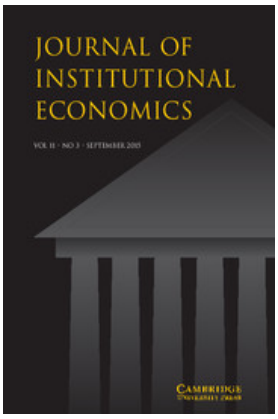

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VERNON L. SMITH

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Conduct, rules and the origins of institutions

VERNON L. SMITH*
Chapman University, Orange, California

Abstract: This paper supports the effort by Hindriks and Guala (2014) to integrate the prevailing accounts of institutions. I illustrate with traffic narratives how we can think of their concept of rules-in-equilibrium as evolving from universal elementary forms. These conceptions resonate fully with Smith (1759) who saw rule-following conduct as the basis of human sociality and action.

I want to begin by elaborating on the traffic metaphor in Hindriks and Guala (2014), using it to show that how we can think of universal elementary coordination rules, such as first-come-first-serve (FCFS) and turn-taking, as evolving into more complex systems that constitute what we call 'institutions', and which account for their origin. This supports their rules-in-equilibrium characterization of institutions, in which institutions grow from ancient forms of human interaction that lead to regularities, or conventions, that solve interaction conflicts. Moreover, we are insensible to this process and to the depth of the order that it accomplishes: 'The rules of morality . . . are not the conclusions of reason'. (Hume, 1896: 313)

Human universals: first-come-first-serve; turn-taking

Here is a human universal rule growing out of experience, originating in antiquity and serving as a perpetual underlying source of social order: FCFS. Let's think through how FCFS would appear to underlie the evolution of road traffic rules. A first road connects two settlements and grows in use. A crossroad concedes priority to the 'main' road, traffic stopping before access; eventually stop-signs are added behind which queues form.

On any road the response to a blockage is to form a queue, implicitly assigning priority of passage around the blockage. It is bad form and sure to arouse resentment if, as a late arrival to the back of the queue, a driver moves to bypass it. In its modern two-lane form one lane is closed ahead, and temporary 'merge' signs signal a single lane queue formation. Every by-passer should know the implicit rule; the occasional honk of resentment is an internalizing reminder of the universal norm.

*Email: vlomaxsmith@gmail.com

The FCFS rule is indeed universal as it applies ubiquitously to a host of quite different circumstances:

> Airplanes await orderly take-off on the tarmac. If two queues serve the same runway, turn-taking is the subsidiary rule – another human universal. The same order occurs spontaneously behind stop-sign queues as cars wait, taking turns from each queue, to enter a main crossroad.
>
> Customers at a retail store queue behind service check-out stations. Where there is sufficient space, the vendor may cordon-off a single lane queue to serve multiple stations. This is efficient – a theorem in queuing theory – but the proprietor's solution is surely motivated directly by customer resentments expressed when they are caught in a slower line. Smith (1759: 78–85) modeled action as disciplined by intentionality with hurtful actions yielding resentment and punishment. (Beneficent actions yield gratitude and reward.)
>
> Dining table etiquette calls for passing bread to the right, each in turn (FCFS) taking, then passing. (If 'passing right' is unknown, passing left works in mutual recognition.)
>
> In continuous double auction (bid-ask) exchange, higher bids have priority over lower (lower asks have priority over higher asks), but ties are queued by the FCFS rule. When there is universal recognition of a ranking principle, a rank order rule emerges; FCFS is the default where no rank principle is recognized.
>
> Property is recognized by the right of first possession or occupation, conditions that have a long-recorded, and much longer unrecorded, history. The FCFS rule, expressing *propriety* morphed into property – Hume's rules of morality.

These examples reflect a distinctive mutual recognition heuristic much like Hume's example: 'Two men who pull the oars of a boat . . . tho' they have never given promises to each other'. (Hume, 1896: 332) Similarly, Edmond Burke understood the elementary origins of law: 'Manners are of more importance than laws. Upon them, in a great measure, the laws depend. The law touches us but here and there, and now and then. Manners are what vex or sooth, corrupt or purify, exalt or debase, barbarize or refine us, by a constant, steady, uniform, insensible operation, like that of the air we breathe in . . . (Burke, 1796: 126)

Conduct: the propriety of action conditional on circumstances

Human conduct can be represented as rule-following action. This way of thinking and modeling is hardly new; it was creatively and rigorously explored by Smith who saw it as enabled by human sentiment (empathy). Thus, 'Our continual observations upon the conduct of others, insensibly lead us to form to ourselves certain general rules concerning what is fit and proper either to be done or to be avoided'. (Smith, 1759; 1976: 159) Notice Smith's emphasis on our interactive

experience with others in conditioning the evolutionary adoption of general rules (norms) based on their social propriety and fitness.

In the above examples, each one is defined by its own set of circumstances, yet is general – independent of particular instances – within its class of application. All represent rules based ultimately on a consent process – some perhaps by formal agreement, but most by fellow-feeling in mutual empathetic acceptance. They all define rules of fair play, the violation of which constitute fouls of varying consequence depending on how others react or the extent of formal agreement. Each has a history of which our detailed knowledge is limited, uncertain or non-existent. We cannot construct their full development path any more than we can offer such a construction for language or species evolution. Yet there are common patterns and, as I have emphasized, they incorporate imbedded general constituent forms like FCFS and turn-taking.

That rules emerge to resolve conflict between an individual's own interest and that of others was articulated by Smith as a process of maturation in our social experience. For Smith the individual, defined by his conduct, is shaped by others, . . . 'in the countenance and behavior of those he lives with, which always mark when they enter into, and when they disapprove of his sentiments'. (Smith, 1759; 1976: 110). We are all self-interested – common knowledge of non-satiation is what enables us to know that an action is beneficial or hurtful; social maturation is learning insensibly to control its tendency otherwise to dominate in our actions by respecting the sentiments of others.

In the above cases and theory, I have sketched the origin of institutions as rules-in-equilibrium conventions. Some cases, like property and the bid-ask rules of organized exchanges, are deeply embedded in western traditions, but all are institutions defined as conduct that is simultaneously rule-governed and rule-following with ancient origins. In Smith's model they are also constitutive because they depend essentially on sentiments of fellow-feeling between own and other that recognizes equivalence across different settings.

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