Stephen A. Marglin

The Dismal Science

How Thinking Like an Economist Undermines Community

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CHAPTER 1

Economics, the Market, and Community

The first-century Jewish sage Hillel asked, "If I am not for myself, who will be? And if I am only for myself, what am I? And if not now, when?" (*Pirkei Avot* [Ethics of the Fathers] 1:14, in Harlow 1989, 607). The claims of the individual and the claims of the community conflict. And that's not a bad thing: this tension is normal, healthy, and even creative. It should not be resolved once and for all in favor of either the individual or the community. But over the past four hundred years, the ideology of economics has fostered both the self-interested individual and the market system, and has undermined, and continues to undermine, the community. This book analyzes how this has happened.

In 1990, a boy with adenosine deaminase (ADA) deficiency was born into an Amish community. ADA deficiency compromises the body's immune system so drastically that survival beyond the age of three used to be quite rare. A related immune deficiency compelled another boy, David Vetter, born almost twenty years earlier, to spend the entire twelve years of his life in a confined environment specially designed to keep out chance infections. David, the subject of the John Travolta movie *The Boy in the Plastic Bubble,* succumbed when a bone-marrow transplant designed to supply the missing enzyme went awry, but for the Amish boy a drug was available to compensate for his body's immune deficiency. Taking this drug, he could hope for a fairly normal life, not unlike the life led by diabetics on insulin. And because the family income was sufficiently low, Medicaid would pay the costs, staggering though these were. The drug alone cost $114,000 per year, and additional costs would bring the annual total up to $190,000.

Happy ending? Not so fast. On principle, most Amish do not participate in government programs like Medicaid. If this money was to be spent on the

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boy, it would have to come from the community. But medication was not a short-term fix. The expenditure would go on indefinitely, and there was too little experience with the drug to predict its long-term consequences. Even with the drug, the boy might or might not make it into adulthood.

Anguished, his parents consulted the bishop and elders of their congregation. The newspaper reports (Drake 1991a, b) are ambiguous, but my reading is that the congregation would provide counsel, and, having done so, would leave the decision to the parents. The alternatives were clear: once Medicaid was eliminated from the menu of options, the choice boiled down to almost certain death for the child or economic stress, maybe even disaster, for the community.

The couple did not treat their baby. Three months later he was dead.

A local (non-Amish) physician who was asked by the congregation to evaluate treatment options offered this commentary: "What is at stake is the ability to maintain an independent culture." When asked why he would not accept Medicaid, the boy's father put it like this: "If we take money from the government, then we are not Amish."

What Does This Have to Do with Economics?

Community is evidently so important for the Amish that its members would allow a child to die for its sake. This book argues that the market bears a large share of the responsibility for eroding this kind of community, for undermining the centrality of community in our lives. By "the market" I mean something different from the variety of markets that have been with us since time out of mind and exist in virtually all societies, certainly including the Amish. I mean, with Karl Polanyi (1944), a self-regulating market *system,* a world in which markets collectively allocate resources, set prices, determine the distribution of income—in short, a system in which markets provide for our needs and wants and from which we derive our sustenance. And something more: a system that not only regulates itself but also regulates ourselves, a process that shapes and forms people whose relationships with one another are circumscribed and reduced by the market.

Even granting provisionally—stipulating, as the lawyers say—that *markets* are somehow destructive of community, does it not confuse the messenger with the message to lay the blame on *economists?* Economists may not grasp the way the Amish—or others at odds with the self-interested, calculating individual—approach life, but this lack of comprehension is a far cry from actively undermining community. The charge is especially hard to square with the self-image of economists as possessing a discipline primarily concerned with telling it like it is. In the economists' view, "positive economics" is a purely descriptive endeavor logically distinct from its normative adjunct, "welfare economics," the part of economics that is concerned with evaluation as a preliminary to making policy prescriptions.

I am not confusing the messenger with the message: economics is an accessory, both before and after the fact. Surveys conducted by sociologists Gerald Marwell and Ruth Ames (1981) and experiments undertaken by economist Robert Frank in collaboration with psychologists Thomas Gilovich and Dennis Regan (1993) support the idea that studying economics is associated with less cooperative, less other-regarding behavior (but see Yezer et al. 1996 for evidence and argument to the contrary). It is not difficult to see why: economics celebrates the self-interested, calculating individual and the market as a means of realizing individual satisfactions, and this celebration is important in overcoming opposition to extending the sway of the market and, by the same token, undermining community. Economics is not only descriptive; it is not only evaluative; it is at the same time constructive—economists seek to fashion a world in the image of economic theory.

The problem with the idea that economics is purely, or even primarily, a descriptive undertaking is that the apparatus of economics has been shaped by an agenda focused on showing that markets are good for people rather than on discovering how markets actually work. And from this normative perspective has come the constructive agenda. If you believe that economics is or should be about describing the world, then it is a case of the tail wagging the dog. If you believe, as I do, that the normative agenda has been central to economics from well before Adam Smith's time, then it is more understandable why the apparatus of economics is built on foundations that undermine community. Undermining community is the logical and practical consequence of promoting the market system.

This much is certain: if all we economists cared about was describing the world, we could easily forgo much of the framework that I find problematic. Take one of the most basic tool of economic analysis, demand. If we did not care about drawing conclusions about how well markets work, as distinct from how markets actually work, we could start directly from the demand curve rather than basing demand on choices made by rational, calculating, self-interested individuals. We do not take demand as the starting point because it would then be impossible to argue that—subject to some fine and not so fine print—a system of markets maximizes welfare.

In making this argument, economics relies on value judgments implicit in foundational assumptions about the self-interested individual, about rational calculation, about unlimited wants, and about the nation-state, and it is these assumptions that make community invisible. In arguing for the market, economics legitimizes the destruction of community and thus helps to construct a world in which community struggles for survival.

To be sure, on the other side of the ledger, markets can be credited with promoting economic growth, and it is undeniable that much good has come with growth (longer lives, less physical discomfort and even less pain, better nutrition, less hard physical toil, to mention only a few of the positives of growth). My argument with my fellow economists is not that they strike a different balance with respect to the gains and the losses of extending the sway of markets; it is that they do not recognize the losses at all. If communities are once again to flourish, then we will have to address the failures of a social order based on markets, and not just applaud its successes. Poverty makes growth necessary for much of the world—Mohandas Karamchand Gandhi, the Mahatma, once wrote that if God wanted a warm reception from the Indian masses, He would be well advised to appear in the form of a loaf of bread (Gandhi 1931). By contrast, we who live in rich countries, awash in goods and services, have no such compelling argument. Indeed, we may have good reason to dismantle the engine of growth—not because growth is a threat to our relationship with nature,[1] but because it is a threat to our relationships with one another.

Economists may respond by disclaiming interest in, along with responsibility for, community, leaving the inquiry to sociologists, anthropologists, and historians. The problem is that the foundational assumptions of economics not only make community invisible; these assumptions also limit the ability of economists to understand the parts of the world in which we must perforce take an interest. An economist need not care about community, but it is harder to avoid such issues as the determinants of saving and investment, or the role of the distribution of income in assessing economic outcomes, or even in addressing the question of why markets are good for people. In all of these areas, the foundations of the discipline not only undermine community; they undermine economic analysis.

I will be accused of setting up a straw man, an "economics" so drastically simplified and out of date that it caricatures the breadth and depth of the intellectual enterprise of contemporary economics. I have two responses. The first is that the enterprise of economics is better characterized by the content of elementary texts than by what goes on at the frontiers of economic theory. A perusal of leading texts leaves no doubt as to the core message: markets are good for people. This is a message found not only in what might be termed a conservative text, Gregory Mankiw's *Principles of Economics*—which it may be noted is the largest selling text—but also in more nuanced form in texts written by leading liberal economists (Baumol and Blinder 2003; Krugman and Wells 2005).

Second, even at the frontiers, there is little questioning of the foundational assumptions of economics; for the most part, criticism focuses on issues outlined in Appendix A, issues of the structure of markets, goods, and information. The exception is the recent flurry of research activity in so-called behavioral economics. If the research agenda of behavioral economics were to be carried through unflinchingly, the results might well be devastating for the self-interested, utility-maximizing individual who has had the leading role in economics since its emergence as a separate discipline from more general inquiry in ethics, statecraft, political philosophy, and the like. But so far, as is made clear in the introduction to *Advances in Behavioral Economics* (Camerer et al. 2004), behavioral economists typically do no more than "modify one or two assumptions in standard theory in the direction of greater psychological realism" (Camerer and Lowenstein 2004, 3). Clearly the goal is not to provide an alternative normative and constructive agenda, or behavioral economists would not show so much deference to the need to save the appearances of mainstream theory. Judging from *Advances in Behavioral Economics,* which brings together some of the most important contributions to this field, behavioral economists seem almost desperate to fit their subversive conclusions into a utility-maximizing framework of calculation, the sine qua non of professional respectability, even while recognizing nonrational elements in the calculations.[2]

While there is in my view a well-established church of economics, there is no high priest, no final arbiter of what constitutes economics, much less a final arbiter of what constitute the assumptions of economics. My characterization necessarily involves a subjective element; it is my reading of the center of gravity of a field with a gamut of practitioners and practices. The characterization of the foundational assumptions in this book is my attempt to infer a coherent basis for this center or core. I have been urged to recognize the variety within economics by some qualification such as "mainstream" or "standard" or "neoclassical." I generally resist the advice not only because it is tedious always to qualify, but because, notwithstanding the variety, the mainstream, in my view, is so dominant that the other streams have become mere trickles. If we focus on what is taught in the typical principles course, or on the entire undergraduate curriculum, or even on the content of graduate theory courses, I think there is a consensus, and it is this consensus to which the term *economics* refers in this book. It is this consensus that makes the community disappear from economic analysis and that aids and abets the market as it undermines community.

Two books, one written a half century ago, the other just a few years old, deserve attention in thinking about the relationship between the market and community—not for what they say about this relationship, but for the glaring omission from what are otherwise probing accounts of, on the one hand, the demise of community and, on the other, the limits, as well as the strengths, of the market.

The first is Robert Nisbet's *The Quest for Community*. Nisbet, writing in the dark mid-twentieth-century days after the defeat of one form of totalitarian government and the beginning of a long Cold War against another, was particularly concerned with how Nazi Germany and Communist Russia manipulated people's yearning for community to institute the most repressive societies that Europe had ever known. His argument is that individualism destroys community, but the search for community remains unabated. The modern state rushes in to fill the gap, not only providing the material succor that community previously did, but offering meaning and purpose to individuals as members of a national community. This, for Nisbet, is a generic process of modernity; it is simply taken to an extreme by the totalitarian Right and Left.

This is a striking account, and I believe it offers an important perspective on the demise of community. But the most surprising aspect of Nisbet's argument in the lens of this book is how little attention is paid to the market. For Nisbet, a market system is not part of the problem because markets work only with the support of community-based institutions:

> There has never been a time when a successful economic system has rested upon purely individualistic drives or upon the impersonal relationships so prized by the rationalists [by "rationalists" Nisbet means the disciples of the Enlightenment]. There are always, in fact, associations and incentives nourished by the non-economic processes of kinship, religion, and various other forms of social relationships. (Nisbet 1990 [1953], 212–213)

The failure of the market to accommodate the needs of community provides just one more excuse for state intrusion (Nisbet 1990 [1953], 215).

Nisbet is surely right that, from its own point of view, the modern nation-state has reasons for eyeing local communities with suspicion and acting accordingly (see Chapter 10). But the state is not the only culprit. The market, too, this book argues, bears responsibility for the destruction of community. Indeed, state and market often work hand in glove, as the example of the North American Free Trade Agreement (NAFTA), which we shall examine momentarily, makes abundantly clear. There is no reason to choose between Nisbet's emphasis on the state and this book's emphasis on the market.

John McMillan's *Reinventing the Bazaar* is the second book that provides a window on the relationship between market and community. McMillan is an enthusiast of the market, but he is scrupulously attentive to various causes of market failure. Missing—even as markets are missing from Nisbet's study—is any attention to community and, in particular, to the corrosive effect of markets on communities. Not surprising, since McMillan operates strictly within mainstream economics. Even within this relatively narrow framework, there are many possible reasons why there might be losses that outweigh the mutual gains of economic agents operating in markets; McMillan explores these reasons with clarity and wit.

In Appendix A, I set out my own version of these reasons in a critique of what I call the structural assumptions of economics. This critique looks, for example, to what in the jargon are called "externalities," unintended by-products of an exchange that fall on third parties. If Mr. A gives Ms. B heroin in exchange for sex, the economist will have a relatively easy time showing why this trade might be undesirable despite the wishes of the two participants. Providing heroin to Ms. B contributes to an addiction, and Ms. B might in the future rob or kill in order to satisfy her craving. The effects on Ms. B's victims, externalities of the original transaction, would swamp the benefits that Mr. A and Ms. B derived from the original exchange.

The structural critique is not limited to externalities. Welfare economics recognizes that the normative claim for the market requires not just any system of markets, but a system of *competitive* markets, a system of markets in which there are so many players that no single agent has any economic power. Prostitution, especially where it is illegal, hardly fits the model of the competitive market, but then neither do most markets, as we shall see in Appendix A.

The normative claims for the market also preclude information asymmetries. It is not that agents have to be fully informed, but, even on the narrowest efficiency grounds, the market can be improved upon in situations where some agents know more about the goods and services on offer than do other agents. Presumably both prostitutes and their clients know much more about their own health, and specifically whether they are carriers of sexually transmitted diseases, than they know about each other's health. But again, information asymmetries are hardly peculiar to sex markets.

There are thus many arguments against a market in sexual services based on a critique purely internal to economics. And in this respect, the only peculiarity of prostitution is that the externalities may be more important, the monopoly element more pronounced, and the consequences of asymmetric information more serious than in other markets.

So why do we need to look for other critiques? My answer is that the structural critique does not question the logic of markets. It looks instead to making markets work better. Externalities? Internalize the externalities by creating new rights and claims and new markets in which these rights and claims are traded. If the problem is heroin addiction, legalize this and other hard drugs to bring street prices down to a level that eliminates the incentive to crime. Too few sellers? Open up the market by legalizing prostitution and perhaps by propaganda to reduce the stigma associated with the sex trade. Information asymmetries? Introduce regulations to insure full disclosure of all relevant information about one's health status, at least with respect to potentially lethal infections like HIV. In short, create new markets to solve the problems of markets.

This is the fundamental difference between the foundational and the structural critiques. The economist's faith in the market relies not only on a belief that market imperfections do not matter, either because they are small and intrinsically unimportant, or because they can be overcome by new and improved markets. The economist also relies, explicitly or, more usually, implicitly, on foundational assumptions about economic agents themselves: that agents rationally calculate their individual self-interest in ever more consumption, free of ties to any community save the community of the nation. Drop these foundational assumptions and willing buyer and willing seller carry much less weight, and the damage to human relationships from markets cannot be repaired by more markets.

The point is not that there is no case to be made for the market, even a market in sexual services. It is rather that the foundational assumptions of economics preclude a searching investigation of the limits of markets. Markets for sexual services, or for body parts, surrogate motherhood, and the like, dramatize the problem, but the corrosive effects of markets are not limited to these extreme cases. What limits should be placed on markets for the sake of community? In place of such an investigation, economics substitutes a mantra of market freedom based on assumptions of dubious merit, whether considered as facts about people or ethical norms.

In adopting a particularly extreme form of individualism, in abstracting knowledge from context, in limiting community to the nation, and in positing boundless consumption as the goal of life, economics offers us no way of thinking about the human relationships that are the heart and soul of community other than as instrumental to the individual pursuit of happiness. Economics takes very much to heart the famous dictum of the nineteenth-century physicist Lord Kelvin that we know only what we can measure.[3] Indeed, economics takes the dictum a step further, from epistemology to ontology: what we can't measure—entities like community—doesn't exist.

How the Market Undermines Community

If economics is an accomplice of the market, how does the market undermine community? NAFTA provides examples. NAFTA is in the news off and on, but around the occasion of its tenth anniversary on January 1, 2004, there was an understandable spike in media attention. The first story I heard was one on public radio about how consumers on both sides of the border benefit from the expansion of trade between the United States and Mexico.

Tom Fullerton, an economics professor at the University of Texas at El Paso, literally walks the reporter through the benefits of trade, taking him through supermarkets on both sides of the border. Consumers in El Paso, on the Texas side, benefit from being able to buy "a Mexican soft drink that comes in pineapple, lime, tutti-frutti and tangerine . . . flavors that are not typically available from U.S. manufacturers" (Marketplace Morning Report 2003). There are also "tortilla chips imported from Nuevo Leon, Mexico."

But the benefits of trade are not limited to the U.S. side of the border; trade, after all, works both ways. In Ciudad Juarez, on the other side, the reporter is shown "four different varieties of Minute Maid orange juice . . . comparable to what's observed in the United States." And in the deli section, "the imported Oscar Mayer sliced ham cost about $3."

"A similar Mexican product sells for half as much," the reporter observes, "so how can the expensive import compete?" The professor has a quick response: "U.S. products enjoy an excellent quality reputation south of the border. Mexican consumers flock to U.S.-produce goods because of the reputation for consistent quality." Or is it that in a world of relative wants, Oscar Mayer ham has a cachet that Mexican products cannot match? I remember years ago in India seeing whole peppercorns for sale in the small jars we see in this country at supermarkets—an American brand at an exorbitant price. In India, pepper and other spices and condiments were and still are sold out of bins that fill the shop with an array of smells and colors. I asked the shopkeeper how he could hope to sell these jars, seeing that the pepper was most likely produced in India, exported to the United States, packaged there, and reimported for embassy personnel or other foreign nationals. His response was revealing: "no problem, sir; as long as it has a foreign label, we can sell anything—even Indian pepper."[4]

Benefits to consumers are only part of the deal. NAFTA and other trade liberalization projects are touted—and attacked—for what they do for jobs. NAFTA did create jobs, but it also destroyed jobs. And when these jobs were in plants on which whole communities depended, the results could be devastating. In theory, the beneficiaries, consumers who now can drink tutti-frutti as well as workers who find better jobs, should be able to compensate the losers. But in practice, compensation is not forthcoming. And how, anyway, do you compensate somebody for the destruction of the community in which she grew up, is raising a family, and hopes one day to retire and look after her grandchildren?

Think Illinois and Ohio; think Indiana. Think manufacturing companies in small towns. An article published at the end of 2003 (Weiner 2003, originally published in *The New York Times*) described the effects of trade liberalization and outsourcing in these terms:

> "We're the losers," said Bonnie Long, one of at least half a million American manufacturing workers who lost their jobs due to Nafta, despite the surge in trade. "We lost our health care, our living wages. The winners are the corporate executives who don't even live here and can locate their factories wherever they find the cheapest labor." . . . Thousands of towns across the nation . . . have seen jobs and health benefits disappear with the accord.

> What is also disappearing is a way of life in Goshen, home to 30,000 people [including Bonnie Long] and the seat of Elkhart County in northern Indiana. The town once lived by making things. . . .
>
> Half of Elkhart County depends on manufacturing. Once dozens of locally owned factories across the state churned out parts for all sorts of products, electronics, pharmaceuticals, furniture, pianos and especially for the automotive industry.
>
> Even before Nafta those jobs were facing growing pressure from emerging low-wage competitors abroad. Since Nafta took hold, hundreds more jobs have gone south to Mexico, transplanted by big corporations that bought out local firms. Chinese competition is intensifying the losses.
>
> "We've traded high-skill jobs for low-skill jobs, and the trend has worsened over the last four years," said Bill Johnson. He sold his family's business, Goshen Rubber Company to a multinational corporation, Parker Hannifin, in 2000.

Compare Goshen Rubber Company, a division of a multinational, with a firm owned by a local family:

> Gerald A. Trolz [is] a local hero because he would not sell or relocate Goshen Stamping, his small hardware manufacturing firm, even after his main customer moved to Mexico and half his sales went with it.
>
> He said the only reason he has been able to keep his firm in Goshen is that he owns it: he does not answer to stockholders. "The experts don't see what's happening here, on the shop floor, so it's easy for them to say that Nafta was good or bad," Mr. Trolz said. "Until this levels out, it is just plain havoc." (Weiner 2003, originally published in *The New York Times*)

This echoes a piece that ran in the *Wall Street Journal* a few years earlier about the difference between local and absentee businesses. The article focused on the relationship between a family meatpacking business, Dewig Meats, and the hog farmers in an Indiana community (Quintanilla, 1999). Here's the takeaway:

> "It was difficult," says Mr. Dewig, as he recalls the family's deliberations over how to deal with local farmers when the hog business first fell out of bed. "Prices were an absolute bargain, but we also had to know in the back of our head that if we weren't fair, we'd end up paying for it."

> This isn't the kind of thing that much troubles a big, publicly held company. It is different when, as Mr. Dewig says, "I've got to live with these people."

You will note that Mr. Dewig explains his actions in terms of self-interest, not benevolence. Adam Smith may have been on to something when he pointed out that it is not to the benevolence of the butcher that we look for our meat to be provided—we appeal to his interest rather than to the goodness of his heart. All the more reason why we have to be careful how we structure our institutions, our economic institutions in particular, so that they serve, not undermine, our basic values. (Of course, you can read Mr. Dewig as justifying his actions in the only idiom acceptable to modernity, even though benevolence is as much a factor as self-interest.)

The real devastation of NAFTA has occurred not in the United States, but in Mexico. Don't take my word for it: here is what *BusinessWeek* said in its (mostly positive) evaluation of the effects of ten years of NAFTA on the Mexican economy:

> The agriculture sector is still reeling from the competitive shock of NAFTA. One consequence was the virtual wipeout of Mexico's small farmers by a flood of subsidized U.S. food imports. Some 1.3 million farm jobs have disappeared since 1993, according to a new report by the Carnegie Endowment for International Peace, a Washington think tank. [1.3 million jobs, I might add, swamps the creation of manufacturing jobs in Mexico over the same period.] "NAFTA has been a disaster for us," complains Julián Aguilera, a pig farmer from the northern state of Sonora. He and 800 of his peers have staged several big demonstrations to protest a 726% increase in U.S. pork imports since the agreement took effect. "Mexico was never prepared for this," says Aguilera, who has been raising pigs for 28 years, just like his father before him.
>
> Nor was the U.S. As the *campesinos* lost their livelihood, they headed to the border. By most estimates the number of Mexicans working illegally in the U.S. more than doubled, to 4.8 million between 1990 and 2000. Despite tightened security along the 3,200-km border in the wake of September 11, hundreds of thousands of Mexicans continue to risk life and limb each year to reach America. The money they send back to their families will total $14 billion this year, more than the $10 billion or so in foreign direct investment Mexico expects to receive in 2003.

> *The mass migration has turned rural hamlets into ghost towns. Tiny farm plots lie fallow, their modest adobe farmhouses shuttered. The owners have gone to "el otro lado," the other side* [emphasis added]. Panindícuaro in Michoacán, one of Mexico's poorest states, has one [of] the highest incidences of migration: State officials figure that one out [of] every seven people leaves for the U.S. Panindícuaro's parish priest, Melesio Farías, recently held a funeral mass for a father in his mid-thirties who died trying to cross the Arizona desert. "I tell them to forget the U.S. and to work at home," says Farías. "But if Mexico can't offer them jobs, why should they stay here and live in poverty?" (Smith and Linblad 2003)

All this was predictable. Indeed, it was predicted. In the days leading up to the Senate vote on NAFTA, I tried to get an op-ed piece published on the likely effects of the treaty on Mexican peasant communities. Not one newspaper was interested in publishing the piece, and I'm not speaking here of the *New York Times* and the *Wall Street Journal,* but of regional papers, many of them in agricultural states where one might have expected at least some interest in the plight of fellow farmers on the other side of the border.

But, again, don't take my word for it. Here's what a *New York Times* reporter had to say early in 2003: "Mexican officials say openly that they long ago concluded that small agriculture was inefficient, and that the solution for farmers was to find other work. 'The government's solution for the problems of the countryside is to get *campesinos* to stop being *campesinos,*' says Victor Suárez, a leader of a coalition of small farmers" (Rosenberg 2003).

So the devastation of Mexican villages didn't just happen; it wasn't just collateral damage of the market system. It was a deliberate strategy for what might be described as bringing the Mexican peasant into the twenty-first century—kicking and screaming if necessary. It was a clear case of the state using the market for political and social as well as economic ends—in this case, the ends of an urban elite sure in its conviction that it knew best about what was good for the millions living in the Mexican countryside. How's that for the winners compensating the losers?

Even if somehow everybody were to gain as an individual, markets still undermine communities. The paradox is that people gain in one dimension, the economic, but lose in others. Only economists insist that the gains and losses can be tallied on a single scale (E. Anderson 1993, 141–167).

In a word, markets are the cutting edge of the loss of human connection. Economists see this as a virtue. Impersonal markets accomplish more efficiently what the connections of social solidarity, reciprocity, and other redistributive institutions do in nonmarket societies. Take fire insurance. I pay a premium of, say, $200 per year, and if my barn burns down, the insurance company pays me $60,000 to rebuild it. A simple market transaction has replaced the more cumbersome process of gathering my neighbors for a barn raising. In terms of building barns with a minimal expenditure of resources, insurance may indeed be more efficient than gathering the community each time somebody's barn burns down. But in terms of maintaining the community, insurance is woefully lacking. Barn raisings fostered mutual interdependence: in earlier times, I would have had to rely on my neighbors economically as well as in other ways, and they on me.

Fire insurance originated in England in the wake of the Great London fire of 1666 (Richard 1956, 13) and spread to the Continent and North America over the course of the next century. Before then, what the historian Michèle Ruffat notes for France was undoubtedly true elsewhere: fire and its consequences were the province of mutual assistance based in the local community. Like other community-based institutions, these mutual assistance organizations relied on the individual's regard for both self and others, with the monitoring available to community-based organizations an important antidote to the moral hazard inherent in providing relief for the consequences of a (partially) controllable event such as fire (Ruffat 2003, 187–188).

Like fire insurance, life insurance and health insurance were originally embedded in community, and the evolution of insuring human beings is particularly instructive. In medieval and early modern Europe, guilds provided assistance to members who had fallen on hard times as well as to widows and children of members who had died. Confraternities were religious devotional societies but also much more: they provided care in sickness and death, and indeed beyond the grave, providing funds to say masses that would ease the passage of the departed through purgatory (Flynn 1989; Black 1989).

Insurance, particularly for the confraternities, was closely allied to charity. Members' claims took precedence, but most confraternities extended material as well as spiritual support to the poor of their communities as well as to their own members. Although looking back we can easily identify mutual insurance as a separate and distinct reason for confraternities, in the premodern European setting, insurance, charity, and spiritual consolation were all of a piece. And though it might strike the modern mind as odd that death benefits would include insuring the progress of the soul out of purgatory, it would have struck the medieval mind as odd to separate insurance for the here-and-now from insurance for the hereafter.

The first commercial life-insurance policy issued in England, at least the first for which a record survives, dates from 1583 (Clark 1999, 18). But for both technical and moral reasons, it took a long time for this market to take hold. The technical problems concerned both the statistical inadequacy of mortality data and the limited understanding of actuarial risk. The moral problem was precisely the substitution of commerce for the community's compassion. The moral point was put succinctly by the Count of Mirabeau, one of the leaders to emerge from the cauldron of revolution in France and, for a short period in 1791, president of the National Assembly, a body not noteworthy for a preoccupation either with community or with compassion: "Insurance," according to Mirabeau, "substitutes the service of calculation for the service of humanity and causes the disappearance of a general sensitivity, which is one of the bases of society."[5] Shortly thereafter, in 1793, the Convention, successor to the National Assembly, ended the short-lived experiment with commercial life insurance that had begun in the last days of the ancien régime. (When maritime insurance was legalized in France in 1681, other forms of insurance, especially life insurance, were prohibited for both moral and practical reasons.)

In the nineteenth century, so-called friendly societies competed with the nascent life-insurance industry for the pennies and shillings of the English workingman. The friendly societies could not offer the same actuarial security as large insurance companies, like the Prudential, founded in 1853, but the friendly societies offered something else, a sense of belonging that counteracted the progressive loss of community characteristic of the age. Meetings, feasts, ritual—all combined to recreate something of what the confraternity had provided in an earlier age.

Over time, this approach lost out decisively to the insurance companies, and eventually to governmental provision of social security, both in Great Britain and in the United States. The story is a complicated one, but a chief reason was the inability of the friendly societies to regenerate themselves. Once cut loose from moral ties to their communities, it became increasingly difficult for societies with large numbers of older members to recruit from among the younger generation. When the moral calculus of cross-generational redistribution was replaced by a calculus of individual self-interest, it no longer made sense for a young man to take on the financial burden of sustaining the elderly (Gosden 1973, 17).

As the nineteenth century unfolded, lodges affiliated with national fraternal orders replaced independent local organizations. These fraternal orders continued to offer a combination of fellowship, ritual, and insurance, but were in practice even less embedded in community than the local friendly societies they replaced.

In Britain, the enactment of compulsory health insurance in 1911 changed the playing field dramatically. It brought the fraternal orders and the insurance companies into direct competition. Until then, the fraternal orders had specialized in health insurance, while the insurance companies had provided a rudimentary life insurance, generally enough to provide a decent burial, which is to say, enough both to avoid a pauper's grave and to permit some degree of display by the bereaved widow or widower (or, for that matter, parents: it was common practice to insure the lives of one's offspring so that a child's death would not be a financial as well as an emotional burden). To maintain their ranks against this new competition, the fraternal orders felt it necessary to adapt to the ways of commercial insurers, including the use of paid canvassers and centralized record keeping, and to minimize the practices, such as rituals, that had set them apart (Alborn 2001, especially 584, 593–594). It did not require tremendous powers of clairvoyance to predict where this would lead. Soon after the National Insurance Act came into force, a member of the largest fraternal order in Britain, the Oddfellows, echoing Mirabeau, warned the brothers against becoming "actuarial friendly society men rather than actual friendly society men [with] souls . . . in pawn to the devil of arithmetic" (*Oddfellows' Magazine* [1915] 46:639–640; quoted in Alborn 2001, 594). On the other side of the Atlantic, fraternal orders also became, in the words of one historian, "entrepreneurial organizations that operated so as to maximize membership growth and financial profit or stability" (Clawson 1989, 17).

As commercial enterprises, the fraternal orders, like the independent friendly societies, were at a disadvantage with respect to the commercial insurers, and were over the course of the next few decades swept from the field. But commercial insurance was in the end no more adequate to the task of providing adequate safeguards against the financial hazards of death, old age, and sickness than the fraternal orders had been. Government provision for social security became the norm in rich countries during the twentieth century, and if the boundaries between governmental and private insurance are still contested in the twenty-first century, it is certainly not the case that an unfettered market in health insurance is on anyone's policy agenda. But, then, neither is embedding insurance in community—except at the fringes of society.

Trade liberalization and insurance are hardly the only examples of how markets undermine community. A *Wall Street Journal* reporter, Robert Tomsho, has written eloquently of farmer Ron Ashermann's decision to sell his water rights to the city of Aurora, Colorado (a suburb of Denver), because the price Aurora was willing to pay "means deliverance from a debt-ridden way of life" (Tomsho 2000). But the irrigation ditches will dry up if Mr. Ashermann's example is followed by his neighbors, and along with the ditches the community of Rocky Ford, where four generations of Ashermanns have tilled the land. The death of the community is an external effect, a mainstream economist would say, of selling water rights. However, naming the devil does not exorcise it.

Tomsho notes that some of Ashermann's neighbors consider such sales to be unethical, but there are no individual villains in this piece. The problem lies rather in a system in which "water rights are treated as private property, [so that] preventing a sale is as unlikely as stopping a city dweller from selling his house" (Tomsho 2000). In short, the problem is the market.

You may wonder whether Mr. Ashermann's decision doesn't undermine the contention that locally owned businesses will be more sensitive to the survival of the community than large corporations whose only stake in the community is as a source of labor. To be sure, in this case the decision might have been the same, but there is still an important difference: at least in Rocky Ford the ethical issues were sufficiently alive to be the occasion for a front-page *Wall Street Journal* story. If Ashermann were a multinational, the decision to transfer water rights from agriculture to a "higher value" use like urban consumption would be business as usual.

The takeaway is this: commodification may make for greater efficiency, but every time a good or service is turned into something that is bought and sold, the result is to substitute impersonal market relationships for personal relationships of reciprocity and the like. Eventually economic ties wither altogether, and the community is put at risk.

The Economist's Response: Economizing on Love

The English monetary economist Dennis Robertson once suggested the opposite: that using the market to accomplish the basic tasks of life frees up energy for other ways of connecting. "What does the economist economize?" Sir Dennis asked rhetorically (1956, 154). His answer: "That scarce resource Love, which *we* know, just as well as anybody else, to be the most precious thing in the world." By using the impersonal relationships of markets to do the work of fulfilling our material needs, we economize on our higher faculties of affection, reciprocity, personal obligation—love, in Robertsonian shorthand—which can then be devoted to higher ends.[6]

In the end, his protests to the contrary notwithstanding, Sir Dennis knew more about banking than about love. Robertson made the mistake of thinking that love, like a loaf of bread, gets used up as it is used. Not all goods are "private" goods like bread. There are also "public" or "collective" goods, which are not used up by being used by one person. A lighthouse is the canonical example: my use of the light does not diminish its availability to you. Love is a hyper public good: it actually increases by being used and indeed may shrink to nothing if left unused for any length of time. I tried once to sum this up in a ditty:

> Love is a very special commodity,
> An irregular economical oddity.
> Bread, when you take it, there's less on the shelf.
> Love, when you make it, it grows of itself.

If love is not scarce in the way that bread is, it makes little sense to design social institutions to economize on it.[7] On the contrary. The sensible thing to do is to create institutions to draw out and develop the stock of love—institutions like barn raisings. It is only when we focus on barns rather than on the people raising barns that insurance appears to be a more effective way of coping with disaster.

The example of insurance may appear to be somewhat random, but it is in fact not. The Amish, perhaps unique in twenty-first century America in their attention to fostering community, forbid insurance precisely because they understand that the market relationship between an individual and the insurance company undermines the mutual dependence of the individuals. For the Amish, barn raisings are not exercises in nostalgia, but the cement that binds the community together.

But why is it of concern whether communities hold together or not? What is so special about community, of all forms of social organization, that justifies swimming against the tide of modernity to preserve or, indeed, to re-create it?

Notes

1. Economics, the Market, and Community

1. Which it might or might not be—see Chapter 3.
2. From the point of view of professional advancement, there are good reasons for diffidence. The editor's preface to *Advances in Behavioral Economics* notes the obstacles that pioneering authors encountered in the early years of behavioral economics: "The general attitude was one of hostility and skepticism . . . it was not uncommon to get a paper returned from a journal . . . with a three sentence referee report saying 'this isn't economics' " (Camerer et al. 2004, xxi).
3. "When you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind" (Lecture to the Institution of Civil Engineers, May 3, 1883, Thomson [Baron Kelvin] 1889, 73).
4. Give Oscar Mayer the benefit of the doubt, and there is still a problem. How do you get local industries to shape up to the quality standards that prevail in the United States? Competition? Maybe, but government regulation has been an important part of the U.S. story: meatpacking was a scandal in the early part of the twentieth century, a scandal that was instrumental in the creation of the Food and Drug Administration. In a replay of U.S. history, one might expect public pressure on the Mexican government to improve quality and health standards in their own meatpacking industry, but pressure comes only from those with a political voice. If the rich and the middle class have the option of buying imported ham—I doubt that many poor people pay the Oscar Mayer premium—this source of pressure will be vastly reduced if not altogether eliminated. The basic point was made over three decades ago by Albert Hirschman (1970). His title, *Exit, Voice, and Loyalty,* encapsulates the theme of this note, namely, that the possibility of *exit* undermines the exercise of *voice.*
5. Mirabeau's pronouncement on insurance is reproduced with a vague attribution to the "French Revolution" in Pierre Richard's *Histoire des Institutions d'Assurance en France* (1956, 37). Michèle Ruffat (2003, 189) attributes the quotation to

Mirabeau, citing as her source L. Gallix, *Il Était une Fois l'Assurance* (Paris: L'Argus, 1985, 265).

6. The idea was not exactly original with Robertson. Adam Smith was drawing on a long line of thinking about how self-interest might be mobilized to serve the common good when he argued that it was to the interests of baker, brewer, and butcher, not their benevolence, that we appeal through the market (Smith 1937 [1776], 14). By channeling economic dependence through the market, we economize on our limited stock of benevolence. To what end? Presumably the same end as for Robertson: to have more benevolence available for ends not served by self-interest, ends such as maintaining community.
7. Lawrence Summers, former president of Harvard University, is the latest avatar of the line of Smith and Robertson: "One of the things that most bothers many people of faith about market mechanisms is the idea that there is something wrong with a system where we are able to buy bread only because of the greed or profit motive of the people who make the bread. Here I would be very cautious. We all have only so much altruism in us. Economists like me think of altruism as a valuable and rare good that needs conserving. Far better to conserve it by designing a system in which people's wants will be satisfied by individuals being selfish, and saving that altruism for our families, our friends, and the many social problems in this world that markets cannot solve" (Summers 2003).

   Albert Hirschman takes a middle position. His essay "Against Parsimony" argues that love has characteristics of both a scarce resource used up in the using and a skill improved by practice. "Love, benevolence, and civic spirit . . . atrophy when not adequately practiced . . . yet will . . . make themselves scarce when practiced and relied on to excess" (Hirschman 1984, 94).

2. What Is Community? And Is It Worth the Cost?

1. The terms *exit* and *voice* are Albert Hirschman's (1970).
2. I am indebted to Julius Lester for this reference.
3. Association and community are best thought of as ideal types in the sense of Max Weber. Real groups of real people lie somewhere on a spectrum in terms of commitment and identity, and the spectrum itself shifts over time. In the Middle Ages or the early modern period, membership in a guild or a religious confraternity meant something different from what allegiance to a trade union, manufacturers' association, or devotional society meant in the nineteenth century, not to mention how different are the commitments and identities involved in these associations today.
4. It helps that the Amish have a religious sanction for *Rumspringa:* a central religious tenet of the Amish faith is that baptism is meaningful only for adults who can responsibly choose to be baptized and accept the commitment that it entails. This idea is, of course, not unique to the Amish: it is the distinguishing belief of Baptists worldwide; the Baptist World Alliance includes some 100 million members, divided into 100 or so conventions.