On Altruism and Cooperation

M. Teresa Lunati
University College of Wales, Aberystwyth

Introduction

The mainstream of modern economic theory is built upon two crucial assumptions, namely that (i) tastes are given, and (ii) individuals are rational, self-interested economic beings.

An important, additional assumption normally made in the economic literature is that of “Nash conjectures”, that is each individual, when deciding his own utility-maximizing action, takes the behavior of everyone else as given.

Selfishness and independent (isolated) behavior are the critical premises for the “free-rider” problem and the resulting private underprovision of public goods and philanthropic-charitable activities; and for the “prisoners' dilemma” and “isolation paradox” [Sen (1967)] which lead to non-cooperative inferior outcomes.

However, the widely observed examples of apparently non-selfish motivations, and the empirical extent of voluntary cooperation seem to be in marked contrast to, and inconsistent with, standard theory. Consequently, several studies have directly addressed the issues of altruism and cooperation, and they fall broadly in one of the two following categories. First, studies which attempt to explain, on the one hand, seemingly altruistic feelings in terms of self-interest, even when this requires engaging in ad hoc theorizing; and, on the other, spontaneous cooperative outcomes as very special cases due to particularly favorable circumstances. Second, studies which take a more radical stand, and to a greater or lesser extent depart from conventional economic theory, by “accepting” that altruism and voluntary cooperation are more or less common phenomena, and hence amending, if not reversing, basic economic postulates. Thus, a number of studies provide “rational” explanations of spontaneous cooperative behavior, against the “rationally” expected non-cooperative one.


In spite of this growing, and by now quite large literature, there still seems to be, however, some confusion about the two separate, though possibly interdependent, themes of selfishness vs altruism and non-cooperation vs cooperation. Thus, before proceeding any further, a few clarifications seem to be in order.

Specifically, the main tenets held here are the following. Firstly, selfishness or altruism are a matter of tastes or preferences, and are thus represented in the individual utility function. [More precisely, a selfish individual cares only about his own welfare. Conversely, an altruistic individual cares also about other people’s well-being: here, “genuine” altruism would indicate a general concern for someone else’s welfare; whereas “paternalistic” or “meddlesome” altruism would indicate a specific concern for other people’s consumption of some goods (e.g. merit goods).] Non-cooperation or cooperation are, on the other hand, a behavioral matter, and are therefore related to the manner in which individuals decide their own actions. [In particular, a non-cooperative (atomistic) individual assumes that his actions are independent of others’; whilst a cooperative individual assumes an economic interdependence between his and other peoples’ actions, and collaborates with others.] Secondly, non-selfishness, or else altruism, is neither a necessary nor sufficient condition to generate spontaneous cooperative behavior, although it can facilitate it. Thirdly, not only can preferences and behavior be interrelated, they can also be endogenous to the system.

The main purpose of this analysis is not so much to question the central assumption of neoclassical economic theory, that is to say “rational self-interest”, rather to question its presumed ethical neutrality.

Indeed, one implication of the presumed moral neutrality of the “rational self-interest” assumption is an implicit “right-wing” bias in economic theory. [Thus, private is good, public is bad, or, private are the virtues, public the vices. Competition is healthy, cooperation is not feasible. Economics can only properly deal with the problem of resource allocation (efficiency), and not distribution (equity), as the latter entails some moral criterion which lies
outside the sphere of economics.]

In fact, the assumption of exogenously given tastes, and of individual optimal choices as the outcome of objective constraints, relates to the basic ideological distinction between “Left” and “Right” with respect to “human nature”, and implicitly takes the latter view. Broadly speaking, and according to the traditional interpretation, the Right’s view in this respect is that genetics is more important than the environment in determining human nature, while the Left’s is the opposite. Thus, the Left’s position stresses the endogeneity of preferences and behavior.

After all, the Father of modern economic theory, Adam Smith, formed his doctrine at the British Right-wing philosophical school of Hutcheson and Hume, under the influence of Hobbes and Mandeville.

The conviction, which may be conscious or unconscious, that economics - likewise sociology, psychology, psychoanalysis, politics - is a discipline independent of ethics, or else that they are two different and separate “categories”, is certainly a legitimately tenable one. However, it reflects a very specific philosophical stand, and is by no means unanimously accepted, nor is it in any sense “neutral”.

More precisely, classical economic theory is, from a philosophical point of view, a teleological ethical theory, according to which acts have only an instrumental value, while it is the consequences of those acts which have an intrinsic value. In other words, actions have to be judged by their results, and the moral motivation of the acts is somehow irrelevant. Thus, this theory is philosophically in contrast to a deontological ethical theory, which attributes intrinsic value to features of the act themselves. To use some examples, the former theory would consider an altruistically-motivated action, but which results in an unfortunate outcome, as not praiseworthy. By contrast, the latter theory would regard “lying” as wrong even if it produced better consequences than the alternative, “telling the truth”.

Similarly, the conviction that economics is a technical/scientific discipline, which yields “objective” results, is a by-product of the conviction that the basic postulates on which it is built are morally neutral. Holding such convictions can certainly be more reassuring or less disturbing, both for economists as well as, and possibly even more, for non-economists; however, and no matter how appealing, this is not a sufficient reason for not questioning the very nature of these convictions.

The fact that these convictions are, nevertheless, widely held among economists has certainly much to do with the Father’s own view. At the same time, a significant part of the explanation may also lie in the fact that economics, in more recent times, has been largely dominated by Anglo-American Schools and Journals, where Adam Smith’s tradition is most engrained. Moreover, due to a highly specialized educational system, most Anglo-American scholars of economics are normally not “exposed” to Philosophy, nor Sociology, Anthropology, Politics, Law or any other economic-related social discipline. Thus, their lack of such knowledge may have contributed to their keen, and often unquestioned, acceptance of presumed-to-be neutral postulates.

Therefore, to question and challenge the basic assumption of standard economic theory - the rational selfish utilitarian nature of homo economicus - is not only legitimate from an empirical viewpoint, in account of the extensive evidence of altruism and cooperative behavior. It is also theoretically legitimate, given standard theory’s morally non-neutral, and de facto right-wing biased, nature.

Consequently, the “reverse” postulate, of an altruistic and voluntarily cooperative man, should be given at least equal consideration as the “normal” postulate. This reverse postulate would, clearly, shift the ideological bias in economics to the Left, with several important implications for economic theory and policy; and it could be the basis for a new, Left, economic theory, parallel to and coexisting with the old, Right, one.

Some Thoughts on the “Prisoners’ Dilemma” and “Free-Rider” Problem

A legitimate dissatisfaction with standard “tenets” of neoclassical economics, both on theoretical and empirical grounds, arises from the “Prisoners’ dilemma” and “free-rider” problem. Firstly, the “Prisoners’ dilemma” points to a contradiction of the “rational, self-interested individual” postulate. If cooperation brings about a superior outcome for everybody, then intelligent, well-informed, rational individuals would, as they should, all choose it. It is only by suggesting that the true individual nature is egoistic, greedy, and prone to cheat that the problem - Prisoners’ dilemma/Isolation Paradox, where, in game theory terminology, the “temptation” payoff strategy is followed - arises, in theory in the first place as well as in practice. In fact, this can be seen as an instance of self-fulfilling prophecy, which relates to the empiricist methodology, where the postulates of selfishness and non-cooperative behavior are taken
as facts. In practice, messages and signals may play an important role in forging that very same human nature, which is claimed to be exogenously given as such. Therefore, maintaining the assumption of individual selfishness and (Nash) non-cooperative behavior suggests either Individual “irrationality” or myopia or else stubbornness on the part of the theoretical and/or empirical economist. This is why, given the conspicuous evidence of spontaneous cooperation, several explanations of it have been put forward, though mainly in an attempt of reconciliation with, and extension of standard theory.

Secondly, the well-known and related “free-rider” problem - which points to the failure of private voluntary cooperation in the provision of public goods, thus providing a rationale for collective provision - is, similarly, the fruit of the “rational, selfish, utilitarian and atomistic individual nature” assumption. Tax evasion can be clearly interpreted as an instance of free-riding, where rational individuals avoid their share of the cost of public expenditures, while still enjoying the benefits. Thus, according to standard economic theory, a society with a larger number of tax evaders should be populated by more selfish individuals, than a society with fewer tax evaders; and, as a result, it could be argued, the former society should also exhibit a smaller share of public expenditure over GDP. Moreover, the extension of the free-rider problem to the political arena would suggest that the more individualistic society should have a smaller voting turnout. However, such economic and political predictions do not seem to be confirmed by the evidence of countries showing very different degrees of tax evasion. For example, in a comparison between Italy and the U.K., Italy undoubtedly has a much higher tax evasion problem, but also a higher public spending/GDP ratio, and unquestionably a much higher, and very high in absolute terms, electoral turnout. Furthermore, the rational individualistic assumption at the basis of the free-rider problem appears to contrast with the seemingly highly family-oriented and highly politicized nature of Italians.

Therefore, either ad hoc explanations are given of why, within a society, the free-rider problem shows itself in some instances and not in others, or, and preferably, some alternative theory, able to account in a consistent way for the seemingly contradictory evidence, is developed. If such an alternative theory were to be based on the “reverse” postulate of altruistic and cooperative individuals, then the problem of accounting for different degrees of tax evasion across societies might, for example, be explained in terms of different societal degrees of individuals’ satisfaction with public spending efficiency and efficacy, rather than in terms of degrees of individual rational selfishness.

On the Ethical Non-Neutrality of the “Selfishness” Assumption

The presumption that selfishness is a morally “neutral” assumption, as Collard (1978) argues, is based on the view that, on a continuous scale ranging from envy, malevolence or hatred to sympathy, benevolence or love, self-interest lies in the middle.

This position is however indefensible, once it is recognised that selfishness is synonomous with “egoism”, a Latin word meaning “exclusive love for oneself”, as opposed to its contrary, “altruism”, also a Latin word meaning “love for others”. That is to say, etymologically, egoism and altruism are antithetic terms lying at two opposite extremes, though each may certainly be present in different degrees. In other words, an altruist may only be weakly so, or he may be a perfect altruist; and similarly for an egoist.

In contrast, envy, malevolence or hatred on the one hand, and sympathy, benevolence or love on the other, are concepts completely distinct from egoism and altruism. They all refer to specific sentiments and inclinations towards others, or oneself. Here, the middle assumption in relation to others would be indifference or apathy, a Greek word meaning “lack of passion or sentiment”. Thus, the fact that I neither hate nor love other people does surely imply that I am indifferent toward them; but it does not necessarily imply that I am selfish, as I might even hate myself. At times, the hatred-to-love feelings may represent the motivation, or one of the motivations, for either egoism or altruism; but they do not lie on the same scale as egoism and altruism.

The point made here is not to deny the possibility, or even the likelihood, of man being selfish. What is argued here is that selfishness is, certainly, a non-neutral concept or assumption. Thus, selfishness is an ideologically legitimate assumption, but so is its opposite, altruism.

Some Implications

Recognising and accepting the ethical non-neutrality of standard economic theory’s basic assumptions about human nature - that individual tastes are given, and homo economicus is a rational, selfish, utility-maximizing, non-cooperative person - and their implicit “right-wing” bias, is conducive to several important observations and implications.
for economic analysis and policy.

1. The two alternative postulates on human nature - the “normal” one of a rational, self-interested, non-cooperative individual, and the “reverse” one of a rational, altruistic, cooperative man - should be regarded as equally plausible.

Consequently, parallel to the “old” and right-wing biased economic theory, built upon the “normal” postulate, a “new” and left-wing biased theory, based on the “reverse” postulate, would coexist with similar legitimacy.

2. Human nature in terms of objectives and behavior, i.e. whether selfish or altruistic and whether non-cooperative or cooperative, may differ across individuals and societies; and it may also differ across time periods and generations. Thus, different societies may exhibit different degrees of homogeneity in individual nature at any particular time; and, over time, their relative degrees of homogeneity might be reversed.

An important implication of this observation relates to the formalization and choice of government policies, as well as the coordination of international policies. More precisely, when choosing among possible policies, a government has to make specific assumptions about individuals’ nature, both concerning individual preferences and individual behavior and hence expected reactions to policies. In other words, the selection of policies is based on government’s guesses about the “true” human nature. Thus, the possibility of actual misperception or misjudgement of individuals on the part of the government cannot be ruled out. Clearly, if this were the case, the government would be following the “wrong” policies, which would lead to inefficient outcomes.

Similarly, an efficient and successful international policy coordination requires a correct knowledge by the governments involved of their own societies and of the other societies. Obviously, the chance of a national government misjudging the “nature” of foreigners seems even higher than that of its misjudging the “nature” of its own citizens. Hence this enhances the probability of “incorrect” international policy formulation and implementation.

3. The basic ideological distinction between Left and Right, with respect to human nature, is not only reflected in a more “optimistic” conviction by the Left about individual altruism and social cooperative behavior. It is also reflected in the different weights attached to genetics and environment in the very determination of human nature, with the Left broadly believing in the environment as the more important determinant, while the Right in genetics.

Therefore, the “normal” classical assumption that tastes are “given” is a logically natural “corollary” of the Right’s position, and not an ideologically, and morally, neutral view.

Another important implication of this consideration is that the new, Left, theory would be characterized not only by a more “positive” belief in human nature, but also by the belief that the society as a whole, and government policies may play a significant role in forming individuals’ characters, and in inducing changes in individual preferences and behavior, by means for example of information and education policies. In other words, this alternative theory would not take individual and societal degree of altruism and cooperative behavior as exogenous, but would recognize their endogeneity to the system.

4. The previous observations suggest an alternative and, arguably, more appropriate way of modelling “Left” and “Right” parties, in the context of the recently growing literature on politico-economic models of government policy.

So far, not only has this literature developed within the restrictive two-party system structure, which greatly diminishes the realistic content of its analytical and general results, since most societies are actually characterized by multi-party political systems. Also, and more importantly in the present discussion, the literature’s modes of differentiating between “Left” and “Right” (single-party) governments seem questionable. Specifically, these modes can be, broadly, described as follows:

a) Left and Right parties have different preferences regarding unemployment and inflation, with the Left party more sensible to the cost of unemployment, and hence having a stronger incentive to generate unexpected inflation to promote growth, and, in general, an optimal rate of inflation higher than the Right’s, as it favors higher government spending. See Alesina (1987), and Ellis and Thoma (1991) where the two parties have also different preferences for redistribution policy.

b) Left and Right parties have different preferences over the level of public expenditure, with the Left party favoring a larger public sector with concomitant higher borrowing and/or taxation level. See Persson and Svensson (1989), and Aghion and Bolton (1991).

c) Left and Right parties have different preferences over the composition of public expenditures. See Alesina and Tabellini (1990), and Tabellini (1990).
The Left government is rationally expected to default on public debt (either through inflation i.e. a \textit{de facto} default, or through an explicit default), while its Right rival is rationally expected to repay it. See Aghion and Bolton (1991), and Alesina and Tabellini (1989) where, in a developing country setting, external debt repudiation (explicitly or via devaluation) is more likely under a Left government.

Certainly, each of the above modeling devices is a convenient and suggestive way of describing the "partisan" view of macro-economic policy, where the two alternating parties are assumed to represent the interests of different "pressure groups" or constituencies.

However, except for the modeling mode (c), all the others appear to incorporate an element of bias in favor of the Right party-government. In fact, the Right party is represented as generally more efficient, against default on public debt and against devaluation, as inflation averse and more reliable in the fight against inflation. By contrast, the Left party-government is expected to default on the debt (explicitly or implicitly), to devalue, to be inflation prone and inflation generating, and in general less efficient, if not inefficient.

More precisely, in the case of mode (a), the presumed attempts by the Left government at exploiting the Phillips curve implicitly suggest some lack of rationality on its part. That is, if people have rational expectations, the inflation-unemployment trade-off cannot be exploited: while, with adaptive expectations, even if the trade-off could be exploited in the short run, it would only be at the cost of some loss of future credibility (unless voters were also to be conveniently forgetful, so that reputational considerations would not matter). Either way, the studies seem to involve a degree of Left party's irrationality.

Alternatively, a theoretical defence of mode (a), which would not bring into question the Left government's rational behavior, might be based on the assumption that the two parties have different beliefs about the society's economic structure, or, in other words, that they believe in different models of the economy. However, this is not the assumption that the studies make.

A similar discussion seems also pertinent with regard to the modeling mode (d).

Conversely, in the case of mode (b), the bias in favor of the Right party is the result of the combined assumption that both types of voters are selfish individualists and the Right party favors a smaller level of public spending and public debt. Thus, all individuals' welfare is higher under a Right government, given their indifference to the level of government consumption.

It may be here worth noting that Reichlin (1991), in his discussion of Aghion and Bolton's (1991) study, expresses a similar discomfort with their model's \textit{de facto} implication that the Left party has a Pareto-inefficient policy, under the assumed case that the rate of transformation between private and public goods is greater than one.

Clearly, these studies' common bias in favor of the Right party is a disturbing factor. What is, however, even more relevant is the fact that all the above modelling devices do not seem to capture the "true" difference between the two parties. What is really behind different parties is different ideologies, which reflect different convictions about human nature, both in terms of objectives and behavior. Thus, it is not only the preference for public spending levels, or the degree of caring for others, the "altruism", which may differ among different individuals and political groups in society, but also the attitude toward cooperation with respect to both private economic decisions and public good provision.

Accordingly, the Left party may be assumed, as under the above mode (b), to represent individuals who prefer a larger public sector, compared to Right party's supporters. However, left-wing voters would also be assumed to be (more) cooperative in the presence of a consumption externality, or in the provision of some public good; or even more likely to be aware of, and hence take into account, macro-economic constraints (such as the relation between per capita level of taxation and public good level). Thus, their behavior would be based on the Kantian rule (cf. Laffont (1975)) - i.e. on the dictates of the "categorical imperative" of following those rules which can be wished to be general laws - or on some other "less demanding" ethical rule.

An important consequence of this alternative way of modeling Left and Right individuals and parties would, certainly, be the "removal" of the existing implicit bias in favor of the Right party, and also its possible "reversal" in favour of the Left party, with individuals' welfare likely to be higher under a Left government. Obviously, left-wing altruistic and cooperative individuals would not free-ride, and would not be locked into the Prisoners' dilemma. Moreover, a Left government, more inclined to accept the idea that individual nature is to some extent endogenous to the system, would more likely pursue information and education policies aimed at increasing individuals' degree of
altruism, and in inducing cooperative behavior.

It seems, here, the right place to discuss a potential criticism of the internal logic of the present analysis.

As Sugden (1982, 1984) has underlined, if individuals were to follow the Kantian rule, or any other ethical rule which implies spontaneous cooperative behavior (such as his suggested “reciprocity” rule), the arguments for government intervention would appear to be undermined.

Thus, the problem would arise of justifying the rationale behind a Left party (or theory) which, as here argued, believes in individuals being altruistic and cooperative, and at the same time is also in favor of government intervention. A number of explanations can be given to solve this apparent contradiction. Firstly, although more “optimistic” than a Right party (or theory) about human nature, a Left party/theory may still recognize the limits to altruism (e.g. the degree of altruism may be low), as well as the heterogeneity of individuals’ nature in terms of preferences and behavior. Secondly, even if all individuals had a (Kantian or non-Kantian) cooperative behavior toward public good provision, they might still be non-cooperative with respect to private economic decisions/consumption externalities (e.g. due to selfishness or weak altruism). Thirdly, and most importantly, the recognition by the Left party/theory that human nature is to some extent endogenous clearly justifies government policies directed at modifying in the desired direction individual objectives and behavior.

5. Finally, in the light of the present analysis, it is possible to re-examine some of the economic literature’s “neutrality” results.

First, consider the neutrality result of Barro (1974) - the Ricardian Equivalence Theorem - where government attempts to redistribute income across generations, through changes in fiscal policy between borrowing and taxation, are, under certain circumstances, neutralized by individual offsetting changes in intergenerational altruistic transfers. This equivalence of debt and taxes obtains because a substitution of debt financing for taxes is perceived only as a change in the timing of taxation, and has hence no impact on the economy’s real variables. That is, the government cannot use, or manipulate, public debt for intergenerational redistributive purposes.

It is, in a sense, ironical that the recognition of an extent of altruism, by a new-classical economist such as Barro, is here used to provide a neutrality result. In fact, the departure from the standard neoclassical postulate of individual selfishness is, in Barro’s analysis, instrumental to proving government “inability” to affect private sector economic decisions, or, in other words, government “impotence” in the presence of individual altruistically-motivated behavior. If individuals are altruistic - i.e. parents love their children and vice versa - and able to make transfers to achieve their desired intergenerational distribution pattern, then government intervention in the intergenerational economic distribution area is neutral.

Second, consider the (partly related) neutrality result of Boadway, Pestieau and Wildasin (1989), where government attempts to redistribute income across local communities are, under certain informational and behavioral assumptions, nullified by offsetting changes in the localities’ contributions to a public good. This result similarly stresses the total inefficacy of government policies in modifying the economy’s real equilibrium. More precisely, if local governments “see through” the central government budget - i.e. they are aware of, and take into account, the relevant macroeconomic constraint - and make correct conjectures about other localities’ behavioral responses to changes in government policies, then government intervention in the intergovernmental distribution area is neutral.

These neutrality results are, undoubtedly, very important, but a correct interpretation of them is crucial, and particularly so for the understanding of the scope of government policies. In fact, these neutrality results might, improperly, be used to provide an additional argument against government intervention, here due to its ineffectiveness, rather than to its potentially harmful effects.

In particular, it is not inferred that altruism implies neutrality. Barro’s result hinges on other critical assumptions, including non-distortionary taxes, perfect capital markets - and hence no transactions costs and no informational asymmetries - with no liquidity constraints on consumers, and no uncertainty about future tax liabilities. Thus, relaxing any of these assumptions will normally result in non-neutrality, even if individuals are altruistic.

More generally, the correct inference which may be derived from these neutrality results is not that the government should not intervene in the economy: the general scope for government intervention is, in fact, not necessarily undermined. Rather, it can be inferred that, depending on the specific economic problem to be solved and on the specific conditions, individuals’ altruism, and/or cooperative behavior, and/or correct conjectures about government policies and other individuals’
behavior and reactions, would realize the optimal outcome that would otherwise be attained only if appropriate government policies were implemented.

Therefore, the reasons which may call for a limited government intervention are somehow opposite to those given by “classical” economics. According to the classical doctrine, a minimal state intervention is all is needed, since rational, self-interested individuals, with the help of the “Invisible Hand” merely guided to correct for any “market failure”, are, in the pursuit of their own economic goals, able to achieve a socially desirable outcome.

The alternative view suggested here is that a minimal government intervention is justified only in a society populated by very altruistic and cooperative individuals, especially if collective behavior is based on the Kantian ethics, and on realisation of the agents’ economic interdependencies. In fact, some government policies may, explicitly, be directed at inducing those changes in human nature, which would eventually remove the need for government intervention. Clearly, in the extreme case of the Utopian society, inhabited by purely altruistic and fully cooperative human beings, there would barely be any need for a government.

References