

## **Non-global social contracts: A note on inefficient social institutions\***

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### **Abstract**

This paper explores some perverse features that can emerge when social contracts are moved from a social vacuum to a setting of social interdependence. In particular we note incentives that might exist in conjunction with externality problems that yield situations in which: (1) social contracts reduce social wealth; (2) sub-global social contracts are Pareto inferior to the absence of social contracts; (3) there are no incentives for global social contracts.

While previous works emphasized the benefits of contracts, this paper focuses on their costs. A conclusion reached is that perhaps justice and efficiency demand not a single global social contract but rather a rich melange of sub-global contracts with appropriate interstices of anarchy.

Thomas Hobbes is generally regarded as the originator of the contractual explanation of the emergence of society. Hobbes' (1909: 96 – 97) characterization of the pre-contractual society is both pessimistic and well known:

Whatsoever therefore is consequent to a time of Warre, where every man is Enemy to every man; the same is consequent to the time, wherein men live without other security, than what their own strength, and invention shall furnish them withal. In such condition, . . . the life of man [will be] solitary, poor, nasty, brutish, and short.

Hobbes saw the social contract as the means by which individuals escape the harsh environment of anarchy and realize the fruits of a more civilized order. In the past two decades, renewed interest in social contractarianism has been spurred by the work of John Rawls (1971) and James Buchanan

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(1975). Rawls has argued that the process of social negotiation should proceed from behind what he calls a 'veil of ignorance' in order to ensure that the resulting social contract will be just. Buchanan, while sympathetic to this view, suggests that the process of social negotiation can not ignore existing institutions nor their accompanying distributions of wealth and power. He suggests that just changes to institutions may be made through qualified Wicksellian unanimity. Thus, while Hobbes emphasizes the civilizing tendencies of social contracts, Rawls and Buchanan emphasize the justness of the results of social negotiation.

There are several well known criticisms of the positions taken by social contractarians (see Mueller, 1979). There is, for example, the matter of whether the process of social negotiation yields an explicit document or generates a broad consensus consisting of shared intuitions rather than a particular concrete set of rules. Some doubt the possibility of widespread agreement on terms of a social contract that are abstract yet sufficiently specific to be meaningful. Others raise the question of whether a process of social negotiation can ever be brought to a conclusion – perhaps only 'agreements' to disagree will be reached (i.e., acquiescence to the Hobbesian Jungle). In this paper we address a weakness that seems to have been overlooked by both proponents and opponents of social contractarianism. Namely, we will address the question of whether or not social contracts must be global to be Pareto optimal, a measure of performance embodied in both the Rawls and Buchanan notions of just contracts.

It might be said that Hobbes, Rawls and Buchanan all suppose the societal contract to be global in that there is not explicit mention of individuals left outside the process of social negotiation. However, we consider this a simplifying assumption made to facilitate their analysis and exposition. Clearly, Hobbes had in mind an explanation of the emergence of kingdoms and other precursors of the nation-state well known to be less than global in domain. Buchanan seems similarly concerned with constitutions and constitutional reform, problems commonplace at national and state levels but less so at the truly global level. The Rawlsian theory of distributive justice also seems to have been aimed at national matters of redistribution as well as global concerns.

Transplanting the process of social negotiation from a social vacuum into a world of social interdependencies greatly weakens the contractarian norms. While it will still tend to be true that social contracts benefit those individuals who directly enter the agreement, externalities imposed on non-members may tend to vitiate the efficiency properties of social contracts as well as their ethical desirability.

The social contractarian's response to such externalities might be to extend the social contract so as to internalize the externalities of concern. However, in many cases it is precisely these spillovers that make the social contract worthwhile to its membership. As a result, there may be no incen-

tive for this process of internalization to take place. These externalities imposed on non-members may also promote the development of social contracts by those affected which in turn impose externalities on the original alliance. Such intersocial externalities may imply that two social contracts are worse than none, yet *the absence of social contracts, by its very non-contractual nature, can not be negotiated.*

The most common sort of social contract that will exhibit these properties are alliances formed to exploit those outside the alliance. Examples of such include the outlaw raiding party and its counterpart the posse, military alliances, and the broad assortment of coalitions commonplace among politicians at all levels of government.

In order to illustrate some of the possible perverse features of sub-global contracts, we will abstract from the plethora of complex motivations and arrangements typical of real-world alliances and examine a simple, but revealing, case involving four persons. Assume that these individuals are wholly independent of one another in their original setting where they each possess, or rather utilize, identical stocks of resources (perhaps four individuals on four separate islands with C.A.R.E. packages). Let us suppose that superior numbers alone determine the success or failure of a 'raiding party' and that equal numbers result in a standoff. In the original setting, no raiding party can be successful since one against one yields a standoff. However, an alliance of two allows successful raids against the remaining two isolated individuals.

Suppose that the raids themselves cost nothing, but that creating and maintaining an alliance has positive costs which increase with the number of individuals who directly participate in the social contract.<sup>1</sup> Let us assume that within each possible alliance the costs and benefits are distributed equally across all members as a consequence of their unanimous consent. Thus, to those directly under the social contract, the decision-making method and outcome will satisfy both the Buchanan and Rawlsian definitions of procedural and distributive justice.

Table 1 lists the five social outcomes that are possible. They include:

- I. the original setting with no social contracts;
- II. an alliance of two against two isolated individuals;
- III. an alliance of two against another alliance of two;
- IV. an alliance of three against a single isolated individual;
- V. an alliance of all four – a global social contract.

While nothing can be said about the particular membership of any social contract, the incentives indicated in Table 1 are of interest. It should be noted that, within the setting examined, the societal overhead of forming social contracts is such that social wealth is maximized in the original state of nature. The absence of social contracts frees individuals from having to bear any of the costs associated with creating and maintaining effective alliances. However, in spite of the advantages of the original state, it is rational for every pair of individuals to attempt to achieve state II, since the benefits of a social contract yielding that state, exceed the accompanying costs to charter members.

However, were state II about to be realized, it would behoove the two isolated individuals to band together to defend themselves in order to realize state III. The successful defense made possible by this new social contract makes it a welfare enhancing proposition to its membership. However, the original group would be worse off since the purpose of their collective action is now frustrated. Note that in state III everyone is worse off than they were with the complete absence of social contracts and that any attempt to disband one of the coalitions would leave the isolated individuals at the mercy of the remaining alliance. In our moves from state I to II to III, each social contract has improved the position of its members, but the overall result is collectively disheartening since social wealth is reduced by each successive social contract.

State III may also be unstable, as the possibility of joining the opposition (yielding state IV) becomes an attractive option for each member of both coalitions. The rewards of even a cumbersome social contract may exceed those of ineffective ones. However, there is no incentive to move from state IV to state V, the global contract. No matter how large the group, it always

Table 1

State	Coalitions	Payoffs			
I	(1) (2) (3) (4)	$A$	$A$	$A$	$A$
II	(1,2) (3) (4)	$(4A - T_2)/2$	$(4A - T_2)/2$	0	0
III	(1,2) (3,4)	$A - T_2/2$	$A - T_2/2$	$A - T_2/2$	$A - T_2/2$
IV	(1,2,3) (4)	$(4A - T_3)/3$	$(4A - T_3)/3$	$(4A - T_3)/3$	0
V	(1,2,3,4)	$A - T_4/4$	$A - T_4/4$	$A - T_4/4$	$A - T_4/4$

Where:

$A$  is each individual's initial endowment.

$T_2, T_3, T_4$  are the costs of maintaining operational social contracts of two, three, and four persons, respectively.

$T_2 < T_3 < T_4 < A$ .

$(A - T_4/4) < (A - T_2/2) < A < [(4A - T_3)/3] < [(4A - T_2)/2]$ .

pays to have someone left over to exploit. In this particular case, any potential wealth-enhancing properties of a global social contract are more than offset by an increase in societal overhead. So what otherwise might be regarded as socially undesirable exploitations may actually enhance social wealth though equity, of course, suffers.

It should be noted that once state IV is achieved, it is in the interest of subsets of the alliance to drive one member out of the alliance so that state II might be realized.<sup>2</sup> (It is for this reason that moves from state II to state IV are unlikely to be direct ones). Thus, there is no core to this game of alliance and conquest. Every possible combination is dominated by some other, even though each social contract is just in the senses advocated by Buchanan and Rawls. In contrast to the outcomes emphasized by previous efforts, social contracts here become a means of transforming a Rousseau- like natural state into a Hobbesian Jungle.

Hogarty (Tullock, 1972: Ch. 5) provides some cases that tend to mirror our example. Using examples from literature (both fiction and non-fiction), Hogarty attempted to show the jungle-like results of anarchy. Instead, his cases reveal the instability of anarchy and how formation of coalitions may lead to a Hobbesian jungle. For example, in the Confederate prisoner-of-war camp known as 'Andersonville,' the formation of raiding parties lowered welfare and led to the formation of other coalitions to counter the raiding parties. There were certainly costs to forming and maintaining these groups. No doubt the miserable condition of these prisoners would have been somewhat improved if there were no coalitions whatsoever. Collective action, not anarchy, led to their Hobbesian jungle.<sup>3</sup>

Such jungle-like results are by no means uncommon. Terrorist groups, urban youth gangs, and prison gangs all provide economic, social and psychological benefits to group members under what are essentially social contracts. These groups have spoken and unspoken rules and norms of behavior as well as formal and informal means of collective decision-making. Further, there are obvious internal costs to maintaining these social contracts in that there are restrictions on the behavior of individual members as well as certain required duties. While the benefits realized by group members no doubt exceed their costs, few would consider the overall social wealth or quality of life to be greater as a result of such groups as the Red Brigades, the Devil's Disciples, or El Rukn.<sup>4</sup>

This paper has explored some perverse features that can emerge when social contracts are formed in a setting of social interdependence. In particular we have noted incentives that tend to generate outcomes in which:

(1) social contracts reduce social wealth; (2) sub-global contracts are Pareto inferior to the absence of social contracts; and (3) there are no incentives for global social contracts to be negotiated.

Our analysis indicates that even were a state of individualistic anarchy desirable, the spontaneous formation of sub-global social contracts may make the state unobtainable. In this context, social contracts can be viewed as regrettable necessities. However, our study has ignored the wide variety of internally productive endeavors that might be undertaken under the umbrella of social contracts. By doing so, we have sacrificed universality in order to more clearly focus on a narrow aspect of social contractarianism. The works of Hobbes, Rawls and Buchanan emphasize the benefits of social contracts while this paper has concentrated on their costs. Given the diversity of both individuals and cultures, the costs of social negotiation may not be trivial. In many cases, the social costs of operational alliances will exceed their benefits at both local and global levels.<sup>5</sup> Neither global nor sub-global social negotiation can guarantee that a resultant social contract is Pareto efficient. Given both the costs and benefits of social contracts, the corner solutions of anarchy and one-world government may be neither obtainable nor necessarily desirable.<sup>6</sup>

To the extent that history may be characterized as a series of alliances, conquests and 'unifications,' our portrayal of social negotiation should not be ignored.<sup>7</sup> Social contracts are less than global in scope and generally costly to negotiate and maintain. However, an awareness of the costs of some social contracts should not keep us from being aware of the instances in which their advantages exceed their costs. Perhaps justice and efficiency demand not a single global contract but rather a rich melange of sub-global contracts with appropriate interstices of anarchy.

## NOTES

1. Such costs could include constraints on individual behavior necessary for a successful alliance. Collective decision making costs also increase with the number of participants involved in the process of social negotiation. (Buchanan and Tullock, 1962: Ch. 6).
2. This model is very similar to a 'minimum winning coalition' game in elections (Riker, 1962). However, in reality this game may not be as unstable as depicted here (Riker and Ordeshook, 1973: Ch. 7; Tullock, 1981b).
3. Hogarty uses another example derived from William Golding's *Lord of the Flies*. This case was not one of anarchy, but rather the case of one social contract replacing another.
4. A leader of the notorious El Rukn (formally the Blackstone Rangers) of Chicago's South Side claimed that his organization provided many public services and actually improved community life (Sale, 1971: 76). However, within the Stateville prison where El Rukn and other gangs have had more power than the nominal state authorities, the quality of life was such that non-affiliated inmates voluntarily remained locked in their cells (Beck with Monroe, 1979).
5. Tullock (1974) suggests that there may be further problems with societal reforms in that

- changes typically confront public goods problems.
6. Moss (1980) arrives at conclusions similar to ours. However, his analysis is based on the technical aspects of public goods provision while we base ours on the costs of negotiation and maintenance of social contracts. These costs are analogous to the collective decision costs of Buchanan and Tullock (1962). Other related work includes Kafoglis and Cebula (1981) and Blewett (1980: Ch. 4) which apply collective decision costs to the determination of optimal group sizes.
  7. Tullock (1981a: 904) suggests in passing that states probably emerged as means to coerce redistribution and the socially beneficial aspects of states emerged as by-products. Our piece suggests that competitive efforts at redistribution via social contracts may be socially wasteful.

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