

The Role of Agents' Propensity toward Conformity and Independence in the Process of Institutional Change

Angela Ambrosino
Università di Torino

Massimiliano Vatiere
Università della Svizzera Italiana

Long abstract

Institutional change is one of the main issues on institutional economics research agenda since its beginnings. Old institutional economics in the tradition of Veblen questions the role of inertia of economic institutions in placing obstacles to social benefit (Veblen 1899), later new institutional economics goes beyond that and investigates institutional change to gain a deeper knowledge of economic performance over time (North, 1990). More recently original institutional economics, recovering the heritage of the research program associated with the works of Veblen, still focuses its research on institutional change in order to understand the complexity of such processes.

This paper adopts a broad definition of institutions: institutions are here understood as shared rules of behavior and of thought, they include legal norms – that have a formal character – together with conventions and informal social norms. So intended, institutions are more than merely constraints on individual action. The main purpose is then discussing what leads individuals or group of agents, including those in search of pecuniary gain, to follow an existing rule.

This paper will not argue if there is or not one best theory of institutional change, on the contrary it starts from the analysis of the contributions of two authors whose works are traditionally considered not easily reconcilable: Veblen and Hayek, in order to apply a multidisciplinary approach, suggesting that psychological tendencies toward conformity and independence - investigated in social psychology (Asch, 1952) - contribute to a better understanding institutional change.

Veblen discusses the problem of the inertia of economic institutions. Referring to legal and social institutions of his time, he complains that existing institutions are not functioning to promote the social benefit, on the contrary they are inadequate to modern economic world (Veblen 1899). Moreover he claims economics as a theory of cumulative economic growth and of a sequence of institutions (Teggart, 1932; Tilman, 1996) in that human behavior plays a crucial role. Hence, even if his investigations focuses on the social level, he argues that human behavior is object of economic science and that economics must be based on a correct idea of human nature. Veblen provides a strong criticism of the hedonistic and rationalistic psychology implicit

in marginal utility theory and pointed to an alternative based on instinct/habit psychology (Ruthertford, 2001).

The analysis of the role of habits in Veblen's theory of economic change suggests two interesting issues. In the first place, according to this author, the presence of habits, as mental habits and habit of behavior, seems to play a dual role in economic change. In fact, they seem to be particularly relevant both as elements of propensity, and as forces of resistance to change (Hodgson 2004).

Secondly, Veblen provides a complete explanation of the instinct-habit relationship that is at the basis of his theory to economic change, but he focuses on the macro-level analysis and he does not give an equally exhaustive explanation of the mechanisms that take place at the individual level and that generate changes and the evolution of social habits.

On the other hand, Hayek theory of social order is based on the idea that social rules of behavior (i.e. institutions) are the outcome both cognitive processes of interpretation inside individual agents and social interaction among agents (Hayek 1952, 1960, 1982). This author focuses his investigation at the micro-level and starts his analysis questioning the origins of agent's behavior. In Hayek's view, institutions emerge to overcome the obstacles that agents face in dealing with the complexity of the world. Hence human nature is again an essential aim in understanding institutional change.

Those authors' theories pursue different goals. They develop their works in different times and directions, and have different ideas with respect to mainstream economics. Nevertheless they both point out the centrality of institutional change processes in economic theory and the complexity of such processes in which individual agents' cognitive and psychological determinants play an essential role. Moreover both Veblen and Hayek suggest that institutional change is a slow process in that there is the coexistence of both forces that spur toward new institutions allowing agents to develop independent behaviors, and forces that, on the other hand, work to preserve current institutions by stimulating conformity in agents' behavior.

The paper investigates the coexistence of such opposing forces in the process of institutional change by applying the tools offered by social psychology. Particularly it will refer to the conformity-independence dichotomy widely investigated by social psychology (Asch, 1952). This type of analysis seems to allow identifying new links between Veblen's and Hayek's work in explaining the dynamics of institutional change. Conformity is a type of social learning that has received considerable attention among social psychologists and evolutionary ecologists (Efferson et al. 2008). Behavioral and experimental economics increasingly refers to conformity theory. In economics different nuances of this theory are applied to investigate whether market experience increases the convergence of individual behavior to the neoclassical prediction

(Beraldo et al, 2013), to deal with behavioral research on conformity-seeking behavior and anchoring effects (Meub and Proeger, 2014), to understand processes of endogenous preferences formation (Di Giovinazzo and Naimzada, 2012). Conformity theory is also used to explain why economic agents conform to existing institutions (Dequech, 2013). This literature mainly focuses on the relevance of agents tendency to standardize their behavior toward a process of social conformity. So theory of conformity mainly contributes to explain the existence of self-sustaining social roles and of relevant social resistance to institutional change.

Nevertheless, although conformity theory (Asch, 1952, 1956) is often interpreted as demonstrating that conformity is fundamental inside group processes, in its first formulation in social psychology (Asch, 1952, 1956) there was as much concerned with those factors that enabled individuals to resist group pressure. In fact Asch's theory points out the importance for a society to foster values of independence in its citizens because that promotes and improves social change.

This paper argues that independence, as the propensity of some agents to be self-assertive, can offer an interesting explanation of the coexistence of opposing forces in the processes of institutional change. This explanation suggests the presence of a close link between Veblen's and Hayek's economic theory, due to their common awareness of the centrality of human behavior in the processes of institutional change.

Finally the paper discusses a possible application of the conformity-independence dichotomy to get a better understanding of the institutional value of positional goods. The term "positional good" (Hirsch, 1976) identifies that good that consumed for a relative rather than absolute value. Because people tend to decide on own consumption in the light of the consumption of others, individuals will over-spend to impress their neighbors: "it is not sufficient merely to possess wealth or power. The wealth or power must be put in evidence, for esteem is awarded only on evidence." (Veblen 1899: 36). For instance, in the Medieval Age, families erected tall towers to show their affluence, while today people buy expensive goods (like cars, jewelleries, etc.) for the same aim.

This conspicuous consumption takes elaborate but socially recognized forms (like owning the tallest tower or the biggest car) to signal one's wealth to others. Namely, the conspicuous consumption depends on shared social models. The paper discusses how conformity behavior contributes to strengthen the value of positional good. Conformity refers to the act of model one's behavior in order to match the behavior of others (Cialdini and Goldstein, 2004). Learning processes strengthen conformity among agents, hence, reinforcing the normative value of certain behaviors. On the other hand, the paper suggests a possible relevant contribution of independent behaviors in promoting changes in the meaning of the consumption of a certain good. There can

be agents that do not accept the socially accepted significance of a certain behavior. Those agents who show independent behavior contribute to promote social change by suggesting new possible meaning to established behaviors.

References

- Asch, S. (1952). *Social Psychology*, Englewood Cliffs, NJ: Prentice-Hall.
- Asch, S. (1956). Studies of independence and conformity: I. A minority of one against a unanimous majority. *Psychological Minority*, 70: 1-70.
- Beraldo S., Filoso V., Stimolo M. (2008), Endogenous Preferences and Conformity: Evidence From a Pilot Experiment, *MPRA Paper* n. 48539, <https://mpra.ub.uni-muenchen.de/48539/>.
- Cialdini, R.B., Goldstein, N.J. (2004), Social Influence: Compliance and Conformity, *Annual Review of Psychology* 55: 591-621.
- Dequech, D., (2013), Economic Institutions: Explanations for Conformity and Room for Deviation, *Journal of Institutional Economics* 9, 1: 81-108.
- Di Giovinazzo, V., Naimzada, A., (2012), ... Do as the Romans Do. A Model of Conformity with the Endogenous Formation of Preferences. *The Journal of Socio-Economics*, 41: 654-658.
- Efferson, C., Lalive, R., Richerson, P. J., McElreath, R., & Lubell, M. (2008). Conformists and Mavericks: the Empirics of Frequency-Dependent Cultural Transmission. *Evolution and Human Behavior*, 29(1), 56-64.
- Hayek, F.A. (1952a), *The Sensory Order*, Chicago: Chicago University Press.
- Hayek, F.A. (1960), *The Constitution of Liberty*, Chicago: Chicago University Press.
- Hayek, F. A. (1982), *Law, Legislation and Liberty*, London: Routledge.
- Hirsch F. (1976), *Social Limits to Growth*, Cambridge (Mass.), Harvard University Press.
- Hodgson, G.M. (2004), *The Evolution of Institutional Economics*, London and New York: Routledge.
- Meub, L., Proeger, T., (2014), An Experimental Study on Social Anchoring, *Discussion Papers, Center for European Governance and Economic Development Research*, No. 196.
- North, D. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.
- Patten, S. (1889), *The Consumption of Wealth*, Philadelphia: Publication of the U. of Pennsylvania, *Political Economy and Public Law Series*.
- Patten S. (1893), The scope of Political Economy, *Yale Review*, 2: 264-87.
- Reisman, D.V. (1960), *Thorstein Veblen: A Critical Interpretation*, New York, Charles Scribner's Sons.

Rutherford, M. (2001), 'Institutional Economics: Then and Now', *The Journal of Economic Perspectives*, 15(3): 173-194.

Teggart, R.V. (1932), *Thorstein Veblen: A Chapter in American Economic Thought*, Berkeley: University of California Press.

Tilman R. (1996), *The Intellectual Legacy of Thorstein Veblen*, Greenwood Publishing Group Inc.

Veblen, T. (1899), *The Theory of the Leisure Class*, Macmillan.