|  |
| --- |
| How cooperation evolves: History, expectations, and leadership[Daron Acemoglu](http://www.voxeu.org/index.php?q=node/493) 13 June 2011, VOX.EU *Economists are increasingly recognising the importance of social norms in determining economic outcomes. While some argue that these norms are set in stone, this column introduces a new framework exploring how these norms emerge, how they can change, and how leadership by individuals can play a pivotal role.*  Social norms, which create self-reinforcing expectations and patterns of behaviour, are the foundation of social life. In many economic, political, and social situations where coordination is important, different social norms, with sharply varying consequences, may emerge and persist. Different norms regarding how much others should be trusted constitute one important example. For instance, Banfield (1958) and Putnam (1993), among others, point out how social norms concerning trust in others and public institutions as well as participation in civic activities differ between the south and north of Italy. As such norms are critical factors in the growth and prosperity of societies, it is essential to understand their formation and evolution.  Though much existing research on these issues emphasises the "cultural" origins of social norms including differences in the extent of trust between different societies or different parts of the same nation, social norms are not cast in stone and do change. Locke (2002), for instance, provides examples both from the south of Italy and the northeast of Brazil, where starting from conditions similar to those emphasised by Banfield in the south of Italy, trust and cooperation appear to have emerged. Recent events in the Middle East underscore this point. A very long period of lack of collective action led many commentators and social scientists to conclude that collective political action, particularly in favour of democracy, were inconsistent with the cultural values of the Middle East. Yet, many countries in the region are now in the midst of highly coordinated protests and associated changes in social norms of political participation. In the examples of changes in social norms emphasised by Locke, as well as in the recent events in the Middle East, actions by a small group of individuals who assumed leadership positions in coordinating expectations and behaviour appear to have played a pivotal role.  Why do similar societies end up with different social norms, and why and how social norms sometimes change? A common approach to answering these questions is to use coordination games, which have multiple equilibria corresponding to different self-fulfilling patterns of behaviour and rationalise the divergent social norms as corresponding to these equilibria. For example, it can be an equilibrium for all agents to be generally trusting of each other over time, while it is also an equilibrium for no agent to trust anybody else in society. We can then associate the trust and no-trust equilibria with different social norms.  Simply ascribing different norms to different equilibria has several shortcomings, however. First, it provides little insight about why particular social norms and outcomes emerge in some societies and not in others. Second, it is similarly silent about why and how some societies are able to break away from a less favourable (e.g., no trust) equilibrium. Third, it also does not provide a conceptual framework for studying how leadership by some individuals can help change social norms.  In recent research (Acemoglu and Jackson 2011), we tackle these questions. We develop a theoretical framework in which social norms shape inferences about past behaviour and also regulate expectations of future behaviour. These inferences and expectations are particularly relevant since individuals only have imperfect information about the behaviours of others. Social norms determine how individuals interpret their imperfect information, and also imply that others in the future will interpret their own imperfect information in a similar manner, thus ensuring some degree of coordination. This coordination is not necessarily all good, however, since it can be on actions such as lack of trust or corruption that fail to exploit gains from cooperation within society.  We examine settings in which individuals interact with others from both older and younger generations. An individual’s behaviour is determined by what they infer about past behaviour on the basis of their imperfect information and what they expect future behaviour to be. Thus, history – in the form of a shared common interpretation of past behaviours – plays a central role in anchoring these expectations and shaping social norms. A particularly important form of history in our analysis is the past actions of "prominent" agents who have greater visibility (for example because of their social station or status). Their actions matter for two distinct but related reasons. First, the actions of prominent agents, impact the payoffs of the other agents who directly interact with them. Second, and more importantly, because prominent agents are commonly observed, they help coordinate expectations in society. For example, following a dishonest or corrupt behaviour by a prominent agent, even future generations who are not directly affected by this behaviour become more likely to act similarly for two reasons; first, because they will be interacting with others who were directly affected by the prominent agent's behaviour and who were thus more likely to have followed suit; and second, because they will realise that others in the future will interpret their own imperfect information in light of this type of behaviour. The actions of prominent agents may thus have a contagious effect on the rest of society.  Even if a social norm of dishonest or corrupt behaviour emerges, it is not in general permanent. First, imperfect information about behaviour subsequent to prominent behaviours also implies that starting from such an unfavourable social norm may lead to realisations of events and information that gradually lift the society towards a more cooperative outcome. Secondly, prominent agents can play a leadership role by leveraging their greater visibility and their impact on the expectations of others. Knowing that the visibility of their behaviour can shape future expectations and behaviours, prominent agents can have strong incentives to deliberately break an unfavourable social norm and switch society towards a more cooperative one. This analysis thus provides a working model of leadership.  In addition to leadership by prominent agents, social norms can also be affected by policies that encourage more cooperative behaviour. Such policies can be particularly effective if commonly understood and believed, as in this case they change not only incentives but also expectations. One example is a publicly announced amnesty that forgives past bad behaviour, thus encouraging a switch towards more cooperative behaviour in the future. Such an amnesty, like the truth and reconciliation commissions that are sometimes used to erase (or at least ameliorate) the effects of past of processes in many countries, can only work if it is widely understood and believed, so that the agents adjust their expectations about others' behaviour in light of the amnesty. References Acemoglu, D and MO Jackson (2011), "[History, Expectations, and Leadership in the Evolution of Cooperation](http://ideas.repec.org/p/nbr/nberwo/17066.html)", NBER Working Paper 17066.  Banfield, E (1958), *The Moral Basis of a Backward Society*, Free Press, New York, 1958.  Locke, RM (2002), "Building Trust" in A Flora (ed.), *Mezzogiorno e Politiche di Sviluppo*, 109-133, Naples. Putnam, RD (1993), *Making Democracy Work*, Princeton University Press. |