

MODULE 18

Individuals and Community

A community is made up of a group of individuals. One of the characteristics of a community is that there is an intersection of a set of shared values and objectives held by the individuals. Social institutions (embedded patterns of behavior within a society) represent these shared values. Only under rare circumstances would a group of individuals have the same set of shared objectives. Because they are individuals, it is probable that some of their objectives will be different and conflict or compete. It is necessary for the community to have a set of social institutions to coordinate competing values and ends.

Social institutions both arise from human behavior and influence their behavior. Traditions, mores, customs and more formal institutions (such as laws), define the range of choices. Markets are also a social institution. A voluntary contract between two individuals is a social mechanism to coordinate activities. Markets require a social infrastructure. Trust, expectations about buyers and sellers providing information (no fraud, deceit or duress), obligation to fulfill contracts and expectations that individuals will do no harm to others, facilitates the operation of markets. Adam Smith (1723-1790) points out that markets are subject to abuse:

«People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary.»

INSTITUTIONS AND COSTS

The provisioning process and the allocation process both involve the ownership of resources and goods as well as the mechanisms by which the rights of ownership are transferred. Within a society, the transfer of ownership of goods is not without costs. In the case of eminent domain, there are costs (opportunity costs) to the authority that defines and enforces the transfer of ownership of goods (property rights). Individuals who are affected by eminent domain incur costs as well. There are also costs of using exchange. These costs are the effort (sacrifice) of individuals to obtain information about goods, other individuals who are willing to enter a contract and the effort to negotiate the contract or terms of exchange.

Social institutions and organizations are a social response to reduce the costs of exchange and eminent domain. Social institutions also facilitate and enforce reciprocity. The costs of using exchange are referred to as “transaction costs.”

The institutions define the rules of the game: provide individuals with information and some degree of certainty in their social interactions. This reduces the time and effort (transaction costs) that individuals devote to the allocation problem.

Institutions and organizations are human creations that are intended to solve problems. It should be noted that these human creations might be intentional and explicit or unintentional and implicit. As in all human endeavors, some attempts are more successful than others: i.e. some institutions are more successful at achieving objectives than others.

Institutions arise as solutions to a given set of problems. Should the elements of the problem change (the actors, agents, technology, information, other institutions), the institutions may need to adapt. However, any set of institutions is correlated with the interests of particular individuals. Some of these individuals benefit from the particular structure while others are not. Those who benefit from a particular institutional structure have a vested interest in preventing changes in the institutions. These vested interests may

use their positions and power to prevent institutional change and to work to alter institutions (particularly explicit institutions such as law) in their interests. Consequently, the institutions that are prevalent at any point in time may lag behind environmental, technological and social changes.

The insurance, pharmaceutical, hospital and medical industries have more interest in the social institutions that influence the delivery of health care than individuals. Health insurance emerged in the mid 1930's as a solution to the problems of random, catastrophic health care costs and how hospitals and doctors would receive financial payment. The insurance and health care providers (doctors, pharmaceutical, hospitals and insurance industries and firms) have a vested interest in maintaining the system that maintains their sources of revenue.

The vested interests have an incentive to shape the formal and informal institutions that relate to their activities.

MORALITY, JUSTICE AND A STABLE SOCIETY

Institutions reduce the costs of the allocation process. Additionally, justice, an orderly society, tranquility, security, peace are objectives that are commonly held in many societies.

Adam Smith (1723-1790) is used to express these ideas here since he is generally regarded as one of the first writers to advocate a system based on morality, markets and law. He wrote the Theory of Moral Sentiments in 1759 to describe his view of the role of sympathy and empathy in human behavior. He argues that justice is essential for an orderly society. On the first page of Theory of Moral Sentiments, Smith writes:

«How selfish man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it. Of this kind is pity or compassion, the emotion which we feel for the misery of others, when we see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instances to prove it: for this sentiment, like all

the other original passions of human nature, is by no means confined to the virtuous and humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violator of the laws of society is not altogether without it.»

A just and moral society where humans can live in a peaceful environment is an objective held by many philosophers through the ages. Perhaps for some, the history of conflict and war casts doubt on a human objective of justice. Alternatively, perhaps conflicts and wars occur because of feelings or injustice.

Tradition, customs, mores, and other social institutions are mechanisms through which individuals acquire common values. The size of one's family, forms of marriage, responsibility for children or parents, expectations about disposal of wastes, use of resources, obligations to care for less fortunate people, trust, theft, voting, creativity, duty to family (country, etc.) attitudes about stewardship, are examples of values that may be generally held by the members of a community. These values influence the choices that individuals make.