shot non-repeated Prisoners' Dilemma games. In such a game, each individual has a strictly dominant strategy - non-cooperation or cheating - even though cooperative behaviour would raise the payoff to all. This Pareto inefficient outcome results from that component of self-interested behaviour which Sen (1987) calls self-goal choice:

“Each act of choice of a person is guided immediately by the pursuit of one's own goal (and in particular, it is not restrained or adapted by the recognition of mutual interdependence of respective successes, given other people's pursuit of their goals)” (p.80).

Explaining the emergence of cooperation, Sen goes on to argue against self-goal choice, for “behaviour is ultimately a social matter as well, and thinking in terms of what 'we' should do ... may reflect a sense of identity involving recognition of other people's goals and the mutual interdependencies involved” (p.85). The upshot, Sen suggests, is that otherwise self-interested individuals may follow rules which in themselves have no

intrinsic value, but which have great instrumental importance for enhancing the respective goals of all group members.

Our social-selves provide a reason for the cooperative, social behaviour which Sen advances. Social-selves are thoroughly self-interested in the pursuit of their own goal, but an individual's goal includes not only his or her own consumption but also membership of intrinsically valuable primary relationships and primary groups. Such membership comes at a price: rules must be followed which certainly have no intrinsic value, for they constrain individual actions. However these rules are indeed of great instrumental importance, for their very purpose is to protect group members against opportunistic behaviour. Obedience to these rules enables the group or relationship to succeed in its primary purpose, providing intrinsic value to its members.

This is not to say that cheating never occurs within primary relationships. Rather we predict a bi-modal pattern of non co-operative behaviour. A high frequency of 'low-level' cheating, which does not break the rules and so does not threaten the stability of the relationship, will be coupled with occasional instances of deliberate norm violation which, if detected, would end the relationship. Cheats perceive they would be better off outside the existing relationship, possibly inside some other one. (Casual observation and scrupulously honest introspection confirm the accuracy of this prediction. Readers are invited to replicate these results using their own data.)

If cheating is less of a problem in primary groups it is because the norms, responsibilities, rules, etc. are self-enforcing. Cheats, once detected, risk exclusion from an intrinsically valuable relationship and so would be made worse off, *ceteris paribus*. So for cheating to happen, its payoff must at least compensate for this expected loss.

Trust is the current intellectual *deus ex machina* for solving the problems of opportunism. By reducing transactions costs, trust is hailed as the paramount social virtue, the creator of prosperity (Fukuyama, 1995). Barker (1983, p.9) defines trust in terms of the expectations that social actors hold about one another; simply put, it is the belief that others will be honest (Casson and Cox, 1997, p.179). According to Ring (1997), trust is of two types. Resilient trust has a moral dimension for the other's goodwill is predictable, so that his or her commitment is guaranteed. Fragile trust is less confident, permitting expectations only about others' behaviour, and needs to be reinforced with, for example, insurance. Our primary groups and relationships are clearly high-trust institutions, in the sense that each participant believes that the others are unlikely to cheat because cheating risks a breakdown in a relationship valuable to all, but fragile nonetheless, for there is no presumption of agents' moral character. Social-self-interest commits people to relationships, to the associated rules, and by implication to the concomitant openness, transparency and honesty needed for ensuring rule adherence - but only as long as the personal benefits exceed the personal costs. Commitment, in other words, is conditional.

### *Social exclusion; discrimination*

Social exclusion describes a situation in which an underclass is cut off from the mainstream of society. Often, but not always, poverty and social exclusion are related, and a rich variety of economic concepts can be brought to bear on the poverty-exclusion nexus. These include inequality measures, non-convexities in opportunity sets causing poverty traps, dual labour markets and the hysteresis effect of unemployment, entitlements and capabilities, and theories of labour market discrimination and human capital formation.

What the model of rational sociality offers is a unified economic pathology of social exclusion, not surprisingly as the very essence of the model concerns the formation, cohesion and breakdown of interpersonal relationships. Recall its two key ingredients: that membership of primary relationships and groups confers intrinsic benefits; also that group membership requires conformity to norms of behaviour. Next suppose there are two distinct social groups, a disadvantaged underclass and the social mainstream. If either or both groups would gain from integration, there exists a notional willingness to pay for cohesive policies. (Note also that these existence values for relationships would form the basis of compensation claims when relationships are fractured, for example by death, divorce, or 'unfair' dismissal from employment.)

In principle standard cost-benefit methods can therefore be applied to policies aimed at integrating individuals within society. The nature of the constraint(s) preventing the underclass from attaining the mainstream's norms will determine the appropriate menu of policy options. On the one hand, policies may be broad-brush, such as income transfers or raising income levels through a welfare-to-work strategy. Alternative measures might be more precisely targeted at making key elements of the mainstream's reservation price feasible to the disadvantaged, for example improving basic education opportunities or the availability of child care facilities. Targeting may then trigger a positive 'multiplier' process exploiting the complementarity which often exists between primary and instrumental relationships. As an example of this process reversed, in some cultures divorce may lead to ostracism, then unemployment. As income falls, other primary relationships in turn become non-feasible, and so on culminating in exclusion.

Far from being narrowly economic, our approach draws attention to those authentically social benefits of policies which might otherwise be ignored in an economic

analysis. Work trials, for example, which offer short periods of unpaid employment during which both parties decide whether to go ahead with a formal job, not only enhance instrumentally useful contacts, but also provide an opportunity for making friendships. Local currency schemes can strengthen the cohesion of communities by promoting more frequent, often face-to-face contact. Tenancy agreements for social housing might include a compact declaring respect for others' property and lifestyle, and for the local environment and open spaces. From our perspective, creating 'neighbourly customs' provides a context enabling primary relationships to develop. And there is an implied willingness to pay for this. Just such a scheme has been proposed by Young and Lemos (1997), and recently implemented by a UK housing association, apparently with some initial success (see *The Guardian: Society*, October 28<sup>th</sup> 1998, pp 6-7).

The very norms which define membership of one group also delineate it from other groups; they are inherently discriminatory and exclusive. Bearing in mind the strength of personal identification with nationality, ethnicity, race, religion, or social class, a group's norms may include such self-imposed constraints as 'do not employ, work alongside, go to school with, live in the same neighbourhood as, etc. ...members of some other group'. As identities harden around perceptions of in- and out-groups, even of persons and non-persons, 'normal' group behaviour may become overtly hostile, even violent.

Perhaps the contribution of our approach is to insist that there may be economic remedies for social conflict. Obviously penalties might be imposed on particular discriminatory practices. But it is often also the case that rivalrous groups are economically disadvantaged. Hostile norms may in fact be income inferior. Cohesive behaviour may be superior but unaffordable. Policy should then be directed towards

raising real incomes, making it feasible for the antagonists to transcend old tribal allegiances and integrate into the socioeconomic mainstream.

### *Consumer behaviour and marketing strategy*

The relational theory of consumer choice gives insights into marketing strategy. Two applications are briefly discussed here: the first and most obvious concerns consumer group dynamics; the second relates to the theory and practice of market segmentation.

It is a marketer's maxim that celebrities sell products. On the day Michael Jordan announced his retirement from basketball, it was reported that shares in Nike fell 5 percent; over his professional career Jordan is estimated to have raised sales of Nike by as much as \$5.2bn through his product line and endorsements (*Financial Times* 14<sup>th</sup> January 1999, p.7). Reference groups are frequently used to segment markets and encourage consumer conformity, and celebrities provide a particularly popular type of reference group appeal. Group members act as followers: their identification with the celebrity-leader is typically based on aspiration or empathy (Schiffman and Kanuk, 1991). They unconditionally conform to the 'terms and conditions' prescribed for group membership by the leader: e.g. buy the endorsed product. Were the leader to choose these terms 'defensively', in the manner described in Section 2, then the relationship is primary, and characterised by inequalities (4) and (4a) for leader and followers respectively. More likely here the celebrity's motives are primarily instrumental, so the model is a hybrid: a quasi-primary variant of leadership/followership.

So far we have assumed a market segment with leaders and followers in well-defined, mutually exclusive roles. This ignores much less clearly structured aspects of

group dynamics, such as peer group pressure and other processes by which group members informally influence the opinions, attitudes and actions of each other. Our basic model needs to be and can easily be modified to accommodate such interactive choice. Suppose that each individual in the group or relationship now acts as a Cournot follower. Each takes the behaviour of significant others to be the group norm, expect others' behaviour will not change, and optimises accordingly. Each follows a reaction function, showing his or her optimal decision as a function of others' choice. Cournot-Nash equilibrium norms satisfy these reaction functions simultaneously; they are the solution to a process of sequential reactions to actual consumption choices. This is exactly the model used by Jones (1984) to explain workplace conformity. Many further applications are suggested by the theory of relational choice: to fads, fashions, crowd and herd behaviour.

Economic theory often gives the disarmingly naïve impression that market segmentation is a simple matter of passively exploiting existing geographic or demographic segments with an appropriate discriminatory pricing policy. In fact, market segmentation is an active, complex process. Segments of relatively homogeneous consumers must first be created, then targeted with a specific product or promotional appeal. The product is positioned so that it is perceived by each target segment as satisfying its needs better than competing brands. Active market segmentation is at least as much psychological and sociocultural as it is geographic and demographic.

Effective market segments- like primary relationships and primary groups - may be based on identification with a specific characteristic such as race, religion, ethnicity, age, social class or lifestyle (Schiffman and Kanuk, 1991). Marketing strategy (brand association) might then be to weld an additional constraint onto existing group consumption norms. So to belong to the group, members must e.g. wear Levi 501s, shop

at a particular store, eat at the ‘right’ restaurant etc. This strategy is problematic from a conventional economic viewpoint: other things being equal, additional constraints raise the costs of group membership, reducing its appeal. But other things are not necessarily equal if the segment is also a primary group. A new cheap consumption norm may enable more people to join the group and enjoy its intrinsic benefits while established members gain network externalities as group size increases. Alternatively, a new and expensive consumption norm enhances benefits for existing members by making membership more exclusive. Either way, a successful strategy for brand association will not focus on product promotion alone. Part of the strategy will aim to heighten the appeal of belonging to the target group *per se*, membership of which is – ‘incidentally’ - now only possible by buying the promoted brand. Once a brand is well established as the entree to a desirable social grouping, it can, of course, command a premium price.

## **5 Conclusion**

This paper proposes a theoretical paradigm that embraces both *homo economicus* and *homo sociologicus*. It retains rational choice as its basic framework, but aims to enrich it by taking seriously a well-established cultural, social and psychological phenomenon: that some relationships have intrinsic value. In spite of overwhelming supporting evidence from different intellectual disciplines, this fact has largely been ignored by mainstream economics.

The matter is encapsulated in Granovetter’s claim that “the mere *fact* of attachment to others may modify economic action” (1992, p.35). Social-selves have preferences for relationships with significant others. These primary interactions and involvements are important for their own sake. They are not instrumental. However,

because of the risk of adverse instrumental outcomes, agents only offer primary relationships on certain terms and conditions. Whether or not these supply prices are accepted depends on the social-self-interest of the tentative partner: crudely, does the intrinsic benefit of the relationship exceed the cost of these constraints? In these emotionally rich but entirely rational relationships, the rules, obligations, procedures, norms etc. are also the product of rational choice. They are self-sanctioning, to be tolerated as a worthwhile burden, not internalised through socialisation. Recalling Duesenberry's quip that "sociology is all about how [people] don't have any choices to make" (1960, p.233), we see our social-selves making a meta-choice - sometimes to forego choice itself.

The theory bears some superficial similarity to models of both consumption externality and bounded rationality: approximate optimisation over a simplified feasible set. Formally it is quite different from an externalities approach - preferences here are not interdependent. Nor does our motivation for restricting the agent's choice set have anything to do with information difficulties.

The basic model of rational sociality encompasses standard, independent economic choice theory as a special case, while explicitly recognising that self-interested agents also make choices that are sometimes group dependent. It inextricably integrates issues of allocative efficiency and distribution, and highlights a tension between efficiency, as it is conventionally understood, and social cohesion. The model can be extended to analyse leadership and mixed-motive relationships. Different variants of the model have many potential applications. Not surprisingly it can assimilate relational business practices and management systems. Also not surprisingly, primary relationships are typically cooperative and trusting, though trust here is endogenous to the model, not externally

imposed by either an assumption of moral character or by the manipulation of a leader. Because commitment to a relationship is a matter of social-self-interest, it is inevitably conditional. Because intrinsic value can be expressed in a money metric, eg. a compensating or equivalent variation, rational sociality makes possible a unified economic analysis of the way in which individuals are integrated into or excluded from society. More broadly it can be used to explore the sources of social stability, community cohesion, alienation and discrimination. More narrowly it can offer theoretical insights and practical guidance concerning consumer group dynamics and market segmentation.

Our analysis may be controversial for some. At its core is the principle of substitution. In the usual way, trade-offs between commodities are possible. So are trade-offs of one relationship for another, though we have not formally articulated these trade-offs here. While emphasising the intrinsic benefits of sociality, it certainly also suggests that there is scope for substitution between personal consumption and interpersonal relationships. Membership of a dense, cohesive network of emotionally rich relationships may compensate for economic deprivation. And the converse: as an economist colleague once advised the author, “money may not buy love, but it can buy some damn good substitutes”. Every valuable relationship has a notional money price. This insight, that some relationships are as economically valuable as commodities, might be misconstrued as the ‘commodification’ of relationships. Some of the policy prescriptions implied by these trade-offs smack of fairly heavy handed social engineering. In itself it is of no particular ethical significance that an individual’s preferences are defined on relationships with others. They are no different from preferences for the usual assortment of consumer goods, e.g. housing, haute couture and heroin.

The social-self-interest paradigm offers a methodological alternative to ‘individualism versus collectivism’, with broad cross-cultural resonance. It is a self-interest theory in which personal identity comprises social-psychological ‘continuity and connectedness’. Each individual is both a locus of agency and a unique node or conjunction of primary relationships. Society is the network of relationships, some of which are primary, some instrumental. Self and society are two aspects of the same phenomenon. Social-selves are inherently interdependent. They subscribe to a maxim which surely all mature adults know to be true, but which professional economists usually do not like to admit: that life goes better for us when we voluntarily put limits on our freedom of choice.

## **Acknowledgements**

*Earlier versions of this paper have been given at seminars in the Department of Economics, University of Reading, the Departments of Economics and Political Science, University of Colorado, Boulder, and at Middlesex University Business School. The author is grateful to the seminar participants for their constructive comments.*

## References

- G.A. Akerlof (1980) A Theory of Social Custom, of Which Unemployment May Be One Consequence, *Quarterly Journal of Economics*, Vol. 94, pp. 749-775.
- M. Argyle (1994) *The Psychology of Interpersonal Behaviour*, (5e) London: Penguin Books, pp. 204-208.
- M. Argyle, M. Martin and J. Crossland (1989) Happiness as a Function of Personality and Social Encounters, in J.P. Forgas and J.M. Innes (eds) *Recent Advances in Social Psychology*, Amsterdam: Elsevier Science Publishers, pp. 189-203. Reprinted in M. Argyle (ed) (1993) *Experiments in Social Interaction*, Aldershot: Dartmouth, pp. 213-228.
- B. Barber (1983) *The Logic and Limits of Trust*, New Brunswick, N.J.: Rutgers University.
- J.N. Barton and M.T. Hannan (1994) The Impact of Economics on Contemporary Sociology, *Journal of Economic Literature*, Vol. 32, pp. 1111-1146.
- G.S. Becker(1974) A Theory of Social Interactions, *Journal of Political Economy*, Vol.82, pp.1063-1091. Reprinted in G.S. Becker (1976) *The Economic Approach to Human Behavior*, Chicago: University of Chicago Press, Ch.12.
- Y. Ben-Porath (1980) The F-Connection: Families, Friends and Firms and the Organization of Exchange, *Population and Development Review*, Vol. 6, pp. 1-30.
- P.L. Berger and T. Luckman (1966) *The Social Construction of Reality*, New York: Anchor Books.
- T.C. Bergstrom (1996) Economics in a Family Way, *Journal of Economic Literature*, Vol. 34, pp. 1903-1934.

- B.D. Bernheim (1994) A Theory of Conformity, *Journal of Political Economy*, Vol. 102, pp. 841-877.
- S. Bikhchandani, D. Hirshleifer and I. Welch (1992), A Theory of Fads, Fashion, Custom and Cultural Change as Informational Cascades, *Journal of Political Economy*, Vol. 100, pp. 992-1026.
- I. Burkitt (1991) *Social Selves*, London: Sage Publications.
- S. Bowles (1998) Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions, *Journal of Economic Literature*, Vol. 36, pp. 75-111.
- M. Carrithers, S. Collins and S. Lukes (eds) (1985) *The Category of the Person*, Cambridge: Cambridge University Press.
- M. Casson (1991) *The Economics of Business Culture*, Oxford: Clarendon Press.
- M. Casson and H. Cox (1997) An Economic Model of Interfirm Networks, in M. Ebers (ed), *The Formation of Inter-Organizational Networks*, Oxford: Oxford University Press, Ch. 7.
- J.S. Coleman (1990) *Foundations of Social Theory*, Cambridge, Mas: Belknap Press.
- S. Collins (1982) *Selfless Persons*, Cambridge: Cambridge University Press.
- J. Conlisk (1980) Costly Optimisers Versus Cheap Imitators, *Journal of Economic Behaviour and Organization*, Vol. 1, pp. 275-293.
- C.H. Cooley (1918) *Social Process*, New York: Scribner's Press.
- R. Cooper and N. Cooper (1982) *Thailand: Culture Shock!* Singapore: Times Books International.
- P. Dasgupta (1988) Trust as a Commodity, in D. Gambetta (ed) *Trust: Making and Breaking Cooperative Relations*, Oxford: Basil Blackwell.

- K. Davis (1948) *Human Society*, New York: Macmillan.
- R. Dawkins (1989) *The Selfish Gene*, Oxford: Oxford University Press.
- J. Dewey (1925 and 1958) *Experience and Nature*, New York: Dover Publications.
- R. Dore (1983) Goodwill and the Spirit of Market Capitalism, *British Journal of Sociology*, Vol. 34, pp 459-482.
- J. Duesenberry (1960) Comment on 'An Economic Analysis of Fertility', in National Bureau Committee for Economic Research (ed) *Demographic and Economic Change in Developed Countries*, Princeton: Princeton University Press, pp. 231-234.
- J. Elster (ed) (1986) *The Multiple Self*, Cambridge: Cambridge University Press.
- J. Elster (1998) Emotions and Economic Theory, *Journal of Economic Literature*, Vol. 36, pp. 47-74.
- F. Fukuyama (1995) *Trust*, London: Hamish Hamilton.
- C. Geertz (1984) "From the Native's Point of View": On the Nature of Anthropological Understanding, in R.A. Schweder and R.A. Levine (eds) *Culture Theory*, Cambridge: Cambridge University Press, Ch.4. Reprinted from *Bulletin of the American Academy of Arts and Sciences*, Vol. 28, No.1 (1974).
- A. Giddens (1991) *Modernity and Self-Identity*, Cambridge: Polity Press.
- M. Granovetter (1992) Problems of Explanation in Economic Sociology, in N. Nohria and R.G. Eccles (eds.) *Networks and Organizations: Structure, Form and Action*, Boston, Mas.: Harvard Business School Press, pp.25-56.
- B. Gui (1996) On 'Relational Goods': Strategic Implications of Investment in Relationships, *International Journal of Social Economics*, Vol.23, pp.260-278.

- C.A. Heimer (1992) *Doing Your Job and Helping your Friends: Universalistic Norms about Obligations to Particular Others in Networks*, in N. Nohria and R.C. Eccles (eds.) *Networks and Organizations*, Boston, Mas.: Harvard Business School Press, pp.143-164.
- G.M. Hodgson (1998) *The Approach of Institutional Economics*, *Journal of Economic Literature*, Vol. 36, pp. 166-192.
- M.A. Hogg and D. Abrams (1988) *Social Identifications*, London: Routledge.
- W. James (1890) *Principles of Psychology*, London: Macmillan.
- S.R.G. Jones (1984) *The Economics of Conformism*. Oxford: Basil Blackwell.
- J.Kay (1996) *The Business of Economics*, Oxford: Oxford University Press.
- K. Lancaster (1971) *Consumer Demand: A New Approach*, New York: Columbia University Press.
- S.B. Lewin (1996) *Economics and Psychology: Lessons for Our Own Day from the Early Twentieth Century*, *Journal of Economic Literature*, Vol. 34, pp. 1293-1323.
- I.R. Macneil (1980) *The New Social Contract: An Inquiry into Modern Contractual Relations*, New Haven: Yale University Press.
- H.R. Markus and S. Kitayama (1991) *Culture and Self: Implications for Cognition, Emotion, and Motivation*, *Psychological Review*, Vol. 98, pp. 224-253.
- G.H. Mead (1934) *Mind, Self and Society*, Chicago: University of Chicago Press.
- G.F. Michel and C.L. More (1995) *Developmental Psychobiology*, Cambridge, Mas.: The MIT Press.
- P. Milgrom and J. Roberts (1992) *Economics, Organization and Management*, Englewood Cliffs, N.J.: Prentice-Hall.

- H. Nakamura, and P.P. Wiener (ed) (1964) *Ways of Thinking of Eastern People*, Honolulu: University of Hawaii Press.
- J. Nash (1978) *Developmental Psychology: A Psychobiological Approach* (2e), Englewood Cliffs, N.J.: Prentice-Hall.
- S. Odin (1996) *The Social Self in Zen and American Pragmatism*, Albany: State University of New York Press.
- D. Parfit (1984) *Reasons and Persons*, Oxford: Oxford University Press.
- M. Rabin (1998) Psychology and Economics, *Journal of Economic Literature*, Vol. 36, pp. 11-46.
- P.S. Ring (1977) Processes Facilitating Reliance on Trust in Inter-Organizational Networks, in M. Ebers (ed), *The Formation of Inter-Organizational Networks*, Oxford: Oxford University Press, Ch. 5.
- A. Roland (1988) *In Search of Self in India and Japan*, Princeton, N.J.: Princeton University Press.
- L.G. Schiffman and L.L. Kanuk (1991) *Consumer Behaviour*, 4e, Englewood Cliffs, N.J.: Prentice-Hall.
- A. Sen (1987) *On Ethics and Economics*, Oxford: Basil Blackwell.
- R.A. Shweder and E.J. Bourne (1984) Does the Concept of the Person Vary Cross-Culturally? In R.A. Shweder and R.A. Levine (eds) *Culture Theory*, Cambridge: Cambridge University Press, Ch.6.
- P.B. Smith and M.H. Bond (1998) *Social Psychology Across Cultures*, 2e, London: Prentice Hall Europe.
- C.J. Uhlener (1989) Relational Goods and Participation: Incorporating Sociability into a Theory of Rational Action. *Public Choice*, Vol. 62, pp. 253-285.

- A. Weale (1992) *Homo economicus, Homo sociologicus*, in S. Hargreaves Heap *et al*, *The Theory of Choice*, Oxford: Blackwell, Ch.5.
- E.O. Wilson (1998) *Consilience: The Unity of Knowledge*, New York: Knopf.
- M. Young and G.Lemos (1997) *The Communities We Have Lost and can Regain*, London: Lemos and Crane.
- R.C. Ziller (1973) *The Social Self*. Oxford: Pergamon Press.