# *Introduction*

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The first three lectures-turned-into-chapters in this book implement the idea that economic methodology is helpful in understanding the motives for and the repercussions of transfers and exchanges even if they take place *outside* markets. Although it may seem odd to think of a family environment as a "marketplace," or of family members in their relationships with each other as market agents, it is quite natural to use an economist's lens to view the ways in which the preferences and actions of one family member impinge upon and modify the choice-set, the behavior, and the wellbeing of another.

Chapter 1 investigates the relation between the allocative behavior and wellbeing of one family member and his altruistic link with another. Chapter 2 explores how the timing of the intergenerational transfer of the family's productive asset affects the recipient's incentive to engage in human capital formation. Chapter 3 sheds light on the way in which transfers from an adult to his parents impinge on future transfers to him from his own children. Each chapter also traces at least some of the ensuing *market* repercussions. Chapter 1 refers to a disincentive to transact in anonymous markets arising from altruistically-motivated automatic transfers between altruistically-linked family members; chapter 2 considers the effect of individuals' human capital investment decisions on economy-wide per capita income; and chapter 3 suggests that the benefits that accrue to particular family members from engaging in intrafamilial transfers could account for the fact that they have a lower rate of participation in the labor market. Economics (narrowly defined) thus provides the tools but also reaps some gains from their use.

Although chapter 4 also examines the market-wide repercussions of individual conduct, it essentially takes a reverse track: it studies the repercussions of informational asymmetry, differentiated by skill, on migration and transfer behavior, and only in passing asks how specific market features, such as the self-employment and wage-employment composition of the labor force, are affected by a specific motive for remittances.

To a considerable extent some features of families such as good mutual information on character and attributes – "type" – transcend into larger groupings, of migrants say, who share a common origin. In chapter 5, this group-specific informational edge – lower recognition costs – is shown to result in a specific *market* outcome – a higher per capita income per migrant relative to nonmigrants. Here again I trace the market repercussions of an intragroup feature.

Although the chapters that relate to migrants follow the chapters that do not, the study of nonmarket transfers and exchanges, as exemplified by the first three chapters, is informed and motivated by a strong interest in labor migration (both within and from developing countries). In studying motives for migrants' remittances, I began to see that the spectrum of feasible transfer motives ranged from pure altruism to pure self-interest. Empirical analysis to determine where in the spectrum the actual motive lies revealed that it is not at the end points (Lucas and Stark [1985], Stark and Lucas [1988]).

A fascination with altruism led to a number of studies (for example, Bernheim and Stark [1988], Stark [1989]) as well as to chapter 1 in this book. But in line with the initial suspicion that there might be more than altruism at work in transfers between family members (as anthropologists have known all along), chapters 3 and 4 suggest new, nonaltruistic motives for transfers. Still, the very prevalence of altruism is of considerable interest. Whereas chapter 1 *assumes* altruism within the family – and considers some of its repercussions – chapter 6 tries to *explain* altruism. It is shown that the transmission or probable acquisition of parental traits (patterns of behavior) by children and the exchange between family members (siblings) may result in a stable equilibrium wherein no agent behaves nonaltruistically. The qualifier "may" is used because the results are model-specific (the basic prisoner's dilemma model of chapter 5 is reused), altruism is defined in a particular manner, and the "altruism only" equilibrium is one of several possible equilibria. Yet chapter 6 demonstrates and redemonstrates an outcome in which altruism as a trait is acquired, transmitted, and sustained, not in spite of evolutionary pressures and the forces of selection but *because of*, or *through*, these pressures and forces.

As a collection these lectures, as life itself, feature both a concern for others and a selfish calculus. In doing so they restore a balance I sensed a decade ago but ignored somewhat in the intervening period.

The opportunity to introduce lectures already delivered is also a temptation to speculate on themes to be taken up in future forums. One line of thought that merits additional study relates to the tendency in the literature to differentiate between altruistic motives for transfers and exchange motives for transfers (Lucas and Stark [1985], Cox and Rank [1992]). When recipients' income declines, donors will transfer more if the transfers are motivated by altruism, but less if the transfers are motivated by exchange. The reasoning is that the recipient's *capacity* to provide a future service – for example, insurance – should the donor fall on hard times, is weakened. A lower (expected) value is matched by a lower price (transfer). What this argument seems to ignore, however, is the possible effect of transfers on the *willingness* to provide a service. An increased (or an unchanged) transfer coinciding with a decline in the recipient's income can be interpreted as a manifestation of real concern, and is likely to enhance the recipient's gratification: the recipient's *will* to offer support in the future is positively affected. Now, if the donor is aware of this link between his *behavior* and the recipient's *preferences* and if a stronger propensity more than offsets a weakened ability, it could well be in the donor's interest, in his sequential exchange with the recipient, to continue to transfer the same amount. Thus an optimizing exchange-motivated donor will behave in a manner akin to that of an altruist, and the inference of a transfer motive from the sign of the ratio between the change in the amount transferred and the change in the recipient's income breaks down. Under altruism $dT/dY < 0$, where $dY$ is the change in the recipient's income and $dT$ is the change in the donor's transfer; under exchange $dT/dY > 0$. However, under exchange with preference-shaping transfers – which may be termed "strategic exchange" – it is possible to have $dT/dY < 0$.

Altruism, exchange, or various "shades" of the two may not encompass all possible motives for transfers. It seems to me that an aversion to unfairness could also account for transfer behavior. Persons who are economically very successful and amass considerable wealth typically donate substantial sums to charities, establish philanthropic foundations, and so on. Being very fortunate (relatively to others) could be associated with the notion that inequities in income are somehow unfair. Can we assume that there is a subjective threshold of acceptable unfairness beyond which transfers are elicited? If so, the associated questions – what determines the thresholds and why they differ across individuals – could warrant theoretical, experimental, and empirical study.

Two somewhat extreme and apparently irrational types of behavior may be consistent with an "aversion to unfairness" argument in agents' utility functions: the destruction of one's own property by well-off individuals in some tribal or primitive societies, and the rejection of the share offer in a once-played ultimatum game.[1] Even though such abandonment differs from transfers, these examples help to capture a pure "aversion to unfairness" effect; clearly, altruism is not involved.

A second line of thought that could warrant further study pertains to the behavioral implications of altruism. A good way to think about the issue is to conceptualize altruism as insurance. This gives rise to the two well-known problems of moral hazard and adverse selection. The incentive of a son toward whom a father is altruistic to exert effort to secure consumption, can be weakened by the knowledge that failure on his part will trigger altruistic transfers. When the son does not face the full cost of his actions he will exert insufficient effort. Therefore, as is the case with insurance contracts, weak altruism is better than strong ("complete") altruism since it compels the son to face part of the consumption risk. *If*, however, the father *can* observe and verify the level of effort undertaken by his son, no loss will arise from strong altruism ("full insurance"). Support will be forthcoming when the shortfall is due to adverse exogenous events, but will not occur if it is caused by laziness. "Altruism cum reason" thus evades the unwarranted repercussion of what might be termed "altruism cum softness." *If*, however, the father *cannot* completely verify the reason for consumption shortfalls, an adverse selection problem can arise. Assume that there are several sons, some of whom reside and work away from home, as migrants for example. Extending a given equal degree of altruism toward all the sons will induce the

[1] In the ultimatum bargaining game, two agents have one opportunity to share a given amount of money. Agent 1 states his demand and then agent 2 accepts or rejects this demand. If agent 2 accepts, sharing ensues. If agent 2 rejects, both agents get nothing.

least industrious to depend on altruistic transfers, and a lower degree of altruism will hurt the more industrious sons should they face consumption shortfalls arising from events outside their control.

In this context note that a positive outcome *could* arise if an altruistic father structures transfers so that they supplement and amplify the rewards arising from expending effort. If the substitution effect dominates the income effect, effort expended under altruism will be larger than effort expended in the absence of altruism. But more effort should result in higher income, on average. A testable prediction is that the variance in market outcomes across children is attributable to the variance in altruistic inclinations across parents.

What could mitigate the disincentive problem arising from altruism cum imperfect observation and monitoring is the possibility that altruism demonstrated entails altruism acquired and practiced, that is, reciprocated. If repeated acts of altruism by the father are witnessed during the son's youth, the son could become an altruist too, in which case an inclination to exploit the father's altruism will be countered by the son's altruism. Being an altruistic father is then not detrimental to his son expending proper effort but, rather, conducive to such an exertion. Exposure to altruism could result in internal self-monitoring that fully offsets nonobservability. The connection with market repercussions can be illustrated with a migration example. When not all children end up being equally altruistic toward their parents, a more altruistic child will be chosen as the family's migrant, even if the labor market earnings of that child are lower than those of the less altruistic child, given that the parents' objective is to partake in the migrant child's earnings. In the Philippines, the labor market earnings of young women are lower than the earnings of young men, but since young women tend to remit more to their families, the typical migrant is a daughter, not a son (Lauby and Stark [1988]). This reflection suggests that it would be interesting to do research on how altruism is instilled and cultivated. Chapter 3, which considers imitation and internalization, offers one direction; chapter 6, which models evolutionary transmission and imitation, offers another, but there are surely more.

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# 1

## *Altruism, transfers, and wellbeing*

# Introduction

In all economies, but particularly in less developed countries, a considerable proportion of resource transfers takes place outside the realm of the marketplace: inside families, within households, and among members of kin group or caste. Often it is not all that clear what exactly these transfers "buy": we do not see commodities moving in the reverse direction nor do we observe a flow of easily definable services. For example, households in rural India "purchase" insurance against variability in consumption not from insurance companies but from other households whose sons marry their daughters, and whose incomes exhibit low covariability with their own (Rosenzweig and Stark [1989]). Such actions are different from typical marketplace exchanges where the transfer of a commodity from A to B is accompanied by the transfer of another commodity from B to A and where one of the exchangeables is money, so that it is quite clear what is being bought – and at what price. It is generally argued that nonmarket intragroup transfers are mandated by the insufficient development of markets and that as development proceeds, a larger share of transfers and exchanges is relegated to the marketplace. This reassignment is believed to hasten the pace of economic development as the scope