

# **Socialized Economies**

Economics, Politics, and African Societies: TA 03

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## **Discussion Section**

# Dual Spheres and Supernatural Constraints

1. The World Bank found that there were too many cows in Lesotho, which caused the tragedy of the commons, and assumed that the Basotho did not operate according to modern economic rationality so that social forces messed up a proper accounting according to costs and benefits. How did James Ferguson argue the problem should have been understood?
2. How should we as social scientists productively discuss supernatural beliefs in Africa?

## **1. Discussion Section**

## **2. Spheres of Exchange**

## **3. Embeddedness**

Reciprocity, Redistribution, and Exchange

Formalism vs substantivism

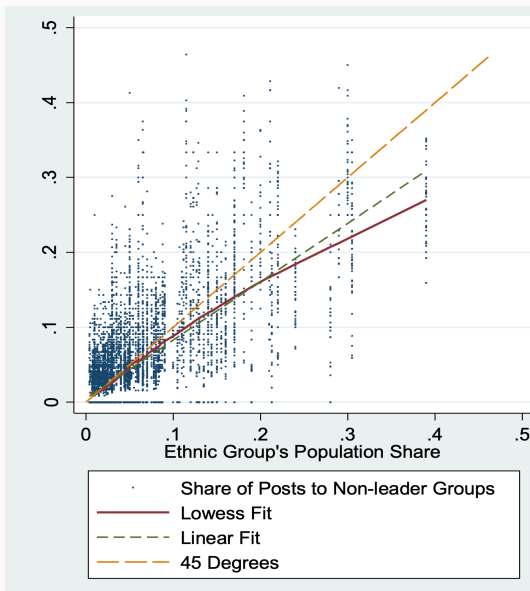
Economic models of reciprocity and non-monetary exchange

# **Spheres of Exchange**

# Spheres of exchange in the Tiv Economy (and Luo's)

- The Tiv economy is **constrained** by distinct spheres of exchange:
  1. Subsistence goods and material, acquired through hard work.
  2. Wealth, e.g. cattle, slaves, brass rods (currency).
  3. The third is a sphere of prestige goods, e.g. cattle, medicine, bride, acquired through present endowment, conversion, or donation.
- (Present-biased) utility maximizer, i.e. not converting between spheres despite currency for future more valuable use.
- Conversion requires a **strong heart** = courage + attractiveness.
- What stops excessive prestige and wealth monopoly?  
Accountability through fear of potential evil, legacy of the Nyambua cult: power accumulation through cannibalism.
- Deep sense of egalitarianism. Power-sharing.

## Digression: Egalitarianism in Contemporary African Politics



Francois, Rainer and Trebbi (2015)

## A Tiv Success Story

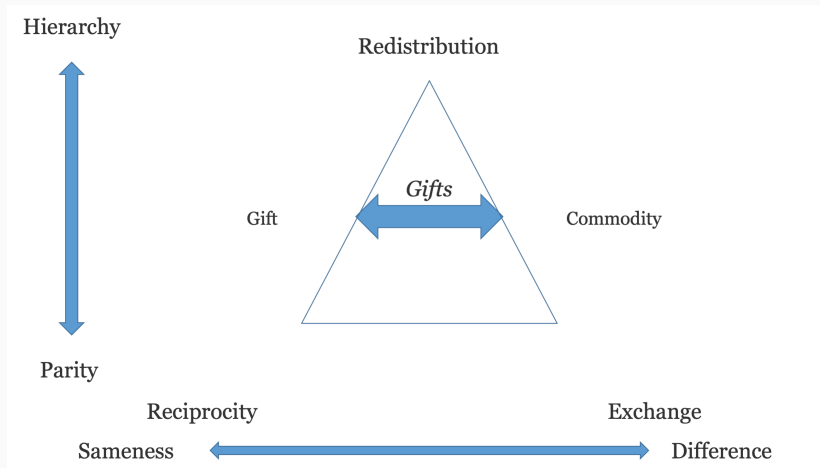
Because there is a definite moral dimension to conversion, it forms a strong source of motivation to individual action. It is in the light of such motivation that we must evaluate the fact that a very high percentage of autobiographies collected from Tiv contain variants of this story:

"When I was a very small child, my kinsman **gave** me a baby chicken. I tended it carefully and when it grew up it laid eggs and hatched out more chickens **exchanged** these chickens for a young nanny goat, who bore kids, which I put out with various kinsmen until I could **exchange** them for a cow. The cow bore calves, and eventually I was able to **sell** the calves and **procure** a wife."

—Bohannon (1955)



# What moderates this constrained economy?



(Naor Ben-Yehoyada's slides)

# Reciprocity, Redistribution, and Exchange

- Standard framework of economics sees trade as standard economics: specialization, comparative advantage, utility maximization.
- Polanyi argues many things that lead to “trade” can be motivated in different social relations and “conditioned by the presence of definite institutional arrangements.”
  1. Reciprocity: only occurs under symmetrically organized structure, e.g. kinship.
  2. Redistribution: only occurs under an allocative center/hierarchy
  3. Exchange: only occurs under a price-setting institution: market
- Sufficient argument.
- The three are inter-dependent and the reason empirically trade is trade. Polanyi calls these processes **forms of integration**.

“Market economy implies a self-regulating system of markets; in slightly more technical terms, it is an economy directed by market prices and nothing but market prices” (p 45).

“... man’s economy, as a rule, is submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material goods, he acts so as to safeguard his social standing, his social claims, his social assets” (p 48).

—Polanyi (2001)

## Formalist-substantivist debate of the term “economic”

- Polanyi argued that economic has two meanings: (i) rationality under scarcity (constrained optimization) and (ii) “instituted process” of how social relations and political institutions govern human behavior.
- Polanyi’s point is that the economy is embedded in the organization of the society. Less controversial now that sociopolitical institutions are seen to affect preferences and economic outcomes.
- Further argument on why disembedding cannot be successful. Polanyi resisted “invisible hand” morally and functionally.
- Neo-formalists would argue everything enters the utility function.

## Granovetter's under-socialized and over-socialized accounts

- Neoclassical economics and formalists treat actors minimally affected by social relations, i.e. “undersocialized”, but substantivists treat social relations as the only determinant of human behaviors and institutions.
- Actors and institutions are neither atomistic nor deterministic.
- He criticized the new institutional economics which (i) sees emergence of political and social institutions as an efficient solution to economic problems, and (ii) invokes institutional arrangements and ignores fundamental personal relations in preventing costly actions (Granovetter, 1985).
- Criticized oversocialized account of “generalized morality”.
- Economics has made progress: relational contract (Levin, 2003) and network-dependent morality (Enke, 2019).

# **(Somewhat) Recent developments in economics**

# Economic model of reciprocity

- **Instrumental reciprocity** relies on repeated interactions of selfish agents' optimizing behavior. A famous example is in repeated prisoner's dilemma game, (C,C) forever until someone defects is a sequentially efficient equilibrium.
- **Intrinsic reciprocity** models preferences to depend on the consumption of others, with rate depending on the past and anticipated actions of others.
- **Sobel (2005)** argue that intrinsic reciprocity allows for more intuitive explanations of gift-giving, charity.
- An interesting middle-ground based on "Kantian optimization" (**Roemer, 2019**)
- Reciprocity is in vogue in development economics.

# Economic model of non-monetary exchange

- The Fundamental Welfare Theorems govern marginal rates of substitution and transfers across individuals through relative prices. What if price mechanism wasn't possible?
- Market design: Kidney exchange, room allocation, etc.
- Auction with fake currency: Food bank, UChicago Booth class-bidding, COVID vaccine global allocation
- Some attempts at formalizing non-monetary exchange in firms (Prendergast and Stole, 1996), but "... the big paper always evaded us. We spent a really long time thinking about it, but could never quite nail what we felt was the right economic mechanism."



## My guess of next week's deep discussions:

- Ethnicity: HHPW, Gluckman, Moscona Nunn Robinson
- Household: Gluckman, Udry, Lowes

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