

# Preface

The main purpose of this book is to provide behavioral theories of economic agents involved in distribution processes under various institutional conditions by using economic experiments. The emergence of experimental methods in economics over the last two decades seems to have radically changed basic behavioral assumptions of standard economics, namely, rationality and selfishness. However, experimental methods have not been satisfactorily applied to theories of institutional or evolutionary economics, despite the presupposition of such theories that individuals have not only utilitarian incentives but also social preferences that depend on social institutions and vary with changes in those institutions. The application of experimental methods to reexamine and enrich behavioral theories related to institutional theories is required to develop such theories. Additionally, income distribution has been regarded as a major problem in economics and one about which economists have failed to reach a consensus. Consensus is lacking because the problem of income distribution involves various factors, such as distribution justice, economic policy, market mechanisms, and social institutions. Thus, related empirical studies are lacking. Conversely, distribution experiments have been typical in experimental economics since its beginnings, yet few studies have interpreted experimental results from an institutional perspective.

In this book I have performed four distribution experiments that presuppose different institutional conditions and economic agents (workers, investors, companies, citizens) and examined the results from an institutional perspective. The experiments performed in this book are basically modified versions of the dictator game and public goods game that are popular in experimental economics, but are designed to derive institutional implications for the actual political economy. Through these experiments I have examined the institutional conditions under which individuals' social preferences, such as opportunism, egalitarianism, performance-based remuneration, or labor-value radicalism, are enhanced or refrained, together with the associated social or economic consequences. Further, I have provided implications for the actual economy and have reexamined the validities of historical theories of distribution.

This book also provides philosophical discussions on how experimental methods should be applied and extended for application to economic theories intended to explain institutional evolutions. Most of the results of experiments presented in this book, as well as past experimental studies, show that *social preference matters* when people act, which contradicts the neoclassical assumptions of *homo economicus*. Assuming these results are correct, how can they help in the development of social knowledge and contribute to public policy for designing appropriate institutions? If people are motivated by both utilitarian concerns and social preferences, what kinds of social institutions are preferable for enhancing their motivations, productivity, freedom, and social welfare? How can inspiring results proposed by experimental economics, such as inequality aversion, the endowment effect, or risk aversion, be applied to explain actual social economy or propose economic policy? To direct these questions, I have introduced historical discussions on human behaviors in the social sciences, examining the meanings of experimental methods in the history of economic thought. The final goal of this book is to demonstrate a way to apply experimental methods to institutional evolution.

I believe that economics should return to its origins, as a *moral science*, in the sense that it should examine how to achieve a balance among several social values. When I was an undergraduate student of economics, I was impressed by the sophisticated theoretical system of microeconomics that strictly predicts the optimum allocation of goods to a person with certain preferences and budget constraints. Simultaneously, a question arose in my mind—why does economics not consider the optimal allocation of resources to achieve different social values among individuals with different abilities and motivations? Economists seem to regard most social values as involving trade-offs, such as productivity versus equality or personal freedom versus social welfare, where social policy can prioritize either side of these trade-offs. However, we could ask whether this is really the case and whether we should seek a way to satisfy both values to realize the sustainable development of human society. I hope this book can contribute to answering these questions.

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