

THE INVISIBLE HAND OF SOCIAL NORMS: HOW THEY SHAPE ECONOMIC CHOICES

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“Societal norms can be powerful influences on our behaviour and decision-making. It’s important to be mindful of them and to think critically about whether they align with our values and goals.”

- Michelle Obama

How free are we?

People all over the world enjoy the idea of total freedom and are outraged at the thought of being unfree. Freedom cannot be absolute; no one can be completely free. The world we live in today is governed by rules, regulations and laws which visibly influence the behaviours and actions of people.

Whereas there are some other factors whose influence is either more or the same as the visible ones but aren’t discussed that often as they are harder to accept and verbally talk about. These include the perceived informal, mostly unwritten rules that define acceptable and appropriate actions within a given group or community, commonly known as social norms.

It is difficult to determine exactly how free individuals are from social norms, as this can vary widely depending on the norms that are present in their society, as well as their values and beliefs. In this article, we will delve deeper into what social norms are, and their role in economic decision-making and explore some of the key ways in which these norms impact economic behaviour.

What are Social Norms?

Social norms are defined by the feature that they are not outcome-oriented. They are either unconditional or, if conditional, are not future-oriented. To be social, they must be shared by other people and should be judged by their approval and disapproval. They are also encouraged by the feelings of embarrassment, anxiety, and guilt that a person suffers at the prospect of violating them.

A person obeying a norm may also be pushed by negative emotions, like anger and indignation.

As defined by many, the feeling of a person enacting the norms of vengeance is referred to as the wildest, sweetest kind of drunkenness. Social norms have a grip on the mind because they can trigger strong emotions.

They are unwritten rules that govern the behaviour of individuals and groups in society and play a significant role in economic decision-making. These norms can influence the choices made by individuals and organisations in the market, shaping consumer behaviour, market outcomes, and economic development.

The invisible hand of social norms refers to the idea that individuals, in pursuit of their self-interest, can lead to the unintended consequence of benefiting society. In economics, the concept of the invisible hand was famously introduced by Adam Smith in his book "The Wealth of Nations," where he argued that the free market, guided by the invisible hand, is the most efficient and fair system for allocating resources.

Influence on Consumers

Social norms are major drivers of human behaviour and play a crucial part in the consumer decision-making process. One of the primary ways that social norms influence economic decision-making is by forming consumer behaviour.

Consumers are often influenced by the expectations and behaviours of their peers and may make purchasing decisions based on what they perceive to be the norm within their social group. If a particular brand becomes associated with a particular social group or lifestyle, this can influence the purchasing decisions of individuals who want to fit in with that group or aspire to that lifestyle. Similarly, if a particular product becomes associated with a particular cause or value, this can also influence consumer behaviour, as individuals may be more likely to purchase the product if it aligns with their values.

The famous example of Nike explains this case in a better way as Nike took a stand against the racial injustice and bigotry against Colin Kaepernick which influenced people in favour of the company and impacted its sales.

Although social norms can influence consumer decision-making, understanding how the specification of the norm determines its effect is complex. The norms can be specified in either a Descriptive or Injunctive way.

Injunctive norms, also known as moral norms, refer to moral values and societal standards about behaviour, these are silently understood precepts of expected behaviour, closely related

to manners or otherwise unacceptable actions and behaviours that likewise remain undiscussed. Whereas Descriptive norms refer to the various consensual standards that describe how people act, feel, and think in a given situation. According to the definition above, Descriptive norms are shown to have a larger effect on the behaviour of people whereas Injunctive norms have a larger effect on the attitudes of the people.

The second most important factor in determining the amount of effect the norms have on people depends upon the concreteness with which the required behaviour and consequences are specified. Concrete information is generally more engaging and attractive than abstract information and could therefore be more persuasive. The norms may be more relevant and hence more influential when they come from people with whom the consumer can easily identify. Thus, it is established that norms highly influence the decision-making process of consumers.

Effect on Producers and Sellers

As consumers constitute one part of the economy, the producers and sellers make up the rest. Both producers and sellers play a crucial role in the economy by providing a means for people to exchange goods and services and by creating jobs and income for people. They also contribute to economic growth by increasing the supply of goods and services available to consumers. The social norms affect them as much as the consumers.

Social norms influence market outcomes by shaping the behaviour of producers and sellers. If there exists a notion against certain business practices such as price gouging during a natural disaster, producers and sellers may be less likely to engage in those practices to avoid social backlash. On the other hand, if a norm encourages certain business practices, such as fair labour practices or environmental sustainability, producers and sellers may be more likely to adopt these practices to appeal to socially conscious consumers.

In a more recent example, the famous company BournVita decided to reshape the design of the packaging of its products into the shape of toilet cleaners to raise awareness against the everlasting social norm of parents overdoing their job of meddling and constructing their children's careers. Was the reason behind it a profit-making scheme from them like the other companies usually do or something else is still unknown, but the one thing incurred from this is that all of the companies remain actively involved with the social norms.

These examples and more, help establish the fact that the norms affect the decision-making

process of the major sectors of the economy as everyone wants to abide by the norms to fit in with the majority and maintain their image so that they remain relevant in the economy.

Some Significant Social Norms

- The gender-biased norms are still the most prevalent social norms that exist today which include the expectation of society about what types of work should be done by men and women. These expectations often affect how individuals choose their careers and contribute to the economy.
- The concept of "face-saving" in some East Asian cultures, such as China and Japan. In these cultures, it is important to maintain a sense of dignity and respect in social interactions and people may be more likely to make decisions that preserve their reputation and social standing.
- The concept of "collectivism" in some Latin American and African cultures. In these cultures, the group is often considered more important than the individual and people may be more likely to make decisions based on the needs and interests of the group rather than their interests.
- The concept of "individualism" in some Western cultures such as the United States and Canada. In these cultures, the individual is often considered more important than the group and people may be more likely to make decisions based on their interests and goals.
- The concept of "hierarchy" in some South Asian cultures such as India and Pakistan. In these cultures, there is often a strong emphasis on hierarchy and respect for authority, and people may be more likely to make decisions based on the expectations and desires of their superiors.

The Good and the Bad

In addition to influencing consumer behaviour and market outcomes, social norms can also promote economic development. In developing countries, social norms around education, entrepreneurship and innovation can influence the extent to which individuals and organisations can take advantage of economic opportunities. For example, if there is a strong social norm that values education, individuals may be more likely to invest in their education and the education of their children which can lead to increased economic productivity and development. Similarly, when entrepreneurship and innovation are encouraged in a society, individuals and organisations may be more likely to take risks and pursue new ideas which can lead to economic growth and development.

However, it is important to note that social norms can also have negative impacts on economic decision-making. For example, if there is a social norm that discourages certain behaviours or activities, this can create barriers to economic development. For instance, if there is a social norm that discourages women from participating in the labour force, this can limit the economic opportunities available to women and lead to economic inefficiency. Similarly, if there is a social norm that discourages individuals from starting their businesses, this can limit entrepreneurial activity and economic growth.

They also have a fair share of effect on individual and collective decision-making processes. For instance, social norms can influence how individuals process and weigh the costs and benefits of different options as well as how they perceive the potential consequences of their actions. For example, if there is a social norm that values honesty and integrity, individuals may be more likely to weigh the potential negative consequences of dishonest behaviour more heavily in their decision-making process. Similarly, if there is a social norm that values collaboration and cooperation, individuals may be more likely to consider the potential benefits of working together in their decision-making process.

Are Social Norms Rationalisations of Self-interest?

Norms are not necessarily rationalizations of self-interest. While it is true that individuals act in their self-interest, norms can also be motivated by a desire to promote the well-being of the group or society as a whole.

For example, a person may follow the norm of not stealing because it is in their self-interest to avoid getting caught and punished. However, they may also follow this norm because they believe it is important to respect the property of others and contribute to the overall stability and prosperity of their community.

In this way, norms can be seen as a way to balance the interests of the individual with the interests of the group. They allow individuals to pursue their own goals while also contributing to the common good and maintaining social harmony.

However, it is also important to recognize that norms can be used to justify actions that are not in the best interests of the group or society and that some norms may be harmful or oppressive. In these cases, it may be necessary to challenge and change these norms to promote the common good.

Are Norms Followed out of Self-interest?

Social norms can serve a variety of different purposes, and whether or not they are followed out of self-interest depends on the specific norm in question.

When people obey norms, they often have an outcome in mind. They want to avoid the disapproval—ranging from raised eyebrows to social exclusion—of other people. More generally, behaviour guided by social norms is supported by the threat of social sanctions that make it rational to obey the norms.

A second answer to the claim that people obey norms because of the punishments attached to violations of norms emerges if we asked why people would punish others for violating norms. What's in it for them? One answer could be that if they do not express their disapproval of the violation, they will themselves be at the receiving end of the disapproval by third parties.

Overall, the purposes of social norms can be complex and varied and may involve a combination of individual and collective interests.

Do Norms Promote Common Interests?

Yes, norms are the unwritten rules or standards of behaviour that are accepted within a group or society. They are often used to promote common interests within a group. Norms can be both positive and negative and they can vary greatly depending on the culture, community, or situation.

Positive norms are those that promote the well-being of the group or society and encourage cooperation and harmony among its members. Examples of positive norms include being polite, helping others and respecting the rules of the group. Negative norms, on the other hand, are those that may harm the group or society and discourage cooperation and harmony. Examples of negative norms include discrimination, violence and breaking the rules.

Overall, norms play an important role in promoting common interests and values within a group or society. They help establish a sense of order and stability, and they help ensure that the group is functioning smoothly.

Conclusion

In conclusion, social norms play a significant role in influencing economic decision-making. Norms provide a framework for how people are expected to behave in different situations and

can shape people's attitudes and decisions. It is also important to note that social norms can change over time and may vary significantly from one group or society to another. This can have significant implications for economic decision-making and can lead to different outcomes in different contexts.

Additionally, social norms can sometimes be harmful or oppressive and it may be necessary to challenge and change these norms to promote more inclusive and equitable economic outcomes. This can involve initiatives to reform laws and policies as well as efforts to shift cultural attitudes and behaviours. They play a complex and multifaceted role in economic decision-making and it is important to consider their influence when examining economic systems and outcomes.

Through the several different examples explained in the article, it can be said that social norms help create a sense of order and predictability in the economy as individuals tend to follow the norms that are prevalent in their society. By understanding the role that social norms play in shaping economic choices, we can better understand the forces that drive economic behaviour and make more informed decisions as consumers and producers.