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978-1-107-02627-8 - An Economic Theory of Greed, Love, Groups, and Networks

Paul Frijters with Gigi Foster

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An Economic Theory of Greed, Love, Groups, and Networks

Why are people loyal? How do groups form and how do they create incentives for their members to abide by group norms? Until now, economics has only been able to partially answer these questions. In this groundbreaking work, Paul Frijters presents a new unified theory of human behavior. To do so, he incorporates comprehensive yet tractable definitions of love and power, and the dynamics of groups and networks, into the traditional mainstream economic view. The result is an enhanced view of human societies that nevertheless retains the pursuit of self-interest at its core. This book provides a digestible but comprehensive theory of our socioeconomic system, which condenses its immense complexity into simplified representations. The result both illuminates humanity's history and suggests ways forward for policies today, in areas as diverse as poverty reduction and tax compliance.

PROFESSOR PAUL FRIJTERS is a professor of Economics at the University of Queensland. He was elected "Best Economist under 40 in Australia" by the Economic Society of Australia for 2009–2011, and his work consistently ranks in the top 4 percent of downloaded and cited economic research in the world. Professor Frijters has undertaken research in a wide variety of fields, including happiness and well-being, migration in China, behavioral economics, and health economics. The findings of his research feature regularly in the global media.

GIGI FOSTER is a senior lecturer in the School of Economics within the Australian School of Business at the University of New South Wales. Her research focuses primarily on decisions related to human capital, with a particular emphasis on social influence and behavioral economics.

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Preface

GIGI FOSTER

During my undergraduate days, while studying the materialist science of economics together with its more flowery cousins, philosophy and political science, I kept the following translation of a quotation from Dostoevsky's *Brothers Karamazov* pinned above my desk:

Give up your gods and come worship ours, or else death to you and your gods!

At the time, I saw this as a comment on the negative power of organized religion. Displaying the quotation was for me both an affirmation of the comparatively pacific nature of atheism and an expression of horror that beliefs alone could lead to material destruction. My horror, as with most people's, was both self-righteous and the product of ignorance.

As a budding economist and a firm utilitarian, however offended I was by the apparent irrationality of faith, I still perceived something good in it. I could not ignore its pacifying influence on the down-trodden, an observation offered only with heavy negative moralistic overtones in the standard canon. Yet many vexing questions continued to reverberate in my mind, to which I found no satisfactory answers in anything I read. Why did smart people allow themselves to believe in the demonstrably false? Why could they not be shaken by rational arguments? Why did they engage in seemingly ridiculous activities, such as prayer, and why did they brainwash their own children and others into performing these activities as well? Why did this brainwashing regularly work? Why might it feel good to believe in falsehoods? How personally committed was I to rejecting this potential stream of good feeling on the basis of the intellectual barrenness of its source, and was my rejection itself not a blatant violation of my own professed utilitarianism?

The science of mainstream economics captured my mind and my career by quantifying and explaining so much of human behavior

using one simple framework. But economic theory as taught to me did not go far enough, and the links depicted in my liberal-arts education between economics, philosophy, political theory, and other social sciences (chiefly psychology, anthropology, and sociology) were not developed or mutually consistent enough, to satisfactorily answer questions such as these.

Several years ago, I accepted Paul Frijters' offer to collaborate on the production of a book like this, which marks a key milestone in what is now a longer-term joint project. A central goal of this project is the development of a tractable theory that comprehensively and with minimal internal inconsistency explains the governing dynamics of social and economic life. Questions such as those above as well as many others are being directly addressed in this project. Paul began this work independently, laboring for twenty years mostly without acknowledgment and at great personal cost to construct the basic intellectual framework that currently underpins the project and is presented in this book. By the time I joined him, therefore, most of the pieces of the puzzle we present here were already identified. What I have contributed is mainly glue, polish, some rejigging here and there, and above all a new source of energy to help put the pieces into place. I thank Paul for seeing the potential in our collaboration. It has been immensely rewarding, both personally and intellectually, to be of assistance in this way and to see something so much larger than myself take shape.

Naturally, as with any significant undertaking, there have been costs to joining this project. First and most obviously, it is highly time- and labor-intensive to produce a book. These costs have been borne not only directly by me but also indirectly by my husband Michael Baker and our children, Sienna and Neil, without whose unending support I could never have committed to such a venture. From a career perspective too, there have been costs: the academy of economists by and large does not reward the production of broadly reaching books such as this one, but rather the production of "high-quality" journal articles. This is the main reason why books like this are rare.

A longer-term cost that has come from working on this book is a loss of innocence. The story told here offers such a powerful microscope into the inner workings of humans that looking through it can trigger fundamental personal change. As a prime example, while the prospect of understanding the genesis of love is intellectually compelling, actually witnessing the demystification of the love mechanism

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is also shocking on a personal level. One must find a way to carry on after this experience as a normal individual, despite having deconstructed love (and hence one's own loves) into constituent parts that are laid bare. More generally, a strong element of conscious will gradually becomes crucial in maintaining the health of one's inner life, as the pillars of that inner life are gradually exposed.

What this book contains in relation to the realm of the heart is hence not a message for cowards. Part of the book's message is that the "realm of the heart" is broader than common understanding would suggest. I expect that most readers who are open enough to read to the end will have a negative emotional reaction to at least one part of the story told – a reaction that many will quickly rationalize on intellectual grounds – because in this book, sacred cows of one breed or another are slaughtered regularly and without ceremony. Established wisdom in many disciplines is not taken at face value, but rather examined with single-minded intent, and what are deemed the useful bits are surgically excised. By implication, the remainder is merely offal. There is no dignity in this, which will offend those for whom established wisdom has become part of their own identity and is therefore something to be revered. Given the constraints of space, and notwithstanding scores of references, we also cannot pay homage to each previous thinker who has had an idea that could be shown to support the various lines of argument put forth. I cannot offer an apology for what will be perceived as the book's insufficient reverence, but I do recognize the need to ask the reader to be patient and forgiving.

I believe that the story we tell in this book heralds a new dawn in social science. An enhanced version of the economic view of man is built, defended, and used to explain at a fundamental level the supporting features of a modern economy; the process of technical advancement and the ultimate sources of economic growth; the roles of faith, power, competition, and collaboration in our economies; how the symbiotic relationship between the public and private sectors has emerged through the process of social development; gender relations, political manipulation, and the natural tendencies of academic disciplines; the variable longevity of different types of social group structures; and the nature of culture. Our story nominates a minimum set of individual and social building blocks required to make sense of both our daily lives and our socioeconomic structures in a cohesive manner. It points out the awesome strengths and the inherent

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weaknesses of our current societies and provides a foundation on which to conceptualize economic, social, moral, and psychological health, and predict our future as a social species. An avalanche of supporting research findings and real-world examples – shocking, comic, and banal – are drawn from throughout the world and across time. Centuries of thought are drawn upon, meaning that some of the explanations offered will already be known to the reader, while others will be either the result of new combinations of familiar material, or else entirely novel. Because it is a work in progress, frontiers are described that I hope will lead to rigorous debate in established circles and stimulate the research agendas of young people. Extensions and applications in dozens of areas are immediate. Reading this story for the first time will be, at worst, extremely uncomfortable and, at best, the ultimate intellectual thrill.

No science can progress without continued rejuvenation of its theoretical backbone. One of my hopes for this project in the longer term is to make the story in this book, as it continues to evolve, fully at one with the canon of mainstream economics, for the sake of the continued intellectual vitality of economics and social science more broadly. In this sense, helping to construct this book has been above all a religious endeavor with the pursuit and dissemination of truth in social science as the god. My religiosity in this regard has defeated my rational utilitarian impulses, as I am not at all sure that the dissemination of this book will increase total happiness.

I hope that you approach this book with an eager and open mind, ready to engage. My best advice to you for coping with its messages on an emotional level is to allow yourself to love, and to retain your belief in a few benign falsehoods. Without them, you are not truly human.

Acknowledgments

PAUL FRIJTERS

This book has been an intellectual journey full of the best things in life: companions who traveled along for parts of the way; generous benefactors whose gifts and encouragements paid for the endeavor; and a supporting home environment to rest the weary legs. In terms of co-travelers, I have been privileged to have met many academics who read the early scribbles, participated in subprojects and grants, and who coauthored papers and books on aspects of the overall problem. In many ways, the endeavor has fed off their thoughts and insights. If there are any I fail to mention below, know that it is not due to lack of appreciation but the sheer volume of company that they are in.

In the 1990s my fellow travelers included Alexander Tieman, Bernard van Praag, Susan van Velsen, Sheldon Grant-Levy, and Frans van Winden.

In the 2000s my fellow travelers included Ada Ferrer-i-Carbonel, Raquel Fonseca, Jack Pezzy, Benno Torgler, Dirk Bezemer, Uwe Dulleck, Gert Frijters, Bas van der Klaauw, Andrew and Catherine Grey, Juan Baron, Michael Shields, Andrew Leigh, Mary Morgan, Joop Hartog, Robert Gregory, Xin Meng, Robert Haveman, Barbara Wolfe, Penelope Baldwin, Angus Maddison, Bruce Chapman, Raja Junankar, David Johnston, and the Horne family. Their encouragements, criticisms, suggestions, and ways of looking at human behavior all strongly influenced the directions taken.

Some of my PhD, Honors, and Masters students have also been coaxed into joining the journey for a few years. I owe particular thanks to Redzo Mujcic, Harry Greenwell, Tony Beatton, Nemanja Antic, Debayan Pakrashi, Cameron Murray, and Melissa Bond.

Special thanks go to my academic colleagues Malathi Velamuri, Jack Pezzy, Xander Tieman, and Hannu Virtainen, who sacrificed a large slice of their academic time towards the project, tirelessly poring over every argument and spreading good rumors about it.

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I of course thank my supporting writer, Gigi Foster, for her unwavering enthusiasm and belief in the venture.

I also thank my research assistants over the years: Jacinta Holloway, Ben Hancock, Amalia Savini, Daniel Quiggin, Hiau Joo Kee, Fernando Ramirez, Su-Min Lim, Miriam Carter, Cara Fioravanti, and Cassandra Davies, for their determination to source each and every niggly fact, often contacting outside academics to get resolution on the finer points of noneconomic disciplines.

As the end came nearer, the number of people involved grew rapidly. In the last few years numerous people have provided useful comments on the manuscript and on its presentation, including Nicholas Gruen, Andrew Schuller, Geoff Harcourt, Sugata Marjit, Michael Baker, Marco Faravelli, Bill von Hippel, Ryan Manuel, Deirdre McCloskey, and Gabriele Gratton. Thanks to Manuela Torgler for the illustrations!

No long journey can be undertaken without external sponsors paying the bills. In this sense, I have been very fortunate that several funding agencies have in the last twenty years given me money to keep plodding forward. Thanks go to multiple grants from the Australian Research Council as well as from the Gruen Foundation. Indirectly, grants from the World Bank, the Ford Foundation, the Dutch and Australian Ministries of Social Affairs, and the several universities I have worked at have also subsidized this project.

The team at Cambridge University Press that took on the task of molding this project into publishable form has been amazing. The editor, Chris Harrison, and his team of anonymous but very supportive referees gave many impulses that shaped this project for the better.

Then my friends and family: the main idea in the book, which is that ideals, love, friendship, joy, and compassion play a big role in daily life alongside the greedy impulses to gather and control, is of course largely informed by introspection and by those we love around us. If you doubt this, simply ask yourself: have you never done anything out of kindness for others? Have you always secretly tried to get the most for yourself without a real care for your partner, your children, your country, or your job? Surely not. Kindness at the daily individual level can be observed all the time, both within ourselves and in others. The little kindnesses and the big ones. The anonymous donation to charity and the sacrifice of a second car in favor of a better education for our kids. The donor card that saves a life when we are dead and the drought aid we give to farmers. The smile given to a beggar and the lives laid

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down for the homeland in times of war. We breathe love every day of our lives, even when there are no others to observe us doing it.

Since these matters form a large part of this book, it is in a very direct way that the loves of my life have informed this book, and I need to thank both family and friends for showing me the difference between love and greed. Thanks go in particular to my wife Erika Turkstra and our three kids Robert, Carmen, and Jasmine, but also to all my other family members and friends, including many of the colleagues above. I dedicate this book to you.