COMMUNITY FAILURES

Economic Tools to Unravel Communal Violence in India

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Abstract: This paper argues that overinvestment in community capital emerges when mutual monitoring by members of the community reduces the cost of securing returns to this form of capital. As alternative institutions emerge that deal more efficiently with information and contractual incompleteness the yield on community capital declines. The rational response to this of depreciating the stock of community capital being blocked due to peer pressure from the community, individuals attribute their reduced returns to the other community. Waves of conflict and violence can then arise as individuals seek to protect the returns to their community capital.

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Collective violence in Asia is often communal. These incidents of violence which are communal have been persistent and there has not been a period in modern Indian history when they have not occurred. Over time it has come to be understood that this violence is not an unplanned, spontaneous expression of the deep feelings of an aggrieved people but that in fact the mass mobilization by the political order in India is intrinsically linked to the persistence of communal riots (Brass, 2003). Moreover, standard explanations of collective violence that refer to deprivation and the use of power as a means of social transformation are not valid as all sections of society including the urban middle class have been participants in this form of violence (Spencer, 2004). Given mass mobilization communal riots have often been seen as some form of collective action or crowd behaviour. The individual motivations for such behaviour are usually overlooked and when explored usually lead to a primordialist interpretation based on representations of collective memories (Kakar, 1990).

As riots are linked to identities we first situate and distinguish the institutions that are communities from the other types of institutions that mediate exchanges between individuals in everyday life – markets and states. Having identified the defining features of communities we then investigate how dysfunctionalities like violence between communities can occur. The explanation for communal violence that is offered here is that parents invest for their children in both community capital and human capital. However, they could overinvest in community capital as mutual monitoring by members of the community is an externality that makes the private benefit to parents greater than the social cost as the community shames individuals into adhering to group norms at no cost to the parent. As other institutions that handle information and contractual problems develop, however, the yield on community capital declines vis-a-vis that on human capital. In response
to this environmental change individuals could choose to depreciate their stock of community capital or engage in collective action in an attempt to raise the yield on it. One expression of this collective action is the engagement of conflict with the other community that results in communal violence.

**Section I: COMMUNITIES**

The notion of community we privilege is not that of some primitive, emotional bond, but rather that of an organizational response to the problems of information and contract enforcement in developing economies. As an organizational form communities are different from markets and states. The differentiation is best brought out by considering a typology that specifies the structure of interaction between individuals. As Table I indicates interaction can be specified along two dimensions – anonymous/non-anonymous and voluntary (free)/non-voluntary (restricted). In this idealized classification markets as institutions involve exchange between say firms and consumers where both sides voluntarily enter into a transaction and where the personal identity of the parties is not essential to successful exchange. States mediate transactions between say citizens and the bureaucracy in which neutrality of the bureaucracy requires them to treat all citizens as equal under the law and where citizens cannot exit or migrate to another polity if the state does not follow the constitution. Clubs provide common services or facilities to individuals who voluntarily enter or exit and where the rules of membership to the club specify background characteristics that individuals must possess. Finally, communities in this framework may be defined as social institutions characterized by non-anonymous interactions amongst members and high barriers to entry. Membership in a community is not voluntary in the sense that
belonging to a club is voluntary and affiliation to a community is a consequence of birth rather than a birthright.

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Communities can do what governments and markets fail to do because their members have crucial information about other members’ behaviours, capacities, and needs. The greater the likelihood of interacting with a member of one’s community than with a randomly selected member of the population provides a mechanism for likes interacting and for internalizing the noncontractible benefits and costs of prosocial and antisocial activities. The frequency of interaction among community members lowers the costs and raises the benefits associated with discovering more about the characteristics and likely behaviour of other members. Membership of a community provides high observability of behaviour – the involvement of the community ensures that the group is well-informed about anti-social behaviour and this discourages moral hazard. When agents engage in repeated interaction they have an incentive to act in ways that build their reputation for cooperative behaviour. The understanding of community here follows the account given by North (1981) of low transactions costs in a community - a cost that rises as the network of interdependence widens when specialization and the division of labour expand markets and give considerable scope for opportunistic behaviour.
There are two features of community networks that are especially significant.

(1) High entry and exit barriers – This creates insiders and outsiders as membership of a community is uniquely determined at birth or by ‘blood’. This also makes it impossible for outsiders to enter or for insiders to truly exit. Since membership in a community is not a matter of choice most of the difficulties that come in the way of establishing a trust relationship are easily resolved. Also, though an individual may reduce his gross investment in community capital it is not possible to sell or transfer, what has been accumulated in the process of socialization and upbringing. High barriers to entry and exit reduce opportunism but the trade-off is that if the community earns substantial rents on the networks that it creates there is no regulating mechanism whereby outsiders can enter and lower the rents to insiders. This lack of mechanisms that can regulate returns means that the returns within different communities can be reduced not through efficient competitive forces but through inefficient conflict.

(2) Longevity – An advantage that community networks have is that due to the fact that they go on for generations, the more the opportunities that exist for redress if one member engages in opportunism. Any transgression by a member of a community network on members of another community can be sanctioned more strongly as not only the transgressor but also his/her descendants can be punished as agency is attributed on a community rather than an individual basis. The flip side of this is that communities have a history and culture that is passed on from one generation to the next. As a result communities and their leadership see themselves as accountable both to history as well as the current members of the community. This allows flexibility.
as to what issues should dominate the agenda and opens up the possibility of different interpretations of history. Along with tussles for agenda setting the representativeness and power of the agenda setters diminishes as different issues will never have the support of all the members of the community.

Individuals in developing countries are anchored in social networks of family and community that allow them to enforce implicit contracts and insure against risks. Community capital has long been considered to be a mechanism for alleviating problems of contractual enforcement and imperfect information. Sociologists in India have for long emphasized how individuals are never free of the web of social relations. As one sociologist put it, “He is like a spider perpetually caught in the web that feeds him and which he too is perpetually recreating” (Gangrade, 1998). As Gangrade (1998) details, the support in terms of men, material and money through the social network provides emotional and economic security to the family. Moreover, there exist mutual rights and obligations so that whereas each household is expected to be the source of its own discipline, the community stands ready to ensure that children are obedient, that parents are good, and that relatives are helpful to each other.

**Section II: Community Capital**

For our purposes we define community capital as those expectations for action within the community that affect the goal-seeking behaviour of its members. Amongst the types of relevant expectations we can list the following –

(a) Value introjection/Process regarding preferences – This refers to the moral character of economic and social transactions that are guided
by value imperatives learned during the process of socialization. This source of community capital refers to the obligation that an individual is supposed to feel towards others in the social milieu and that prompts him to behave in other than narrowly self-interested ways – such behaviour then becomes appropriable by others or by the collectivity as a resource. Individuals possess values or codes of behaviour or what may be called process – regarding preferences (Ben-Ner and Puttermann, 1998) – i.e., individuals care about the manner in which they themselves and others behave, including the ways in which they attain outcomes of interest. Whether outcomes are achieved by helping or harming others is not then a matter of indifference to individuals and process constraints are inherent in the norms of behaviour of the community and can even entail discrimination and violence against outsiders. A concern for process is also a desire to meet the expectations of others and to be regarded well by them which in itself is a motivating factor for behaviour.

(b) Bounded solidarity – This is a source of community capital that is a result of situational circumstances and leads to principled group-oriented behaviour that is quite apart from the introjection of established values. This source of community capital emerges out of the situational reaction of a connectivity of people faced with common adversities and leads to the observance of norms of mutual support which is appropriable by individuals as a resource in their own pursuits. The more distinct the cultural characteristics of a group, the greater the level of prejudice associated with these traits, and the lower the probability of exit from a situation, the stronger we may expect community solidarity to be (Portes and Sensenbrenner, 1993).

(c) Enforceable trust – Here individuals subordinate their present desires to collective expectations or group goals not due to value convictions
but to the anticipation of the long term advantages associated with good standing in a collectivity. The orientation of the individual is utilitarian and not directed to particular other individuals but to the web of the social network of the community. The instrumental basis of individual action results in behaviour according to expectations not because of a moral obligation but out of fear of punishment or in anticipation of rewards. As enforceable trust is guided by instrumentalist expectations, its strength depends on the extent to which the community is a source of rewards such as social approval or business opportunities. The greater the opportunities available outside than those available through membership in the community, the lower is the enforceable trust that can possibly be generated in a community.

There are three markers of a community that we consider important to focus on:

1. Consciousness of kind - the intrinsic connection or bond that members of a community feel toward one another. Members of a community in effect know that there is something that separates them from non members, that they can reciprocate towards individuals who are part of the community group to which they belong, and be noncooperative toward those in an outgroup for which they have no affinity.

2. Perpetuation - the rituals, traditions and history that serve to perpetuate the community’s culture and consciousness.

3. Obligations - the responsibility or duty to help other members of the community by providing access to or direction in the use of resources that are important to the community. More importantly, repeated interactions and associational life give rise to social standards of behaviour that condition or constrain actions so as to further cooperation and social identity. Since the interaction is
frequent and there are high entry and exit costs, interaction can be sustained whereby individuals can transact nonsimultaneously in like exchanges. Since this involves the possibility that a transfer of goods or favours from one individual to another may not be returned by a selfish free rider which could unravel the benefits of cooperation, communities sanction free riders who transgress community standards of behaviour and bear this implicit enforcement cost in the interests of maintaining the social standard of behaviour that characterizes the community. Communities can be visualized as governance mechanisms that operate through requiring their members to post bonds (invest in community capital) the assured returns from which is forfeited in the event that mutual cooperation does not occur.

To be sure there will be variation in the degree to which individuals are part of the community. Some agents may only tangentially reference the community whilst others may subsume their identity in the community. For those agents for whom the most important source of identity is the community the reference to the individual is subsumed within the community. The individual partakes in community rituals, is knowledgeable about the history of the community, and the community is a source of legitimacy and authority for the individual. Towards the other extreme we may have the identity of the individual overshadowing membership in the community. Community membership for such an individual is a component of the self but it is not all-consuming. Individuals who are too subsumed in community capital also tend to be individuals who have fewer links and connections with the rest of society. On the other hand, there would be individuals who are members of multiple groups each of which signify different components of the individuals' identity. In such a situation individuals value the services provided by other groups and affiliate with them. The identity that we
stress, however, is community identity. People can be members of different groups, can choose to speak and learn more than one language, and may acquire a taste for Chinese in addition to Indian food. However, there are certain communities characterized by extremely high barriers to entry and exit where membership is a consequence of birth and is not subject to choice - being a Hindu, belonging to a certain caste, and the race associated with the colour of one's skin are examples of this. The affiliation to such communities cannot be transferred or disposed of - an individual can make decisions only about the extent to which the membership in that community is to be utilized. Because the membership of such communities are exclusive, and unaffiliated individuals cannot be included. (Membership is not a choice to be exercised) belonging to this community is a salient marker of identity for individuals and of ascription by others irrespective of their personal involvement in the affairs of the community. It is this type of community demarcated by religious boundaries that is the focus of this paper.

The important point about community capital is that most of it is invested by parents for their children by exposing them when young to rituals and customs, and other forms of socialization such as the communicative codes inherent in the use of language. Whereas the returns to human capital is appropriable by the individual and dependent on abilities and skills as well as labour market conditions, the decision on investment in human capital will depend on factors such as natural talent (which is sometimes gifted with scholarships), family wealth, the elasticity of substitution between time spent in education and other educational inputs (teachers, books, etc.), the quality of schools, and mortality rates that reduce the time span over which the benefits of education are appropriated. The compensation for human capital investment is in terms of a well defined and contracted for reward that market institutions encourage the supply of through the competitive
pursuit of self-interest. The major difference between human capital and community capital is that the latter is subject to spillovers or strategic complementarities (Cooper and John, 1988) - each agent would like to invest more in community capital when others do so. This is because when one agent invests it makes such investment more profitable for the other due to the returns to community capital being realizable only if mutual cooperation occurs. The returns from human capital on the other hand are appropriable by the individual undertaking such investments more or less independently of others' investments in human capital. It is efficient to acquire the skills and abilities associated with various levels of human capital but it is inefficient to acquire community capital without a consideration for others' behaviour in this regard as the returns flow from interactions with them. The other major difference between human capital and community capital is that the returns to the former are mainly pecuniary and the returns to the latter are mainly non-pecuniary. As we shall argue shortly the measure of the return on community capital is the self-esteem that the community experiences. For community capital the motivation for investment by parents could arise from any of the following –

(1) Altruism: Parents invest in community capital for their children by participating in rites and cultural activities as well as inculcating respect for customs and beliefs because they feel love or affection for their children and this is one way of enhancing the well-being of the children.

(2) Expectation of an informal quid pro quo:- Investments in community capital by parents may be in the expectation that the children will return the favour via support and attention to their parents later and that they will continue to honour the accomplishments and norms of their community which are valued by the parents.
The problem with either of these motivations is that they are meaningful to pursue only in the expectation by the parent that the child will reciprocate and adhere to community customs by for instance participating in cultural activities or living by the norms of the community. Counting on the affection or trust of the children in the future opens up the possibility that they may not reciprocate as expected and the bestowing of community capital would suffer from noncontractible and nonenforceable exchanges between parents and children. The only way the investment becomes worthwhile then is if the children could be coerced or obliged to reciprocate. In contrast to human capital where the return is a positive reward for investing and working, in the case of community capital a person faces a negative sanction for failing to uphold community capital. Failing to adhere to the norms of the community or of repaying the debts of one’s parents exposes a person to ridicule and pressure from the other members of the community.

This pressure brought to bear on individuals by members of a community is usually the shame brought to bear on an individual for not honoring the implicit contract that parents have bound him to. Most communities have rites of passage where individuals are initiated into the community fraternity and are made aware of their responsibilities in this regard. In case an individual reneges on his obligations he is punished by the community which takes some action to shame him in front of the community. As discussed earlier the value of such community action depends on the extent to which the community is a source of socio-political and economic rewards and the greater is this the more is the community in a position to affect the actions and choices of individuals. Individuals in the community may shame individuals who deviate from their obligations as it is cheap to mutually monitor action because communities have information about their members behaviours
and capacities as the high barriers to entry and longevity of the network ensures socialization and a frequency of interaction that is higher than amongst any random pairing of individuals. This lowers the cost of acquiring information and makes it easier to disperse it widely and makes cooperative behaviour more likely.

**Section III: Conflict and Violence**

Due to mutual monitoring and the pressure that members of the community can generate to discipline and control actions, the parent is secure that children will undertake actions that bring in the returns to community capital. Given the defining features of communities parents can in fact count on adherence by children to the norms of the community as long as they continue to associate with the members of the community. In sharp contrast the returns to investments in human capital depend on the vagaries of the market place. The relative return to community capital vis-a-vis human capital being more secure, there emerges a tendency for overinvestment in community capital by the parent.

Problems arise when the yield on community capital begins to decline. Communities are characterized by a non-anonymous personal and continuous contact that works well on a small scale where communication and transaction costs are low. People that use community networks limit their capacity to exploit the gains from trade on a wider basis. To the extent that communities are homogenous it also becomes difficult to derive the benefits of economic diversity associated with the strong complementarities among different skills (Bowles and Gintis, 2000). The reduction in transport costs, the growth of financial markets, and improvements in life expectancy have all influenced the returns on community capital. As transport and communication costs
have fallen individuals have become more mobile and communities that thrive on personal face to face contact are becoming increasingly rare. Increases in life expectancy of children via health enhancing policies such as public expenditure on sanitation and mass immunization make it more likely that a return will be obtained on the human capital of children and increases the investment on human capital. However, to the extent that longevity of the adult population also increases their dependency becomes an increased cost that the younger generation must bear to maintain the elderly. As provisioning by the young in this regard may not be forthcoming the elderly are induced to increase their financial savings or to increase the investment in community capital that puts pressure on the young to provide support to the elderly. The growth of financial markets provides an avenue whereby parents may save in financial assets in order to provide for care when old. However, to the extent that current resources are being used more to increase human capital investments in the young there could very well be a transitional state where this investment in human capital is accompanied by investment in community capital which is the elders way of ensuring the discharge of family responsibilities by the young.

If there were free entry and exit from investments in various types of capital then individuals would on witnessing low returns in one form of capital withdraw their claims to the return from that capital and invest elsewhere. With community capital, however, the individual's exit is blocked by the peer pressure from others in the community. Relatively high levels of community capital in any case are sustained by correspondingly high levels of peer pressure that forms the glue which enabled the high investment in community capital in the first place. No community can function without effective sanctions and even mild sanctions like disapproval cause many individuals to publicly conform to prevailing norms of behaviour even though privately they may want to be
less active in the life of the community (Kuran, 1987). Initially individuals voluntarily invest in community capital as the low cost of contract enforcement and mutual monitoring secure many community provided valuable services such as education, social insurance, and entertainment for them. To provide these services effectively communities penalized those who did not participate in community life through sanctions of various sorts. Community standards of behaviour facilitate intra-community activities and promote the chances of mutually desired outcomes whilst reducing opportunistic behaviour. Whilst producing beneficial services for individuals by relying on the low transactions costs that result from entry/exit barriers and longevity, communities generate self-esteem for their members.

Self esteem is the tallying of community experiences that in the aggregate informs the individual about the relative success of his and the community's engagement in social life which results in a sense of pride. The more the community is a source of benefits the more the self-esteem associated with participation in community activities. Also, as individuals cannot opt for membership in another community the returns to membership in a community in the form of self-esteem is simultaneously also a positional return. Self-esteem in communities is not just intrinsic but also a function of the relative position and performance of the community vis-à-vis other communities. Self-esteem is the measure that summarizes for a community and its members the absolute and relative return on the capital of the community. The lower the perceived position of a community the more there is a potential felt need to strive to better the community's relative rank and reaffirm self-esteem. Each action taken by a community to improve its relative standing can result in an escalating pattern of offsetting actions by the other community so as to reaffirm relative rank. This inefficient outcome
whereby communities undertake countervailing actions to attain more dominant positions is an outcome of positional competition.

When community capital cannot be easily depreciated and communities as a source of benefits begin to wane individuals experience the failings and inadequacies of the community which reduces their pride in the community. Some planned action may be initiated to counteract this loss of pride such as through public ceremonial demonstrations on festive days and miscellaneous religious activities. Some individuals may withdraw from active participation in community life as the failings and inadequacies of the community in coping with the new pressures from the social environment is direct and obvious to them. Such individuals will not necessarily demit altogether their association with the community but will become inactive members as true exit is not feasible given that membership was a consequence of birth and that resisting peer pressure may take up too much of effort on the part of the individual. Even those who renounce the web of community links often find that just as the community’s hold on the individual was significant so is it that other members of society never really acknowledge him easily in a role other than that associated with his erstwhile community. Whatever the individual level responses it is one thing that the failings and inadequacies of the community reduce pride and indicate a diminished relative social standing for the community. It is another quite different and conflict promoting thing when the experience of community membership is a combination of the failings and inadequacies of the community in conjunction with action taken by individuals from the other community which lowers the discernible position of the individual and his community. In such an eventuality the experience of subordination and loss of rank is attributed partly to the inadequacies of the community and additionally to the deliberative action of the other community. The subordination and inadequacy is actively revealed by
the other community that lowers the position of the individual and his community and contributes to his humiliation.

Any highly inciting act that is provocative is often sufficient to precipitate violence as the humiliation cannot be left unanswered. It is often events such as religious processions and demonstrations that foster violence as a community's status is downgraded when insults are traded and sacred symbols attacked. Sometimes rumors of impending atrocities on the community are enough to induce aggression in view of the projected expectation of violence from the other community. The triggering of humiliation could also be planned by political parties that indulge in acts that spark a minority counter-mobilization so as to polarize the majority community behind them (Wilkinson, 2004). The recognition that agents from the other community are about to or have taken action that has actively reduced their social standing causes individuals to experience anger and to search for means to get out of this frame of reference as soon as possible so as to end the detestable experience. Recognizing the real or imagined actions of the other community as the leverage factor that got the individual into this situation, attacking the source of the problem is a reaction to the loss of pride and self esteem experienced. The more intensely experienced is the loss of self-esteem from the actions of the other community, the more intense is the reaction. Aggression against the other community by inflicting harm is the individual's weapon for repealing his inferior social standing and inverting the dominance relationship effected by the other community. This infliction of harm is often at high cost to the individual and his community due to the retaliation it elicits. However, its significance as a decision response lies in the decisive signal given to the other community of the extremely high cost of their actions that engender humiliation and makes the contemplation of such action very unattractive for them in the future. The danger of costly aggressive and
violent behaviour by the individual and his community promotes the benefit that by deterring the other community it protects the individual and his community against further transgression by the other besides restoring social standing and self esteem. The more aggressive is the response of the individual in the community, the more is the harm caused to the other which in turn increases the reaction of the other to an attempt at assertion of superiority. This results in a runaway escalation of violence and aggression that can only end with the coercive use of force by the state or by the proliferation of costs in terms of human lives lost in both communities that brings about a truce.

Communities with high levels of community capital elicit high self esteem in their members and the peer pressure exerted in such communities being also high individuals find it difficult to entertain unpleasant or negative thoughts about the overinvestment committed on their behalf by their parents in this form of capital. This inability to depreciate the stock of community capital in response to the decline in its returns relative to human capital as markets become larger and deeper and begin to play a greater role in the allocation of resources causes the community to displace the cause of the decline in community benefits to external agents from the other community. Given the sanctions from the community if he attempts to deprecate his stock of community capital the individual is led to believe that it is not that his parents invested heavily in community capital and that they are not to be blamed for the low yield on this investment. Rather, the low yield is attributed to the Other community, the Muslims (in the case of Hindus), who are viewed as having been pampered by the state (mainly the Congress party) and their high yielding international networks (Gulf money). Thus through this process of inversion by ascribing to the other community an excessive return on their community capital, they are portrayed as preventing one's own community from enjoying its way of
life. The repression of unpleasant emotions about one’s own community causes the sense of loss to be attributed to the lack of a number of attributes. Amongst these the loss of self-esteem and position is viewed as a punishment for not being observant enough in the religious practices of the community and to not having attended enough to the inner bonds that tie the community together. The inversion of the process results in further cementing of community ties and makes it even more difficult for the logical response to the situation to materialize – the depreciation of community capital. Other traits that are derided in an attempt to repress the unpleasant emotions further are the excessive tolerance shown to the other community and the lack of self-respect in the community that is seen as arising from a perceived lack of self discipline and strength.

The overt glorification of the community and the creation of prejudice towards the other community helps in generating collective action to raise the returns to community capital. In more extreme forms this results in conflict with the other community which is perceived to be the source of the reduced return to community capital. However, the real enemy is not the other community and acts of violence, hatred and destruction towards its members give temporary relief to the frustration of the community. The real enemy is the overinvestment in community capital and till the community can come to terms with this the frustration experienced can only breed further hatred and violence. The individual may want to depreciate community capital but values dominate preferences. These values create a disposition that shapes actions and reactions which are not susceptible to modification by arguments and evidence. As a result the wave of hatred and violence returns and communal violence becomes the dark underside of the community that refuses to go away.
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