Institutions, Organizations, and Reciprocity

In primitive societies, or in the more natural state of humankind, unbalanced reciprocity may result from natural differentials in strength, talent, ability, or intelligence. In simple societies the hierarchies created by such natural differentials will be inherently unstable because of behavioral tension and will shift as the differentials become less so.

In more complex societies, economic or political institutions, whether expressed as principles or concrete organizations, order or regulate reciprocity to some degree. In doing so they enter into the behavioral conflict of the tug and pull of ego and empathy, self- and other- interest, the give and take among the members of society. All such institutions and organizations, then, carry an inherent load of behavioral tension. They also add additional costs to the exchange process. Such costs are referred to in economics as transaction costs. Such transaction costs are an index of the behavioral tension added by the institutions.

Consider for instance the institution of private property. As noted, that institution attempts to order (regulate and systematize) reciprocity by permitting and providing for the maintenance of a personal and protected resource base for survival and for reciprocal exchange. Such an institution may serve to mitigate natural differentials.

31 The focus on transaction costs in the economic theory of institutions derives from two articles by Ronald H. Coase on the nature of the firm or business organization and on social cost (1937, 1960). The interest in transaction costs was also abetted by the work of George J. Stigler (1961) and Friedrich A. Hayek (1937, 1945). The work of Oliver E. Williamson (1975, 1985, 1991, 1996) led to the full development of transaction cost economics treated more fully in chapter 12 of the present work. Institutions are seen by Williamson as created to reduce transaction costs. But such a view assumes the preexistence of a market. The market and associated transaction costs develop in a mutually reinforcing feedback relationship. Once the market is established, the question becomes which among the institutional alternatives carries the lower transaction costs. Or can we create institutions that carry lower transaction costs? My point here is that all institutions inherently carry transaction costs. Those that carry the lesser costs can be said to reduce costs within an existing state of the market.
It may also, however, ceteris paribus, have the effect of interfering with the free flow of reciprocity, the natural give and take among members. To the extent that it interferes with the free flow of reciprocity, it creates behavioral tension, which is reflected in increased transaction costs. In other words as the cost or value of my gift to you, or your gift to me, is increased by imposed or added transaction costs, greater empathy is required to offer the gift. The greater the empathy the greater the behavioral tension, and according to the reciprocal algorithms of behavior, the greater the reciprocal required in payment to ego to offset or balance out the tension. In pure economic terms it may be said that the expressions of empathy vis a vis ego are, in acknowledgment to the increased behavioral tension or costs, responsive to price.\textsuperscript{32} In addition, to the extent that the institution in implementation allows for the accumulation of differentials in the personal, protected resource base for survival and exchange, it further creates and perpetuates behavioral tension in the society. Whenever there are differentials of resource base, there are inequalities. Inequalities that are institutionalized constitute institutionalized or structured behavioral tension. Such structured behavioral tension equates to structured and unbalanced transaction costs. In terms of transaction costs the individual on the inferior side of the inequality is unable to meet the transaction costs reciprocally and therefore is disadvantaged or subordinated to the superior by the short fall. This, then, is the origin and nature of hierarchy, dominance and submission expressed in term of transaction costs.

This structured behavioral tension, then, constitutes the framework within which the everyday reciprocal behavioral dynamic goes on\textsuperscript{33} The degree to which the

\textsuperscript{32} See, for example, Eckel and Grossman(1997). Without making any connection with brain science or the reciprocal algorithms of behavior, the authors use a typology of fairness (for me, for you, for us) which expresses the conflict systems model and the reciprocal algorithms of behavior. Although their research design is quite contrived and limited, they find evidence from their bargaining experiments that fairness for you (empathy in my terms) is responsive to price.

\textsuperscript{33} What I have called institutional or structured behavioral tension which sets the framework for the daily ongoing reciprocity of behavior is covered essentially in economic terms by Carl J. Dahlman, who writes: "In the process of defining property rights, the economic system must make two interrelated decisions ... The first is to decide on the distribution of wealth; who shall have the rights to ownership of the scarce economic resources even before, as it were, trading and contracting begin. The second refers to the allocative function of property rights; they confer incentives on the decision-makers within the economic system, for the attenuated rights determine what can be done with any specific economic asset. It is clear, therefore, that we must deal with the costs of making the 'transactions'(quotes in original) that constitute the defining of a social contract that sets the preconditions for the ensuing economic trading game." (1980: 85). Daniel W. Bromley (1989) deals extensively with what he sees as the two levels of transactions in a society. The first level concerns negotiations and agreements over the structure of choice sets or in other words the rules of the game. The second level concerns the ongoing market transactions that take place within the agreed or structured choice sets or rules of the game. Neither Dahlman nor Bromley has a concept of the reciprocal algorithms of behavior and the behavioral tension bound by unbalanced choice sets and/or unbalanced exchanges. But obviously some behavioral dynamic must be assumed to lie beneath the economic phenomena. The subfield of constitutional economics,