CHAPTER 16

Institutional commitment: values or incentives?

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A key question in trying to understand organizations is how they induce their members to do what produces organizational successes. In many organizations, it is assumed that the main device is simply the incentive of pay for work, although it often seems that monitoring is inadequate to establish workers’ reliability and, hence, inadequate to relate personal reward to organizational contribution. In other organizations, it is commonly supposed that members have their own personal commitments to values that induce them to perform. This latter view is especially common in accounts of governmental organizations. It is a lesser version of Emile Durkheim’s view that social order depends on pervasive normative commitments by citizens.

A standard economist’s response to such claims is that motivational systems are unlikely to shift from one realm to another and that people perform well or badly in both economic and governmental organizations largely for the same reasons: personal benefits. The economist’s view is that organizations merely impose a system of incentives to get individual members to commit themselves in ways that benefit the organizations or fulfill the purposes of the organizations. In contemporary public choice analysis, the economist’s view is pushed to the limit and it is commonly assumed that all role holders in government (or other) institutions will seek rents from their positions. That is, they will attempt to profit personally as much as possible from the powers they have in their positions.

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Those who think government officials must act normatively or publicly spiritedly can defend their supposition by pointing to the apparent success of many government agencies in carrying out some policies for public benefit. If self-interest entails the massive rent-seeking of the public choice thesis, then self-interest cannot be the central motivation of government officials.

Moreover, within the economic account, a critic may wonder how an organization finds people to fill the roles of monitors if these people, too, must be motivated merely by the monitored matching of their rewards with their contributions. Joseph Schumpeter’s claim that economic analysis applies as well to government can be matched by a claim that the problems of government are also the problems of economics. The traditional political question – Who is custodian of the custodians? – seems as apt for many economic organizations as for governmental organizations. After all, both kinds of organizations often are intended to serve the interests of people other than their members. The too easy answer for a simplistically conceived economic organization that is wholly owned by an entrepreneur is that the entrepreneur’s self-interest perfectly matches the interest of an ideal custodian for the organization. For more complex economic organizations or for typical public agencies, this simplistic resolution of the custodial task is not plausible.

It is a perhaps gross but still instructive simplification to suppose that an organization is simply a collection of individuals coordinated by a strategic structure. Ideally, that structure could be designed in ways that avoid the need for custodians who are motivated by considerations different from the ordinary interests of other members of the organization. The structure that is implicit in many incentive models of organizational behavior is essentially exchange, which is aptly modeled by the prisoner’s dilemma. Unfortunately, prisoner’s dilemma interactions often require enforcement to make them go cooperatively. I wish to propose, however, that the more compelling structure in many organizations is a simple coordination, which works in large part by de facto imposing costs on individuals for not going along with the relevant coordination. In addition, an initial coordination blocks group violations of relevant coordination behavior because it makes the costs of recoordination high. Recoordination would have to take the initial form of collective action to resolve a large-number prisoner’s dilemma, which would be subject to the commonly prohibitive logic of collective action.

To see the structure of this argument, first let us consider the motivational structure of a public agency, that is, an agency in which the overall purpose of the organization is not plausibly the purpose of its self-interested members or of any potential custodian. In such a structure, incentives for relevant behavior must be internalized in the organization itself. That is to say, various members must somehow impose incentives on each other in lieu of a simple hierarchy of control. In general, there are two distinct problems at issue: internal and external matching. Most of the focus here will be on the institution, on its internal incentive structure. The most important problem for social order is the external problem of getting institutions to serve some general interest or purpose for the larger society.

At first thought, it might seem that, for an organization that serves the interests of its members or role holders, compliance with organizational objectives would be easy. But this is generally false, as is most obvious perhaps when there is a problem of the logic of collective action. To a substantial extent, therefore, the internal and external matching problems are basically similar. This leaves open a difficult issue, which is how institutions with public purposes could get established at all. At the stage of origination, one might suppose the expansion of an individual or family entrepreneurial enterprise into a larger and eventually quite large organization poses a problem of matching incentives that is quite different from the matching problem in the creation of a public agency. I will address this issue only briefly (in the section, Unequal Coordination) and will not consider its resolution here, although David Hume, Adam Smith, Elizabeth Colson, and others, have discussed it in ways that suggest that the problems of creating economic and state agencies are not radically different. Indeed, Margaret Levi (1988) and Mancur Olson (forthcoming) have presented articulate theories of the state that make its creation an analogue of the creation of an entrepreneurial profit-making organization. My chief focus will be on the maintenance of incentives within organizations to do what serves the ostensible purposes of the organizations.

If coordination devices are the solution to the internal institutional problem of getting incentives and commitments in line, then among the chief obstacles to the success of those devices will be problems specific to coordination. These include varied possible coordinations or subcoordinations on contrary patterns of action, as discussed later. The solution to these is to block such subcoordination.

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For organizations, groups, and institutions as much as for individuals, the ability to commit themselves enables them to achieve their purposes. For example, mobs are collectively incapable of committing themselves to future actions and can therefore extract gains only instantly. Hence, they
cannot extract real commitments from, say, the officials against whom they might organize or from the individuals or institutions whom they might support. The mobs in Teheran at the end of the regime of the shah could topple that regime; they could not put another in its place. And many of the people in those mobs paid dearly for the peculiar combination of their capacity and their incapacity. Organizations riven with dissent often fail to achieve any significant part of what any faction wants, as the National Association for the Advancement of Colored People (NAACP) in recent years has failed almost across the board in every program. And a government on the verge of revolution, such as that of the shah or those of many nations, cannot make credible commitments because it cannot convince people that it will be around long enough to fulfill them. Yet many collectivities, organizations, and institutions seem to be able to make credible commitments and to convince relevant people that they will fulfill them. They convince us that our efforts to do things under their auspices can be expected to bear fruit. How do they do this?

Let us go back to individuals for a moment. When individuals keep their commitments, they may do so for one of at least two reasons: They may find it costly to renege because they will suffer specific sanctions, or they may simply find it in their direct interest to do what they have committed themselves to do. When an institution keeps its commitments, the reasons are parallel but more complex in structure. An institution keeps commitments because relevant individuals in the institution can be motivated to do what is necessary for the institution to follow through. There are at least two ways the relevant individuals may be motivated: They may face sanctions, and they may find it of no interest to try to push the institution in other directions. The first of these may generally be necessary when the individual can be a free rider and when free riding can undercut institutional commitment. The second has more the character of a convention, a coordination on a mutually beneficial policy. The particular form the coordination takes, however, may be a failure to coordinate on an alternative policy, a failure that stems from the high individual costs of organizing such a coordination.

Consider a case in which firing recalcitrants is not an option, so that the costs of recoordination on a new convention may be the chief incentive to comply with the going convention. Kenneth Shepsle argues that congressional committees are a very important source of the seeming stability of congressional actions from year to year in the face of constant turnover of membership (Shepsle 1991). Superficially, committees are important because they can commonly block legislation in their areas. If
uses sanctions against errant citizens may seldom use sanctions against role holders in the legal system itself.

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The Durkheimian challenge is commonly put to rational choice theorists who study politics. If people are rational, such theorists are asked, how then do we explain the success of public agencies in motivating officials to carry out public programs? Indeed, this is more nearly framed as a taunt than as a question, because it is commonly assumed there can be no rational choice answer to it. Rather, we must give a normative answer, a claim that people just are moral to a sufficient extent to allow them to carry out their public duties properly. Steven Kelman thinks public-spiritedness is necessary for good bureaucratic actions (Kelman 1990); Paul Quirk thinks our salvation turns on officials' concern with what constitutes good public policy (Quirk 1990).

Although these are glib and ill-defined notions not backed by much argument, they may capture some of what motivates public officials. And no doubt there is a great deal of morally motivated behavior of other kinds by public officials, at least as much on average as by ordinary people. Perhaps public officials have even a bit more than average levels of moral commitment if there are self-selection biases – at the extreme, public agencies presumably do not typically hire criminals in numbers proportional to their numbers in the society (although they often do enable people to become criminals). But one wonders whether there is radically more than among ordinary people, as though we were somehow very good at selecting moral people for public roles or only moral people sought to fill such roles.

Conventional coordination may be the chief answer to the antirational-choice taunt. People do not have to be fundamentally public-spirited to be good public servants. They can be primarily interested in self, especially in income and career. As Madison advised, ambition is made to counter ambition (Madison 1987). Both bureaucratic and judicial systems generally include many checks on behavior, checks that make it easy for some to advance their careers or to block the careers of others by calling the others' actions properly to account. I block your wrong action in part because doing so benefits me personally. One of the most important incentives for sustaining the norm is that others cannot generally see benefits in ignoring or cooperating with dereliction by their colleagues and superiors.

Getting such a system established and working well may take several generations of officeholders. Once we have this system in place well enough, all have strong motivation to do roughly what is right from an institutional perspective. Such a conventional norm system may not work equally well at all levels or in all circumstances. But its force can be seen in recent decades in the forced removal from office of legislators, high ranking bureaucrats, presidential advisers, a president, and a vice president in the United States, and of ministers and other high ranking officials in England. Of course, we may occasionally judge, rightly or wrongly, that our interests can be furthered by acting against the institutional mandate. Then it may seem that we depend on direct sanction rather than this conventional underpinning for our behavior. However, even then, the sanctioning power is grounded in conventional coordination.

Although its rationale in part is similar, this is not the system of checks and balances envisioned by Montesquieu. It is, again, a finer grained application of Madison's injunction to counter ambition with ambition. In some ways it has more in common with competition among producers in a market than among departments of a government. To be sure, I block your action because I think it is wrong. But I do so with substantial support that makes my action costless or even beneficial to me. Similarly, I do my job well because others will generally support and reward me for working well. Moreover, it would be difficult to disrupt this system to anyone's benefit, including that of a national president or prime minister.

This is not to say that such a system can never be abused for essentially self-interested purposes. In addition it can be abused in a way that is peculiar evidence of how well the relevant norms can be conventionally created and enforced. It can be subject to what the French call déformation professionnelle – the tendency to support one's organization's supposed interests to the detriment of larger public purposes. The organized military is notoriously prone to such deformation, as in the Dreyfus Affair. But other bureaucracies, such as regulatory and welfare delivery agencies, are also often accused of such deformation. The oddity of this behavior is that the enlargement of an agency's mission is essentially a collective benefit to its staff and therefore must suffer from the logic of collective action. We individually have better career and income prospects from the expansion of our agency's mission. But, by the logic of collective action, I cannot be motivated by self-interest to take any risk to contribute to this general expansion in return for my paltry share of the expansion that results from my contribution. My incentive to contribute comes rather from the specific support I personally receive from colleagues in the agency, perhaps especially from superiors, who are all driven by our agency-specific conventional norm. It would be odd to suppose that such behavior was merely norm-directed.
Much of the criticism of government by economists of the Scottish Enlightenment and the so-called Chicago School has been directed at the problems of having self-interested officials administer government programs. Adam Smith extensively discussed the problem of self-interested officials. Geoffrey Brennan and James M. Buchanan allude to the issue in their discussion of a despotic government of one person who, given the power to decide on distributional issues, is essentially given ownership over all that is to be distributed (Brennan and Buchanan 1985, p. 115; also see p. 48). (Brennan and Buchanan briefly address this issue in a discussion of who will seek public office (p. 64), although here their central concern seems to be with those who seek elective office.)

The actual problem we face is how to make many, indeed, millions, of officials act in our interest. We seemingly resolve the problem through the force of norms for substantially disinterested behavior. However, to a large extent, the relevant norms can be established and enforced by convention, so that we can see them as essentially self-interested or at least as congruent with self-interest. And we can see them as largely internally generated within, not externally imposed on, public agencies (see further, Calvert forthcoming). The chief difficulty with this general conclusion is that the actual incentives faced by some agents might not fit the modal incentive of most agents to coordinate. Let us turn to several complicating considerations.

Modal and nonmodal incentives

One cannot give a neat specification of the forms of coordination involved in the interactions that underlie major social institutions. One might suppose this is a failure of theory. But it is not. It is a deep problem of social life. The usual move in social theory is to focus on a very little piece of social order and to deal with it as a problem of multiple equilibria, as for example in David Hume’s discussions of the rules of inheritance and of monarchical succession, both of which are extremely varied across even ostensibly similar societies (Hume 1978, 3.2.3, 504–13nn, 3.2.10, 553–67; cf. Hardin 1988b, pp. 34, 36, 48–50).

In a general game-theoretic account of social interactions, there are often disastrous equilibria, as in many prisoner’s dilemma and collective action interactions. A natural supposition is that in such games, reaching equilibrium is bad, while in coordination games it is good. But the latter supposition is false. In the institutional coordination on a way of accomplishing some purpose there can also be disastrous or at least very inefficient equilibria even when the problem has the more benign structure of a coordination game. For a very simple but therefore very clear example consider Sweden’s historical coordination on driving on the left, as in England. Most of Europe historically coordinated on driving on the right, and this made for severe problems in Sweden. Yet the coordination on driving left was a very strong equilibrium that could not be changed spontaneously even though it evidently had been established spontaneously. It required state intervention in 1967 at substantial cost to change from one coordination equilibrium to the other (Hardin 1988b, pp. 51–53). Suboptimal coordination is the bugbear of coordination problems.

The beauty of the example of the driving convention is that it is pristine and clear. It is the rare case of an objective instantiation of an ideal type. There are de facto two possible coordinations: All drive left or all drive right. They are in principle equally good, so that the only issue is to get the society onto one rather than neither. And no one would think it generally sensible to violate the convention that has been established in any given jurisdiction. North Americans might hate it that they have to take extra pains to drive left in Australia, but they recognize that they do have to if they wish to survive.

If there were only one jurisdiction, the left and the right convention would be equally beneficial, and the game of driving would be a matter of harmony, or pure coordination. Because most other nearby jurisdictions had the opposite convention, Sweden’s drive-left convention was inferior to the drive-right convention. Most n-player game structures and most n-person social interactions are likely to be more nearly like the multiple-jurisdiction driving convention than like the ideal type of a single jurisdiction. Hence, it will be possible and even common that we will settle on suboptimal coordinations. These will commonly be better than other plausible outcomes, but they will not be the best possible.

A general characterization of the plausible game structures for the problem of institutional incentives for coordination would be extremely messy even though, modally, it might resemble the ideal type of the driving convention. Any particular game structure would be far too constrained to give a credible representation of general social order. Therefore one can compellingly object that we might as soon see poor as good outcomes. Consider several ways the game structure for a given institution can diverge from simple coordination – even from coordination that can be quite suboptimal – and responses to these.

The problem of social order (game theoretically) is how to get us onto coordination institutions and patterns of behavior, including institutions that can regulate noncoordination interactions such as prisoner’s dilemma. Prisoner’s dilemma interactions are pervasive in Hobbes’s state
of nature, which is itself an equilibrium in which life is nasty, brutish, and short. But it is coordination on an institution of government – not cooperation in a prisoner’s dilemma – that overcomes the state of nature and produces good outcomes from many of the potential prisoner’s dilemma interactions by legally, coercively blocking the extreme outcomes in which, essentially, one player steals from another rather than making an exchange (Hardin 1991).

Consider three ways the actual incentive structure of an institution or of a generalized behavior might differ systematically from the ideal type. First, the interaction might be coordination for most persons but prisoner’s dilemma or otherwise noncoordination for some persons. For example, ethnic and other groups are often maintained by the imposition of norms of exclusion on the fringe members who do not have an interest in committing fully to the group (Hardin 1995, chap. 4). Second, the completely represented game structure of the interaction might be quasi prisoner’s dilemma for everyone or for many, and cooperation in the piecemeal prisoner’s dilemmas would undercut the institutional purpose. For example, police forces, particularly those that deal extensively with so-called vice, are subject to corruption. Such corruption might become endemic to whole units that are organized informally to maintain the cooperation on violating institutional purposes. Third, the full interaction might be coordination for all, but there might be a substantial group or groups whose best outcome is not the best outcome of some other group, so that the interaction is an unequal coordination. This problem is often acute for social coordination but may not be a major issue within institutions except insofar as an institution mirrors larger unequal social coordination.

Modal coordination with some contrary incentives

Thrill seekers and risk takers might occasionally violate the driving convention and drive left in North America in order to pass others or merely for the hell of it. But they will be relatively extreme cases. Most drivers who discover they are on the wrong side of the road will hasten to correct their error. Many interactions will have this slightly mixed form: modally coordination but partially conflictive. Indeed, for any problem of general social order it would be odd to expect completely similar strategy preferences for all. Off the road, life is not an ideal type.

Moreover, even when certain outcomes represent coordination equilibria for most players, they may have a somewhat different structure for other players, as for the thrill-seeking driver who likes to tempt

danger by driving on the wrong side of the road. Social institutions that are to work well will typically have to be designed for the citizen with modal incentives to coordinate and, often, with backup systems of enforcement to change the incentives of those whose incentives would otherwise be to violate the general coordination. H. L. A. Hart argued that social order depends on the generally normative commitments of the many in order to allow the coercion of the few. He sensibly supposed that coercion of the many would be impossible (Hart 1961, p. 88).

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In many organizations there is some prospect for individual role holders to engage in exchanges contrary to the organization’s mission. If incentives for such behavior are pervasive, the organization’s mission is at risk from individual violations and even more so from the possibility of subgroup coordination on protecting individuals against standard organizational sanctions for miscreant behavior. In an extreme case of such subgroup coordination, the subgroup might even coordinate on a system for forcing organizational members to cooperate in violating the organization’s mission.

A well-known example of a substantial subgroup recoordination against the larger institution is the police force that is partially governed by an informally organized power structure to enforce cooperation in vice. By threatening sanctions against recalcitrants, that power structure can induce officers who do not otherwise think it in their interest to do so to engage in payoffs or other corrupt practices. The informal power structure itself might most commonly be a successful coordination by enough officers to give them effective sanctioning ability. Once they establish a core of cooperators in this enterprise, however, the structure of their further interaction with each other is coordination. Because it is informal and might be opposed by contrary interests, their coordination might be unstable. The strategic structure of the renegade group is therefore analogous to the general structure of the police force itself. This is the reason for its radically destructive quality: that it openly competes on similar terms with its parent institution.

Of course, we might think that an insurgency within some institution was good if viewed from an outside perspective of support for some purpose or value. But if we want an organization to accomplish the goals for which it is established, as typically most citizens must want their police forces to maintain order and to work against, not for, crime, then we would want the organization to have devices to block insurgent countercoordination.
Unequal coordination

In larger social contexts, it is commonly possible that one group would benefit most from coordination on one outcome while another benefited most from coordination on another outcome even though both groups would strongly prefer coordination on either of these outcomes to any other (Hardin 1989a). There are numerous politically important examples of such unequal coordination, including coordination on sex roles, on differential ethnic positions within a going political order, and on a dominant language in the context of multilingual society with at least one secondary language in use, as in the case of francophones in the larger anglophone Canada.

(In the vocabulary of early game theory, the game of unequal coordination is called "battle of the sexes." As in much of verbal game theory, this is an objectionable name not merely because it is stupid but also because it fails to communicate the nature of the game. It may be impossible at this date spontaneously to recoordinate on a more appealing and more informative label for the very widely recognized prisoner's dilemma, which is a catchy but narrowly distorting name for the very general, fundamentally important strategic interaction of exchange. But perhaps the name "battle of the sexes" can be discreetly dropped from usage. There is some hope that it will be in the way linguistic coordinations typically do change, that is, intergenerationally.)

Within an organization, one might also often find a group whose position is less beneficial to its members than would be their position under some alternative structure for the organization. Indeed, organizational hierarchy generally is far more beneficial to some than to others, often arguably for reasons unrelated to the effectiveness of the organization in achieving its outcomes. But we may commonly find that the unequal coordinations of the larger society are directly mirrored within organizations, so that, for example, one social group fills managerial roles and another fills menial roles. Insofar as merit matters for the success of the organization's mission, this kind of unequal coordination might be suboptimal for the organization even while it is optimal for some subgroup within it.

The structure of unequal coordination is often the strategic structure of the more general game of social order, with the people in some organization in either the preferred or the less preferred position. Ideally, this is the level of theory we would need to handle the endogenous creation and maintenance of institutions within a society. There is coordination within an institution on coordinating the larger society. The trick in organizational design is to make the internal coordination opti-

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mal for the larger society by structuring intraorganizational incentives properly. Even when the structural match is not ideal, however, it may still be better than what would follow from not having the organization in place.

Consider a complex and richly debated example, on which serious students strongly disagree: the American Bar Association (ABA). The ABA has historically controlled lawyers and the whole of legal practice in the United States through its control of licensure, advertising, and sanctioning. In practice, this has meant that it coordinates the legal profession through devices that benefit lawyers by raising costs to the larger society. Defenders of the ABA claim that its devices are good because they protect clients. Critics claim these devices are tricked up protections of lawyers themselves. We might hold the intermediate view that ABA regulation of legal practice is generally beneficial to users of legal services despite its implications for higher costs, and we might therefore merely wish there were a less expensive way to coordinate lawyers on good practice.

Concluding remarks

The grand problem of making an institution work well is coordinating the activities of its members. A successful organization need not and likely cannot be expected to coordinate everyone optimally, but it must coordinate modally so that piecemeal violations of the coordination are not very disruptive. Organizations of any scale cannot plausibly be expected to be fully modeled as games of harmony. But if enough of its members are well enough coordinated on the tasks that achieve an organization's purpose, the organization can use its limited sanctioning power to reduce the threat of disruptive behavior from others for whom the incentives are not to coordinate. This is a self-interest variant of Hart's claim, cited earlier, that social order is enabled by the normative commitments of the many, thereby allowing the society's limited sanctioning power to be used to keep miscreants in line. Again, the fundamental trick is that of Hobbes, not that of Durkheim: to coordinate the interests, not the morality, of participants.

There are at least three game-theoretically distinct ways to stabilize commitments of collectives and institutions if their success depends on the use of the incentives of a coordination game:

1. We may create structures, such as legislative committees, that can be changed only by coordinating a large group to vote or work against them in order to put alternative structures in place.
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The costs of such recorrdination then weigh heavily against change and in favor of the current structure and, hence, in favor of the general outputs of that structure.

2. We may create structures, such as very open information systems and multiple involvements in varied areas of organizational action, that make destructive cooperation in piecemeal prisoner’s dilemmas difficult. Such structures turn the prisoner’s dilemmas into larger-number collective action problems that are harder to resolve than are smaller-number collective actions.

3. We may create sanctions to punish or deter free riding. The force of such sanctions is itself backed by structures similarly grounded in coordination.

In all cases, the fundamental move is the prior coordination on a structure or a power, either for decision making or for sanctioning, that then stabilizes the policies or actions of the institution or collective. And in all cases, the ultimate source of incentives for relevant, modal behavior is internal to the organization whose members have been coordinated. And in all cases, but especially the second, the admixture of even a modest complement of public-spirited or moral commitment would make the task easier even though pervasive public-spirited or moral commitment is not necessary to make any of these devices work in many contexts.

Contrary to the widespread view that our principal public difficulty may be the positive resolution of prisoner’s dilemma or collective-action problems, the main grounding for social order and stability may be virtually the contrary. Instead of needing to ease the way to cooperation in collective actions, what we need are coordinating devices that make collective action too hard for it to be disruptive to good institutions. And that is largely what we have in our successful public agencies. Otherwise, we are condemned, like the narcissist, to be victims of our momentary urges and passions rather than masters of our larger lives.

An ironic twist here, of course, is that this dependency on commitment turns the supposedly conservative value of sticking with the status quo into a much more generally compelling value. Even one who wants constructive policies for change must want persistent and stable commitments to those policies. Such commitment requires stable institutional structures. For example, the radical restructuring of American government by President Franklin Roosevelt in the 1930s had a point only if the newly created institutions could be reliably expected to carry out their missions. The best hope for creating such structures is to make them dependent not on small numbers of properly motivated custodians but

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on large-number coordination interactions, that is, to endogenize them broadly through the institutions.

REFERENCES


