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Comment on Partha Dasgupta, "Ethics, Future Generations, and the Market"

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Professor Dasgupta has given an illuminating overview and a blend of different approaches to the problem of population and saving of both the positive and the normative variety, bringing together quite different lines of thought. It has been obvious — not only to me, but probably to all participants of the Workshop — that there will be high returns of future research in this field. Whereas I do agree with the basic line of Dasgupta's argument, I will try to relate his approach to the German tradition of a "social market economy" which is the basic issue of this conference. In addition, I would like to raise some specific questions and to focus attention on a few methodological problems. Possibly, these short notes could prove to be helpful in further pursuing the general reasoning developed and presented here so masterfully by Dasgupta, and in linking it to the "ordo liberal" thinking.

General Remarks

In the first version of his paper presented at the Workshop, a second part concerned with ethical issues in the context of population and savings was added by Dasgupta to his "positive analysis," centering on the population problem. In my view, it was a justified decision to omit this second part as the ethical issues presented there were quite unrelated to his positive analysis to which the final paper is now more or less restricted. However, some ethical issues, such as Dasgupta's insight "that my children provide me with a means of self-transcendence," are also important for a positive analysis, not least because the acceptance or rejection of this view has practical consequences for the degree of parental care for children and grandchildren. Therefore, it seems to me that the further development of positive analysis will benefit a lot if at the same time the ethical issues — which Dasgupta correctly describes as "an underdeveloped branch of moral philosophy" — are analyzed and elaborated in more depth and detail. In this way, positive analysis and ethical reasoning could support each other. Also, as his discussion of Rawls's "saving principle" (in Section 3) shows, an analytical investigation of ethical principles — in this case, of the "saving principle" as a Nash equilibrium sequence of saving rates among generations — reveals inherent weaknesses of those concepts with regard to their *ethical* meanings (in this case regarding the idea of *justice*) which would otherwise remain hidden.

To me Dasgupta's contribution is illuminating especially in so far as he succeeds both in developing a strict formal analysis of parental motivation as regressive functions (Section 2) and in linking this analysis with a well-informed and vivid description of the important empirical issues (often overlooked by theorists), such as the poor rural household and its setting (Section 4), the gender issue, especially the question of the sexual division of labor (Section 5) and, above all, the different motives for procreation (children both as ends and insurance, and as income earners; Section 6) which enables him to model fertility decisions in a real world context, taking into account customary sex preferences (for sons) as well as the great importance of women's education for fertility decisions (Section 7).

In this way, Dasgupta has laid ground for a welfare economic analysis of the population issue in Sections 8 ("Externalities: Household versus Community Benefits from New Birth") and 9 ("Allocation Failure and Public Policy") which avoids the frequent mistakes of Western-style "armchair theorizing". Thereby, policies of "affecting the locus of household decision-making" (Section 10) are identified as an often neglected complement to the traditional policies of increasing the costs and reducing the benefits of having children at the level of the household, and of improving information concerning family-planning. Combining all these four starting points, the importance of social coordination, the provision of infrastructural goods and of social security networks become evident. Dasgupta's approach hence is very much in line with the German-speaking "ordo liberal" thought which had led to the notion of a "social market economy," the topic of this Workshop. I will come to this concept and its links to Dasgupta's analysis in my following remarks.

The notion of a social market economy as developed by Eucken, Müller-Armack, and others is based on three central assumptions:

(1) In contrast to Adam Smith, there is no "natural system of liberty" which would evolve out of itself if it is not hindered by the State; on the contrary, the government has obligations to establish and to maintain a competitive order ("ordo"); therefore, among other things, a powerful antitrust authority has to be established in order to fight the monopolistic tendencies inherent in the competitive process. For this reason, the notion of "ordo" (*competitive order*) describes both an actual state of the market economy and an ideal (competitive) point of reference which has to be permanently striven for.

(2) Moreover, "ordo" is not confined to the economic system alone: The latter is embedded in and intertwined with other (partial) "systems" and "orders" such as culture, law, politics etc. Therefore, an "interdependence" of

all these partial orders (Eucken's *Interdependenz der Ordnungen*) has to be taken into account by the economist when addressing real world problems.

(3) The functioning of the market system and people's confidence into both the efficiency and fairness of competitive markets presuppose a social safety network in order to protect and to integrate those who would be harmed by the pure market process. This has led to the notion of a "social market economy," developed especially by Alfred Müller-Armack who emphasized in the late forties the importance of general acceptance of a market system by the population at large (and not only by the "winners" of an unrestricted "free market"). This perception of the market system as being "fair" has also, at least up to a certain point, its positive effects on the function of market order. Of course, he and other representatives of ordo liberalism were also aware of the fact that social compensation, if driven too far, would become counterproductive as it could reduce the stimulus for active participation in the market process and could instead create wrong incentives for *rent-seeking* (this expression was not known at that time in the German-speaking countries, but the fact itself was already correctly perceived). For this reason, the ordo liberal theorists emphasized the need for a delicate balance between economic efficiency and social protection, and in this way they anticipated the "efficiency-equality" issue discussed about twenty years later in the US by Arthur Okun and others.

How do these German theoretical notions developed during and after World War II (as a basis of successful reconstruction in Germany after 1945) relate to Dasgupta's analysis? Of course, there are considerable differences between the reconstruction of an already industrialized country on the one hand and global issues, such as the population problem and the economic conditions of the so-called Third World Countries, on the other hand. Nevertheless, Dasgupta's example of the population problem in sub-Saharan Africa and the Indian Subcontinent corroborates the two central insights of the ordo liberal school, namely the need to consider the "interdependence of orders" and the need of a social safety network as a basis of a "social market economy." So it is in the interest of both economic theory and practical economic policy to go *beyond* economics: In Dasgupta's case, the *interdependence of orders* and the *social market economy* complement each other: The measures which he derives from his analysis — social coordination, provision of infrastructural goods, and measures of social security — transgress narrow economic confinements, and hence take account of the "interdependence of orders"; at the same time they can be considered as stepping-stones towards a social market economy which support each other in a synergetic way. To quote Dasgupta (Section 10): "... these services are desirable in themselves, and commend themselves even when we do not have the population problem in mind. It seems to me that this consonance among desirable social policies is a most agreeable fact in what is a depressing field of study."

Another illustrating example for the interdependence of orders is Dasgupta's analysis of contraception as a means of limiting population growth, especially in the context of sub-Saharan Africa: Of course, knowledge and accessibility of contraceptives is *one* prerequisite for limiting the number of offspring. But, as the limited success of all programs focused on these devices shows, this approach is far too narrow and short-sighted: it does not touch the question of economic incentives — for instance, to have children as factors of production — nor does it change traditional social values, such as evaluating children as a proof of virility; it does not touch upon deeply rooted social structures, especially patriarchy and the sexual division of labor, and it is only related to one aspect of education, namely the knowledge of contraceptive measures. Empirical evidence presented by Dasgupta shows that *general* education of women is one of the most promising, still not the sole starting point for changing those social structures which in addition create lots of incentives for free-riding, especially for men, but also in parts of Africa for "polyandric women," to increase their kinship and hence their accessibility to different "social" family networks by increasing the number of their offspring. Although some general tendencies can be observed which had already been effective in 19th century Europe and North-America — especially a negative correlation between fertility and annual income —, at the same time a very big variance between different countries, say China and Kenya, can be perceived as well. Therefore, in addition to general theoretical reasoning, empirical *and* theoretical investigation into the specific social, cultural and economic situation of single countries has to be undertaken. Dasgupta's general message is basically in accordance with ordo liberal thought: Economics matters, but not alone — and an economic policy restricted to "pure" economic issues will also *fail in economic terms.*

I will now come to a few selected and more specific points of his article.

Remarks on Some Specific Issues

As any solution to the population problem can only be expected in the long run, ecological issues, such as the possible survival of mankind under the threat of global environmental destruction, have to be considered as well. In this context, the question of natural resources is of special interest. As Dasgupta emphasizes himself, there are limits to the substitution of man-made capital for natural capital: Natural capital is not only a factor (or a set of factors) of production, but in many respects a *precondition* for production as such. This poses ecological, and not only economic, limits to the growth of population. As we do not know enough about the kinds and values of services provided by nature, our possibilities to increase the carrying capacity of the earth by enlarging man-made capital (such as capital goods, information, efficiency) have to be judged cautiously. This state of insufficient knowledge should lead us to a precautionary principle: Increased stress on natural resources cannot always be overcome by increased production of man-made capital; solutions achieved in this way can later on be perceived as a "shifting of problems," not as the final answer which had been originally expected at the time when the respective measures were taken.

Here again, we have a common characteristic of both the population and the environmental problem: According to the *World Commission for Environment and Development* (1987) environmental destruction is one of the reasons for poverty in developing countries, and at the same time this very poverty leads to further natural destruction in people's struggle for mere survival. Therefore, *sustainable development* is calling for combined efforts at limiting population growth, increasing the standards of living and reducing environmental destruction. It should be clear that there is no realistic hope of overcoming these intertwined problems unless the rich industrialized countries are willing to share their wealth with the poor countries in an appropriate way. This problem in turn leads to ethical issues, such as distributional justice, but at the same time to welfare economic problems, such as the provision of global public goods (e.g. the preservation of tropical rain forests and the protection of the global climate); here again we face the need for a *joint* consideration of both analytical and ethical issues.

An extremely important insight provided by Dasgupta's analysis is the fact that children and kinship relations serve as substitutes for missing or badly functioning markets. For instance, goods and services which are not provided by markets have to be produced by the people themselves; in this context, children as a cheap labor input and as an old-age security are even more important. However, these "productive functions" of children lead to wrong relative prices of household goods and services which in turn hinder the emergence of markets in these fields. In a similar way, noncommercial energy (e.g. fire-wood collected by children and women) is used as a substitute for commercial energy which is either not available or too expensive for the mass of population, and this in turn is a major source of environmental destruction; clearly these are "vicious circles."

But there might be another "vicious circle" which has not been analyzed by Dasgupta: On the one hand, he explains correctly a high number of children on the basis of a very low labor productivity, due to a lack of education and a lack of publicly provided infrastructure. On the other hand, if we — as a policy recommendation — improve public infrastructure and education and hence increase children's productivity, would we not give strong incentives to (unreliable or only very poor) parents to *increase* the number of their offspring as they can now extract higher income from their labor, given the fact that the costs of rearing children are very low? On the other hand, if the costs of raising children rise so dramatically (due to better education) that the (later) increase in productivity is offset, would we not have to expect that especially poor families (which are the focus of those programs) have no access to better training? I am afraid that we economists can overcome this vicious "education-productivity" circle only by addressing to what we usually take as given: preferences of children and parents. They have to change as well. In this context, social security networks (as a substitute for children) could prove to become very supportive. In any case, this problem seems to me both very difficult and very crucial.

Dasgupta's complex and at the same time subtle analysis of the externality issue — especially the divergence between household and community benefits from new births — shows that, in addition to welfare economics and ordo liberal thought, analyses of comparative economic systems and of transformation processes are relevant to the population problem as well. To quote Dasgupta (Section 8): "Special costs are inevitably borne during transitional periods, when established modes of operation are in the process of disintegration without being replaced immediately by new institutions to soften the costs." Demographic transition is a major example of this, and it is closely related to the problem of macroeconomic stabilization which we face now in Eastern European countries: increasing productivity (e.g., by enhancing human capital) has not only its desirable consequences, such as the potential for higher incomes, but at the same time it means, inter alia, giving up those factories and establishments — or at least workplaces — which are lagging behind in productivity. At the same time, a rise in labor productivity appears to the people concerned as a destruction of jobs which otherwise would have been needed.

Therefore, both employees and managers of those establishments will strongly resist productivity increasing measures (such as closing down less efficient factories) as long as there is no social safety net established which will buffer the economic consequences of lost workplaces. Apart from favoring a general mood of reluctance against productivity increasing policies (which can be observed especially in the former Soviet Union), it will lead in Third World countries to strong disincentives for parents to reduce the number of their offspring, given their uncertainty about a "shelter" when they are becoming old. This clinging to traditional and dysfunctional social norms in the face of modernization and productivity increase elsewhere might be a reason for persisting and even increasing misery itself. But such a prisoners' dilemma situation can only be overcome if there are institutions and incentives for many households to change their "traditional attitudes" and hence to decrease the gap between private and public benefits. This in turn shows again the necessity for considering the "interdependence of orders" in order to break open an otherwise closed and vicious circle.

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