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Markets, Morality, and the Auto-corrosive Tendencies of "Standard Economics"[1]

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Introduction

This essay will argue that modern day "standard economics" has often suggested a set of economic policies that may be "auto-corrosive," in the sense of tending to undermine the morality which underpins the efficiency of market processes. This section therefore begins with a definition of "standard economics," before discussing the sense in which an academic discipline might encourage specific types of policies and the ways in those policies might conceivably matter for morality and for market processes.

Economic analysis, of one form or another, has created a vast literature, within which there are many distinct (and often conflicting) research traditions. However, despite the past strength of some of these alternative paradigms, throughout North America and Western Europe the university students who enrol today in a course labelled "economics" will typically find that their courses have much in common. Most introductory economics courses now start from the perspective of an individual who is "rational" in the sense that he or she maximizes the utility derived from their own individual consumption of goods and services. Preferences are taken to be exogenously determined and commodities are assumed to be primarily obtained by voluntary exchange

with other individuals (and firms) in markets. Much emphasis in teaching is typically placed on how the choices of individuals (and firms) acting in their own self-interest can be aggregated into the total supply and demand for commodities. Economics courses analyze extensively the tendencies for aggregate supply and demand to come into balance and the welfare properties of market equilibrium. However, very little attention is typically paid to the formation or possible interdependence of preferences, or to the determinants of the institutional structure and constraints which comprise the context of market processes or to evaluative concepts such as "justice" which might be used to assess the moral desirability of economic outcomes or processes.

This essay will therefore refer to "standard economics" as that economic analysis which focuses on the behavior of atomistic individuals, with exogenously given self-interested preferences for market-supplied goods and services — and as a practical matter one can note that the economic policy which is derived from this framework typically takes maximization of growth in GDP per capita as a plausible criterion of policy success.

The focus of "standard economics" is based on the assumption that what people care about is their individual private consumption of commodities — or that the other things people care about are unrelated to their private consumption of commodities, or unaffected by their economic choices. Standard economics takes individual preferences, institutional contexts, and norms of morality as determined "elsewhere" and assumes that they evolve over time in ways unrelated to economic decision making about the production and distribution of commodities. Liberal use is made of the "ceteris paribus"/"holding other things equal" assumption to justify the hypothesis that market processes can be analyzed without considering interactions between those market processes and preferences, institutions and norms.

This essay will argue that the issues neglected by standard economics are major, not minor, determinants of personal well-being. A good deal of empirical polling data indicates that satisfying personal relationships and a sense of meaning and significance in life are, for most people (including economists), considerably more important than money income as determinants of self-reported happiness or life satisfaction — and one must recognize that these are inherently dependent on *social* contexts. But if humans are, in reality, social animals who care about relationships and meaning, what are the implications of basing economic policy on the idea of individual, isolated rational actors who care primarily about consumption choices made on the basis of narrow financial considerations? This essay argues that an analysis of human behavior based on "standard economics" tends to generate, in the affluent nations of the European Union or North America, prescriptions for economic policy whose implications will, over time, erode the sense of community and reciprocity

that sustains the moral framework on which market-based economic systems depend.

However, in criticizing "standard economics" one does not want to throw the baby out with the bath water — so Section 1 of this essay begins by outlining three of the senses in which its organizing framework is highly defensible. Section 2 then identifies some of the policy choices "standard economics" favors — particularly with respect to working time and economic insecurity — with the objective of increasing marketed output, but to the detriment of community social ties. Part 3 then recaps the reasons why the efficiency of market processes depend upon the set of non-market relationships, norms and ethical standards in which markets are embedded, and the sense in which market processes can be auto-corrosive. Since it is observable that different nations within the OECD have made very different societal choices on working time and economic insecurity, Part 4 speculates about future implications.

In Defence of "Standard Economics"

An essay that is critical of "standard economics," and the policy advice derived from it, can perhaps be misinterpreted. Three of the important grounds on which "standard economics" can be strongly defended are: (a) the importance of "scarcity" for most of humanity; (b) the ubiquity of self-interested behavior and (c) the moral respectability of respecting individual preferences.

Modern introductory economics texts often start from the statement that "scarcity is a fundamental fact of life"[2] — i.e. analysis starts from a presumption of the non-satiation of material desires. Although two centuries of economic growth have decreased the urgency of the scarcity problem (at least in an aggregate sense) in the affluent nations of Western Europe and North America, absolute deprivation remains overwhelmingly important for the vast majority of humanity. Much social criticism within affluent nations has, for a long time, worried that the consumption aspirations of the world's affluent minority are socially constructed and largely reflect created desires and manipulated wants.[3] However, billions of people today continue to lack basic needs in food, clothing, shelter, medical care and education. These unmet needs can be seen as a denial of their basic human rights — so there is an underlying sense in which absolute scarcity remains enormously important.

Richard H. Tawney put both the importance and the limitations of a focus on economic efficiency well when he said:

> Economic efficiency is a necessary element in the life of any sane and vigorous society, and only the incorrigible sentimentalist will depreciate its significance. But to convert efficiency from an instrument into a primary object is to destroy efficiency

> itself. For the condition of effective action in a complex civilization is cooperation. And the condition of cooperation is agreement, both as to the ends to which effort should be applied, and the criteria by which its success is to be judged.[4]

"Standard economics" is characterized by methodological individualism, and as an empirical matter, it is clear that much behavior is motivated, at least to some degree, by individual self-interest. The intellectual pedigree of this approach is a long one — dating, at least, from Adam Smith's famous dictum in *The Wealth of Nations* that:

> It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard for their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages.[5]

In many ways, economists are still engaged in charting the limits of Adam Smith's famous analogy of the "invisible hand," as they assess both what market processes can be expected to do well and the areas of social life where markets can be expected to fail. Methodologically, a major strength of this approach is that it underlies one of the implicit rhetorical rules of discourse within economics — that "good theory" should be able to explain how the individual motivations of group members underlie the formation and behavior of groups, and how individual decisions might combine together into a coherent pattern of social outcomes. This forces a degree of rigor in aggregation and social analysis that is often lacking in other perspectives. However, in pursuing these objectives relatively few economists now pay much heed to Adam Smith's earlier observation in the fifth chapter of his work *The Theory of Moral Sentiments*:

> The regard to those general rules of conduct, is what is generally called a sense of duty, a principle of the greatest consequence in human life, and the only principle by which the bulk of mankind are capable of directing their actions.... Upon the tolerable observance of these duties depends the very existence of human society, which would crumble into nothing if mankind were not generally impressed with a reverence for these important rules of conduct.[6]

Hence, although methodological individualism is a major strength of standard economics, the lack of enquiry about the formation of individuals' sense of morality comprises a major weakness. Furthermore, in addressing the implications of self-interested behavior, the concept of "self" involved in standard economics is usually a very limited one. Individuals are thought of as deriving utility from the consumption of commodities, according to preferences for particular commodities that are assumed to be determined exogenously, which

preferences are assumed to be independent of the consumption or well-being of others. Theorists typically write down a utility function of the general form $U = u(x_1, x_2, ,\ldots. x_n)$, where $x_1, x_2, ,\ldots. x_n$ denote the various commodities available for consumption. Time not devoted to paid work is seen as a particular (desired) commodity — "leisure." The assumption of utility maximization is then combined with a particular specification of the constraints to which maximization is subject in order to generate the specific economic model deemed relevant to a particular context. Adam Smith's "general rules of conduct" are assumed to be operating, without change, in the background.

In standard economics, the evolution of "general rules of conduct" is not examined explicitly — market norms are just assumed. Particularly in the context of this volume, one should emphasize that standard economics is not "amoral," but the moral code it presumes is very limited — contractually honest dealing.[7] Although there is a sub-discipline within economics that concerns the economics of crime, the normal assumption within economic analysis is to presume that when agents enter contracts, the terms of these contracts are honored, and individuals do not consider extreme strategies (like killing their bank manager, or fire-bombing their competitor's factory) to advance their commercial interests. As well, in the standard economics view, it is usually seen as a theoretical "cheat" to assume that we can explain people's behavior by strong moral preferences for a particular course of action. Ideas about wider concepts of morality, and their influence on behavior, are generally not considered.

One reason for the reluctance of economists to engage in moral issues may have an admirable motivation. When standard economics ignores the moral status of specific actions, it is agnostic about their evaluation. By refusing to enquire where the preferences of individuals come from, and taking their formation as exogenous to the economic process, standard economics starts with the presumption that one person's wants are as valid as anyone else's — an eminently non-hierarchical position. This has the implication that if, for example, pop music videos show a lot of female skin, religious and social conservatives might see such quasi-nudity as "immoral," but standard economics finds no reason to differentiate qualitatively between these videos and any other marketing strategy. If such music were to displace indigenous musical traditions around the world and outsell Wagner and Mozart by several orders of magnitude, standard economists would see no particular reason for concern (indeed the economics literature is replete with snide comments about cultural elitism).

Seen from one angle, this refusal of standard economics to draw moral or aesthetic or cultural distinctions can be seen as part of the larger liberal project in political thought. For many economists, the basic starting point has to be the individual[8] — the conception, as Rawls puts it, that "[e]ach person possesses

an inviolability founded on justice that even the welfare of society as a whole cannot override."[9] The liberal project in political thinking starts from the conception that all persons have the right to choose the parameters of the life that they personally value.

> The presupposition of liberalism (as a philosophical doctrine), as represented by Locke, Kant and J.S. Mill, is that there are many conflicting and incommensurable conceptions of the good, each compatible with the full autonomy and rationality of human persons. Liberalism assumes, as a consequence of this presupposition, that it is a natural condition of a free democratic culture that a plurality of conceptions of the good is pursued by its citizens.... The consequence is that the unity of society and the allegiance of its citizens to their common institutions rest not on their espousing one rational conception of the good, but on an agreement as to what is just for free and equal moral persons with different and opposing conceptions of the good.[10]

Hence, "standard economics" has the great strengths that it: 1) addresses a crucial social issue — scarcity and the efficient production of commodities; 2) starts from an empirically important motivation — individual self-interest and 3) is consistent with an eminently defensible political philosophy — classic liberalism.

However, one can agree with all this and still conclude that, in important respects, the economic policy prescriptions endorsed by "standard economics" often get things quite backward — at least in the context of the affluent nations of Western Europe and North America.

Getting it Backwards

Acting in their professional capacity, academic economists may spend their working time constructing and estimating abstract models of the behavior of atomistic income maximizing individuals, but they face an obvious consistency problem. If the individual consumption of market commodities really were the most important thing in life, why did they become academics? It has always been clear that the financial returns received by corporate lawyers or business executives dominate the salaries of university professors, and professors typically had the marks required to gain access to law schools or MBA programs, so they did get to choose between academic life and a legal or business career. However, if income maximization is such a great predictive model of human behavior, why didn't it predict one's own choices?[11]

The rhetoric of standard economics typically advocates the principle of making a firm distinction between *positive* logical or factual propositions (such as whether or not the maximization of market income is a good predictor of in-

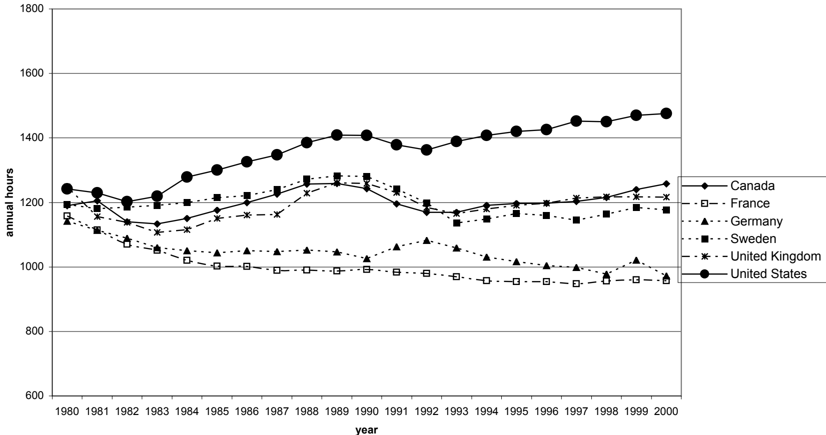
dividual behavior) and *normative* propositions about the valuation of outcomes (such as whether or not the maximization of market income is a *desirable* goal, either for society or for individuals). However, in practice the distinction is often fudged. Introductory textbooks, for example, routinely include a caution that Gross Domestic Product (GDP) is an imperfect indicator of economic well-being, but after invoking ritual cautions about the fact that GDP is measured as the sum total of production of marketed goods and services, and therefore does not include the value of commodities produced outside the market (or the value of leisure time or environmental assets, etc.), textbooks commonly proceed without any further mention of any other criterion. In policy advice, despite the fact that they personally probably do not maximize money income, the common reflex of most economists is to take greater money incomes as a sufficient criterion for policy success.

As a consequence, the policy advice which economists give, and which governments often take, tends to downplay the importance of the non-monetary implications of policy choices — assuming that any such implications have no feedback effect on economic processes. However, this essay will argue that when economic policies undermine the sense of community and shared interactions that underpin social norms, they ultimately also undermine the social bases of morality. Since market economies rely on a "social capital" of shared norms, trust, and morality for their effective functioning, the costs of such erosion may be serious (albeit hard to measure with any precision). To be specific, this essay will focus on two issues — working time and labor market flexibility — as examples of policy areas where economists' advice has an influence, and where the implications of that policy advice may affect adversely the social bases of morality.

Working Time Trends

A remarkable difference has emerged, within the OECD, in the trend and level of average work hours. As Figure 1 illustrates, although average working hours per year were fairly similar in 1980 in many affluent nations, over the next twenty years average working hours per adult (ages 15-64) rose by 234 hours in the USA (to 1476) while falling by 170 hours in Germany (to 973) and decreasing by 210 hours in France (to 957). There was, in the year 2000, a difference of 9.7 hours of work per week per adult of working age between the USA and Germany (9.9 for France). When differences between nations in working time reach this magnitude (and trends to wider differences appear to be continuing), it is reasonable to think about the possible implications for social life — and for the nature of social interactions.

Figure 1
Annual Number of Hours Worked per Person Aged 15-64[1]



[1] = Average hours worked per employed person *(Employment / pop. age 15-64)
Canada and France 1999, 2000 and UK, US 2000 are extrapolations.
Sources: hours of work: Key Indicators of the Labour Market 2001-2002, International Labour Office
population and employment data: OECD Health Data 98 CDROM, "A Comparative Analysis of 29 Countries".

However, with respect to working hours the policy advice of economists is fairly uniform — "disincentives" to labor supply should, in general, be reduced, because it is thought to be socially undesirable if the taxes and transfers of the modern welfare state discourage paid work effort. A very large literature focuses on the possible size of social policy disincentives to labor supply, and it is presumed without any serious questioning that an increase in working hours is desirable. Specifically, in European economic policy circles, the presumed adverse effect on working time of more generous social welfare transfers (relative to the USA) is seen as a serious "problem" necessitating "reform." But is this true?

Although the standard economics literature has often started from the premise that individuals maximize the utility they derive from their own consumption of market goods and non-work time, time spent in isolation is, for most people, only pleasurable in small doses. Many of the things that people do in their non-work time (from bowling to choral singing) involve other people, and are distinctly more pleasurable if done with others — indeed some activities (such as playing soccer or bridge) are impossible without others. However, the huge variety of leisure tastes that people have means that individuals face the problem of locating *Suitable Leisure Companions* — "somebody to play with" — and of scheduling simultaneous free time. Consequently, if paid work absorbs more of other people's time, each person will find their own leisure

time scheduling and matching problem more difficult to solve (i.e. their leisure hours will be of less utility). As a result, there is an externality to individual labor supply choices that implies the possibility of multiple, sometimes Pareto-inferior, labor market equilibria[12] — which can help to explain the trends in associational life and "social capital" stressed by Putnam.[13]

Although one can choose to be alone, relatively few leisure activities are intrinsically asocial. Most leisure activities can be arranged on a continuum of "teamness," and most of them are distinctly more pleasurable if done with others.[14] Playing cricket or softball are activities that make no sense, if done alone. Singing to oneself may be something done in the shower, but singing with a choir is generally a different level of experience. Even growing rhododendrons or going for a walk or watching television or travelling in exotic places is usually more pleasurable if done with someone else. Reading a novel is certainly solitary, but many people also like to talk about it afterwards, either formally in a book club or informally with friends over dinner. To list these activities is to underscore the variety of leisure tastes that individuals have, and the difficulty of the problem of locating "somebody (compatible) to play with," and scheduling the simultaneous free time to do so.

If paid work absorbs more of other people's time, each person will find their own leisure time scheduling and matching problem more difficult to solve. If a general rise in the percentage of total time at work or available for work means that bird watching clubs close because "everybody is too busy to organize outings" and chess clubs fold because "people don't go anymore," then the marginal utility of the leisure time of bird watchers and chess players will decline. Since both formally organized activities (like bowling leagues) and informal matching (such as the chances of picking up a singles game at the tennis club) depend on how many other like-minded people have free time, at the same time, the marginal utility of leisure time of each person is conditional on how many hours other people are working, and when.

Jenkins and Osberg outline a formal model of the division of time between work time, and solo and social leisure time. It starts quite traditionally, with each individual maximizing a utility function whose arguments are consumption and non-work time.[15] The innovation in the paper is to add the idea that individuals can spend their non-work time either alone or in social leisure. If we suppose further that in order to enjoy social leisure, each individual must arrange a leisure match with some other individual (or group of individuals), then the utility to be derived from social life is uncertain. The problem with wanting to have a social life is that one cannot do it unilaterally — arranging a social life involves a search process that is constrained by the social contacts available to each person, and by the availability of other people. Social leisure

therefore comes in discrete engagements, and it depends on the availability of others.

The problem of arranging a social life can be summarized in terms of the probability of finding a feasible leisure match with some other specific Suitable Leisure Companion(s) — which depends on the amount of time when neither is committed to working. Since the timing and the duration of their mutual social engagement cannot overlap with the working time of either party, it is negatively associated with both own work hours and the non-coincident work hours of others. Hence, an individual's working time will increase and social leisure time will decrease, when social leisure time becomes harder to arrange, as others work more hours, or work more inconvenient hours. This arises because when *other* persons increase their hours of paid work, the probability of a feasible and desirable leisure match with oneself also falls, which decreases the personal utility of non-work time. In addition, for any given level of total hours of labor supply by each person, greater mismatch between the timing of hours of work will reduce the probability of a social leisure time match being feasible and will lower the utility of non-work time. By reducing the utility of non-work time, both effects increase desired hours of paid work. Thus in general the desired supply of labor of each person will be conditional on their expectations of the labor supply decisions of others.

Using the British Household Panel Survey, Jenkins and Osberg test this hypothesis that each person's time-use choices are typically contingent on the time-use choices of others.[16] In particular, they find that each person's likelihood of participating in associational life depends on what others in their local area have chosen to do, both because one cannot join a club or association that does not exist for lack of membership and because the more members these organizations have, the more attractive they are to prospective members. This positive externality creates feedback effects on the local level of participation and membership — regions where a larger fraction of people participate in associational life are regions where clubs and associations are more easily available, and more attractive to others. Conversely, fewer people want to participate in areas where associational life is more poorly developed.

One implication of this interdependence of non-working time is that in advocating incentives to greater labor supply, standard economics may be "getting it backward" in terms of economic well-being. When each person's choices depend on everyone else's, there may be multiple equilibria in working time, some of which generate clearly lower aggregate well-being. Societies which are better able to co-ordinate the level and timing of paid working hours may therefore be better off in aggregate, because they enable their citizens to enjoy more satisfying social lives. To be specific, Americans may work more hours than Europeans partly because they are more likely to have "nobody to

play with" — because other Americans are also working more hours — and they are arguably worse off as a result.

Moreover, this model draws an explicit, micro behavioral link between decreasing social contacts and rising hours of work in the USA. If authors such as Putnam and the OECD are correct in stressing the dependence of "social capital" on associational life and the importance of social capital for social and economic development, the costs of a high-work/low-social life equilibrium may be substantial — in terms of long run market income as well as in immediate utility.[17] Knack and Keefer are representative of an empirical literature that argues that localities with an active civic society and associational life (and more generally a dense network of social ties among individuals, and a high level of trust) have higher growth rates of GDP per capita.[18] This relationship has been argued to be due to a number of possible influences: for example lower transactions costs in capital, labor, and product markets; more effective governance; lower costs of crime, labor conflict, and political uncertainty; better health outcomes and so on.[19] Whatever the channel of influence, it suggests that although working longer hours may accelerate growth in GDP per capita in the short run, this may represent "short term gain for long term pain" — in both income and social life.

Labor Market "Flexibility" and Economic Insecurity

If one read only the professional economics literature, one might not think that there was such a thing as "economic insecurity." In the ECONLIT database from 1969 to March 2004, for example, there are only 22 matches to the term "economic insecurity."[20] By contrast, entering the keyword "risk" produces 27,342 matches in the professional economics literature published between 1969 and March 2004.[21] This relative neglect of insecurity may stand in distinct contrast to the popular press and to public opinion polling evidence, but it does make it easier to understand the commitment of OECD nations to "a cluster of policies aimed at encouraging macroeconomic stabilisation, structural adjustment and the globalisation of production and distribution."[22]

The practical meaning of "structural adjustment," and of policy measures to increase "labor market flexibility," has often been to increase the probability that some workers will lose their jobs and to decrease the social transfers that they receive when not working. Acceleration of computer-based technological change and greater globalization of trade would, in any event, have increased the risks of job loss, but in recent years there has also been an international trend to reducing the social protections of the welfare state, which has been rationalized in terms of increasing the incentives to labor market "flexibility."

This combination of an increased rate of labor market change and decreased protections from the adverse consequences of change has a clear consequence — greater economic insecurity. Why might this matter?

Economists have often been concerned with "risk" — but not with the anxiety which is a key part of insecurity. Those who can avoid hazards, or who can purchase insurance against their consequences, have no reason to feel anxious about the future. In modern economies, a wide range of insurance and risk avoidance strategies are potentially available to individuals. Whether or not these strategies actually succeed in avoiding unwanted risk, and at what cost, will determine whether people feel "insecure." It may be a telling comment on the perspective of economists that in the ECONLIT data base, there are only sixteen matches to a pairing of the keywords "risk" and "anxiety."

One reason to think that economic insecurity might "matter" is the fact that governments have spent a lot of money, over many years, to reduce it. Indeed, Article 25 of the United Nations' Universal Declaration of Human Rights (1948) declared economic security "in the event of unemployment, sickness, disability, widowhood, old age or other loss of livelihood in circumstances beyond [one's] control" to be a basic human right. Increasing the economic security of the populace has been a major goal of the welfare state, requiring substantial levels of public expenditure in all developed economies.

From the origins of the welfare state in Bismarck's Germany to the present day, in most of the industrialized countries, the expenditures of "social insurance" programs have considerably exceeded expenditures under means tested programs.[23] Most of the expenditures of the welfare state have not primarily redistributed resources from the rich to the poor, considered in an *ex ante* lifetime sense. Rather, "social insurance" programs have redistributed between contingencies, by providing benefits, in cash or in services, to all eligible beneficiaries who experience a specific loss, or who meet specified criteria. Because social insurance programs have been much larger than programs that are targeted exclusively on the poor, most of the cash transfers of the welfare state have redistributed income between different years of the same individual's life, or between the different contingencies which may befall similar individuals.

As Moss, for example, has argued in the US case, from the first years of labor legislation, reform organizations "were motivated primarily by the problem of worker insecurity."[24] The early proponents of social insurance were able to gather support across a wide spectrum of opinion, at a time when political discourse on labor issues was highly polarized, because social insurance proposals ambiguously combine radical and conservative objectives. Reformers can be seen as "socially minded defenders of capitalism,"[25] who did not propose (as the Marxists did) to socialize capital, but instead proposed the socialization

of risk. For conservatives, the objective was the maintenance of social stability, on the presumption that a society in which much of the populace is insecure is also a society in which the position of the ruling classes will be insecure. For social democrats, the motivation was improvement in the well-being of a population that dislikes insecurity. Both accepted capitalism as a system, and attempted to make it function more effectively. Internationally, governments of widely differing political persuasions have created social insurance systems — ranging from the Germany of Bismarck and the Spain of Franco to the Social Democrats of Scandinavia.

This historic recognition of the importance of economic insecurity finds support in more recent socio-economic research — Evans and Kelley, for example, conclude that:

> job security has a substantial impact on satisfaction. In fact, job security and occupational status — the chief "usual suspects" — are tied for first place as the most important source of job satisfaction: secure jobs and jobs that demand thinking, planning, and responsibility are much more satisfying than others.[26]

The importance of these dimensions of the workplace is a useful reminder of the inadequacy of the standard economics perspective that paid work should be analyzed just in terms of workers trading their leisure time for consumption goods.

As well, occupation is often an important aspect of identity, and in a very "non-standard" economic analysis Akerlof and Kranton have argued that individuals care about a sense of identity, as well as deriving utility from the consumption of commodities. The concept of identity — "who people think they are, what type of person they conceive of themselves as being" — implies a set of *prescriptions* about "what behavior is and is not appropriate and what different actions mean to an individual and others in society."[27] In a society with clearly defined gender roles, for example, some behaviors (e.g. a "breadwinner" or "homemaker" role) may be seen as integral parts of male and female identity. Akerlof and Kranton note that people often care deeply about such behaviors, whether performed by themselves or by others, over and above any impact these behaviors may have on their personal consumption of goods and services. They argue that behavior inconsistent with societal prescriptions can be perceived as a threat to personal identity, and the reaction is typically emotionally cued and reflexive.

In practice, many prescriptions about appropriate role behavior are closely linked to economic outcomes, because specific behaviors often cost money. The maintenance of a particular social identity depends partially on whether or not individuals have the discretionary income to purchase appropriate clothing

or participate in their habitual leisure and community activities, as well as on such things as the type of automobile they drive (or whether or not they have one), and on whether or not they can attain such social norms as "supporting their family," etc. In a materialistic society, the sense of identity individuals have may be hard to separate from observable manifestations of identity through consumption. Economic outcomes (such as the type of job a person has, or the neighborhood they live in) also determine much of an individual's patterns of socialization and status.

For all these reasons, economic insecurity can be highly threatening to personal identity. Economic mobility may also interfere with people's ability to form lasting, meaningful relationships, since each job change means the loss of one set of co-workers, and the necessity to form new ties with one's new colleagues, and each residential move depletes the "social capital" that individuals have built up in reciprocal relationships with their neighbors.[28]

The anxiety part of "economic insecurity" is necessarily both a forward-looking and a subjective conception. As Riskind puts it: "The concept that perceived threat is a cognitive antecedent of anxiety is central in clinical psychology, personality psychology and social psychology."[29] An important dimension of anxiety is the patterned interaction between subjective assessments of risk and objective indicators of hazards.[30] As Wells and Matthews put it: "It is well established that anxious individuals show bias in selective attention. They are prone to material whose content is threatening in preference to positive or neutral material."[31] Riskind notes that movement or change is an important trigger for anxiety responses in many experimental situations and proposes a model of "looming vulnerability" as a way of explaining both pathological and normal anxiety. He stresses the positive adaptive functions and species survival value of anxiety as a mobilization response in a threat situation. As he puts it: "Looming vulnerability is … an important cognitive component of threat or danger that elicits anxiety, sensitises the individual to signs of movement and threat, biases cognitive processing, and makes the anxiety more persistent and less likely to habituate."[32]

Anxiety responses are triggered by changes, since "in general, the perceptual and nervous systems detect changes in things rather than static things."[33] Known hazards, of an unchanging nature, may generate an objective probability of harm, but will not generate a corresponding degree of insecurity, if individuals become habituated to that risk. However, much of the economic change of recent years has taken the form of a greater exposure of individuals to market processes. Markets are always changing, and one of the intended outcomes of a transition to a more market-driven economic system is greater attention to market movements by more people. Constant change in the stimu-

lus that produces anxiety implies that individuals are unlikely simply to become habituated to a new level of objective risk. Since anxiety responses are more likely to be observed in individuals who have had a direct prior personal experience of a negative event,[34] the accumulation of experiences with corporate downsizing, recessions, etc., means that the stock of such individuals is a growing fraction of the population. As a result, over and above the influence of the structural labor market changes that have increased objective labor market risk, rising economic anxiety may be a secular trend.[35]

Individuals who possess insurance policies, and/or wealth, are protected, to some extent, against economic risks, but private insurance against the risk of "loss of livelihood" is in practice limited to disability insurance on expensive and partial terms. Asset accumulation strategies are inherently unavailable to the poor and the young, and can only cope with a limited run of bad luck before assets are exhausted.[36] Since job loss implies (among other things) that an individual must start over in a new job, without any seniority, there is a heightened risk of subsequent job loss (at a time when savings will have been depleted). "Bad luck" in the labor market is therefore quite likely to come in runs, and only a very limited segment of the population can expect to accumulate enough assets to forestall economic insecurity.

Although some economic analyses of the welfare state have emphasized the importance of the risk pooling it represents,[37] the preponderance of "standard economics" assumes away the constraints of job availability, access to credit, and availability of insurance which create risk. As Kreps notes, the predominant approach in economics is to model the problem of rational choice as the maximization of expected utility, and to weight the utility to be derived from any future outcome by the probability of that outcome occurring.[38] In maximization of expected utility, subjective assessments of probabilities are assumed not to diverge systematically from objective probabilities and small changes in probabilities are assumed to receive the weight that such changes mathematically deserve. Unfortunately, this model is a poor predictor of how people actually form estimates of the probability of future events, evaluate probabilities, and estimate the costs of possible losses and the benefits of possible gains.[39]

In short, because the prevention of economic insecurity has been a major focus of the welfare state, because the existence of economic insecurity decreases the well-being of individuals, and because some individually rational strategies to avoid personal insecurity may be socially undesirable, economic insecurity is worth worrying about. However, when "standard economics" is used to analyze social policy, there is a strong tendency to deny the importance of economic insecurity and to emphasize only the benefits of the "structural adjustment" policies which create such insecurities.

Auto-corrosion — the Markets/Morality Relationship

Why might greater labor market flexibility (and the insecurity it produces) or longer work hours (and the diminished social networks it entails) matter for markets and morality?

Section 1 noted that "standard economics" presumes the existence of commercial morality, but norms of commercial interaction were not explicitly discussed. In practice, there is a lot of variation across nations and over time. Because the effort required to write a contract that is specified in totally exact and complete detail, for all possible contingencies, is enormous, such contracts are expensive, and often not practicable. Even when a formal contract is signed, normal commercial dealings rely to some degree on local understandings of the meanings of terms, and on established norms of trade practice, to give practical meaning to the terms agreed upon. Because there are costs in time and effort to spelling out exact definitions and contingencies in precise, unambiguous language, there is a trade off between the costs of greater contractual completeness and the risks that some remaining ambiguity in a contract will be exploited to the benefit of one party.

Contractual incompleteness and the possibility of opportunistic behavior create efficiency advantages to justified trust. In some countries, a verbal agreement and a handshake is enough to seal a deal, and most business dealings are sustained by trust and by the value to individuals of keeping a reputation for trustworthy behavior. The alternative (more costly) institutional context is for the lawyers to meet and agree on many pages of paper, if the same sort of transaction is to occur. However, even when fairly complete contracts are signed, their enforcement relies on constant monitoring and the penalties that the court system imposes, if disputes arise. And since the legal enforcement of honesty in commercial dealings requires an honest judiciary, and any enforcement of honesty in the judiciary requires an honest police (who may need, in turn, to depend on an honest "internal affairs department"), there is a sort of infinite regress to the problem of maintaining honest behavior, in the absence of general belief in an internalized moral code. In general,[40] the lower is the level of justifiable trust in other market participants, the higher the transactions costs of voluntary exchange will be — and if transactions costs are too high, exchange is no longer worthwhile.

The economic efficiency of a market system therefore depends heavily on market norms for trustworthy behavior.[41] However, there is a pessimistic tradition within economics which argues that capitalism tends to destroy itself because

> [c]apitalist activity, being essentially rational, tends to spread rational habits of mind and to destroy those loyalties and those habits of super- and subordination that are nevertheless essential for the efficient working of the institutionalised leadership of the producing plant: no social system can work which is based exclusively upon a network of free contracts between (legally) equal contracting parties and in which everyone is supposed to be guided by nothing except his own (short run) utilitarian ends.[42]

Schumpeter's analysis should be seen in the context of a longstanding concern with the social framework of market processes and the social instability entailed by pursuit of purely individual, short term advantage. For example, over a century earlier de Tocqueville tried to explain to a European audience the vibrancy of American economic and political life, and argued that the "Americans Combat Individualism by the Principle of Interest Rightly Understood." He claimed that "they [Americans] show with complacency how an enlightened regard for themselves constantly prompts them to assist each other, and inclines them willingly to sacrifice a portion of their time and property to the welfare of the State."[43] As has already been noted, Adam Smith had emphasized even earlier the importance of "what is generally called a sense of duty" — clearly concerns about the importance of the social and ethical framework of economic life have been around for some time.

More recently, a new literature on "social capital" and "social cohesion" has tried to be more precise. Part of the reason for the resurgence of interest in such concepts may lie in recent political events. Since 1990, the demise of the Soviet regime in Eastern Europe and the former USSR has provided a dramatic example of what can happen when the social framework of economic processes changes substantially. When the Berlin Wall fell in 1989, there was a great deal of optimism among economists for the economic future of Eastern Europe. Although that optimism makes, in retrospect, embarrassing reading, at the time most of the world's economists thought that economic growth in the USSR and Eastern Europe would be rapid in the post-Soviet era. Because these nations had technically sophisticated, highly educated labor forces and a great deal of capital, many analysts expected that the elimination of the dead hand of communist central planning would unleash their pent-up potential for rapid growth. These expectations were based on the simple perspective that economic production occurs when capital, labor, and human capital are combined at the workplace. Since many economists thought (and continue to think) that the price signals of an unregulated market are the most effective possible way of coordinating economic activities, they concluded that as soon as Eastern Europe and the USSR acquired a market system, good things would happen. If this was all there was to it, history would have turned out differently, but during the 1990s, it was profoundly shocking to many economists to see

the decline in living standards that has actually occurred in these nations, and the rise of "gangster capitalism" in much of the old Soviet bloc. This historical experience has created new questions about "standard economics" and has prompted a resurgent recognition of the importance of the social context of market processes.

In addition, within North America, there has been widespread concern over the implications of fragmenting families and deteriorating urban schools and neighbourhoods — indeed one of the earliest uses of the term "social capital" was in Coleman's 1988 discussion of the determinants of neighbourhood differences in school attainment.[44] Recently, Putnam's discussion of the long-run decline in associational life in the USA has reinforced the theme of under-investment in social capital, and argued strongly that there are large long-term costs to this trend.[45] As the OECD has said, there is "a growing awareness in the economic literature of the importance of social networks and trust in supporting collective endeavours."[46] As Hazledine[47] has expressed it, "trust is the stock, but forbearance is the flow." Individuals who trust other people to honor their obligations and reciprocate their co-operation will forebear pressing their immediate short term advantage, and such individuals can co-operate more effectively to mutual long term advantage. The question then is: "What determines whether individuals will behave opportunistically or co-operatively?"

Elster remains a fascinating early example of the use of game theory to study the sustainability of co-operative norms of behavior, an issue also analyzed more recently by, among others, Dayton-Johnson.[48] In the current context, the implication of their work is that if individuals play repeated games with an ever-changing population of other agents, they will not be able to acquire a reputation for trust-worthiness, and the anonymity of strangers will undermine social norms. As Elster puts it:

> Mobility tends to weaken social norms.... [I]t tends to undermine bonds of altruism and solidarity, simply because people are not around each other long enough for these to develop (and because) social mobility reduces the scope of arguments from long term self-interest.[49]

A general implication of the game theoretic approach is also the existence of "tipping points" in people's behavior. In practical terms (e.g. in littering) when the perception becomes general that "everyone is doing it," each person rationally thinks they are foolish if they do not do the same, which abruptly changes the social norm. Dayton-Johnson stresses the idea of "shared values and communities of interpretation" and the class of models which his analysis produces has multiple equilibria, some of which are clearly preferable to others.

Dense networks of social interaction tend to produce strong social norms and values in stable communities, which may carry benefits in the form of norms of reciprocity and trust and low transactions costs, but another theme of the literature is the distinction between social capital which *bonds* people into small subgroups within the broader society, or *bridges* the differences between individuals in different social groups. An unavoidable implication of living in a "high work" society is the fact that more people get more of their social contacts at the workplace. When individuals get more of their social life through their workplace, their social networks contract. Some social trends,[50] such as increasing segregation of families by income, growing numbers of single parent families (many of whom have low incomes) and the greater time stress of dual earner households, would in any event have tended to undermine family and kinship connections, wider social networks, and "associational life" — the networks of civic engagement and cross-sectional linkages or contacts which span differences in sector or power. However, when paid work (for those employed full time) is the dominant networking or socializing activity outside the family, linkages across sectors atrophy, to the detriment of "bridging" social capital. Furthermore, in a high work society, exclusion from paid employment becomes the most important determinant of an individual's social networks. As well, the feedback effect between the longer hours of paid work of individuals and the fact that each person's desired hours of work depend partly on the chances of finding "somebody to play with" in their leisure hours, produces a general trend to overwork, and a consequent undermining of associational life.

Together, the twin trends of greater mobility and insecurity and longer working hours reinforce each other to undermine the networks, norms, and institutions that facilitate collective action and co-operative behavior — and the strength of the social norms which define and support the morality of markets. The irony of the issue is that an analysis based on the "standard economics" assumption of individual, isolated, egoistic actors can produce policies that increase the prevalence of such individuals — but the effective functioning of the system in fact depends on the ubiquity of norms of honesty and fair dealing that rely on the maintenance of communities.

Implications of Overwork and Insecurity

Some economists might object that even if there is a future cost in diminished social capital from greater insecurity and longer working hours, the gain they produce in current GDP is sufficiently large to make it all worthwhile. Logically, this argument requires that there will actually be an increase in GDP[51] from greater insecurity and longer working hours, and that the gains in

well-being from greater money income should exceed the losses in well-being from more insecurity and less leisure.

Unfortunately for the "standard economics" viewpoint, "The accepted view in psychology is that objective economic circumstances have only a slight though statistically significant effect on happiness and other measures of well-being."[52] Some economists have recently risen to the challenge of trying to show a connection between income and happiness. As Headey and Wooden note:

> well-being (or happiness) and ill-being (or psychological distress) are empirically distinct dimensions with different causes; they are not opposite ends of the same dimension. [but] ... economic variables, notably income, appear to have little effect on either well-being or ill-being.[53]

In this literature it is clearly established that there is a very large negative relationship between unemployment and self-reported happiness.[54] The crucial importance of long-term relationships, especially marriage, is also clear. As well, it has long been known that within affluent nations, the rich are slightly happier than the poor of the same country, but since rich nations are on average no happier than poor nations, this could be just a relative status effect. Hence, the challenge for economists is to find some role for the absolute, as opposed to the relative, level of individual income in predicting individual happiness. Headey and Wooden add personal wealth to the equation predicting self-reported happiness and conclude:

> Wealth (net worth) appears to matter at least as much as income, so its inclusion changes our picture of the importance of economics to well-being. Wealth is probably important because it provides economic security, which many people value highly.[55]

Di Tella and MacCulloch have examined the responses of almost 400,000 people living in the OECD during 1975-97.[56] Although they concluded that "Happiness is positively correlated with an individual's absolute income, even after controlling for country and year dummies," the income effect was relatively small compared to other influences (such as unemployment). For present purposes their most interesting result was that individual happiness was strongly negatively correlated with the average number of hours worked by *other people in the same country.*

Their conclusion on the relative size of the happiness gain from more income, compared to the happiness loss from less leisure and social life is worth quoting at length:

> Whilst Americans are working harder than before, Europe has experienced the opposite trend. We are able to calculate which group has done better in terms of well-being. Annual hours of work declined in France from 1,865 hours in 1975 down to 1,605 hours in 1997. Over the same period annual working hours rose in American from 1,890 up to 1,966 hours. In other words, whereas hours worked fell by 260 in France they increased by 76 in America. Has this widening of the gap by 336 hours been worth it for Americans? … [T]hese results suggest that the higher incomes of Americans compared to the French have not been sufficient to compensate for the longer working hours in happiness terms. We can calculate the increase in GDP per capita required in America to match the rise in happiness in France arising from their shorter working hours and higher GDP per capita between 1975 and 1997 … the shortfall in American GDP compared to the level in France amounts to approximately 78 per cent of 1975 GDP per capita, or approximately $13,260 in 1990 dollar values.[57]

Although micro data evidence on the importance of insecurity and over-work to happiness is relatively new, the basic point is not. Writing in 1931, for example, Richard H. Tawney argued that:

> Contrasts of economic security, involving, as they do, that, while some groups can organize their lives on a settled plan with a reasonable confidence that the plan will be carried out, others live from year to year, week to week, or even day to day, are even more fundamental than contrasts of income.[58]

The conclusion of this paper is, therefore, that (at least comparing nations such as the USA and France or Germany) insecurity and over-work diminish, on average, well-being by more than the value of any gain in market production. As well, insecurity and over-work undermine the community ties which sustain the norms of morality which underpin market processes. Hence, when economics “gets it backwards” and advocates policies that increase over-work and economic insecurity, there is both a short term cost in lessened human happiness and a long term cost in less efficient market processes. Morality matters for markets, and as a consequence, when markets undermine morality, they undermine also the bases of their own efficiency.

Notes

1. Revised version of a paper (then titled “Does economics sometimes have it backwards? Why might it matter for markets and morality?”) presented to International Workshop on “The Moralization of the Markets,” Schloss Elmau, Germany (May 6-9, 2004). The comments of participants at the workshop are greatly appreciated. The Social Science and Humanities Research Council of Canada has provided financial support for some of the research cited here under Grant No. 410-2001-0747.

2. See, for example, Robert H. Frank et al., *Principles of Microeconomics: Second Canadian Edition* (Toronto: McGraw-Hill Ryerson, 2004): 3.
3. See, for example, Thorstein Veblen, *The Theory of the Leisure Class* (New York: New American Library Mentor Edition, [1899] 1953); or Tibor Scitovsky, *The Joyless Economy: An Enquiry into Human Satisfaction and Human Dissatisfaction* (Oxford: Oxford University Press, 1976).
4. Richard H. Tawney, *Religion and the Rise of Capitalism: A Historical Study* (Harmondsworth: Penguin Books, [1926] 1969): 277.
5. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, with an introduction by Max Lerner and an introduction by Edwin Cannan, ed. Edwin Cannan (New York: Random House, [1776] 1965), Book I, Chapter II, p. 14. For a discussion of the context and origins of this statement, see Charles Gide and Charles Rist, *A History of Economic Doctrines from the Time of the Physiocrats to the Present Day* (Boston: D.C. Heath and Co., 1948): 88, among others.
6. Adam Smith, *The Theory of Moral Sentiments*, in *The Essential Adam Smith*, ed. Robert L. Heilbroner (New York: WW Norton & Company, 1986): 110-112, reprinted from Adam Smith, *The Theory of Moral Sentiments* (London: A. Millar, 1790, 6th ed.).
7. For example, a large literature in environmental economics investigates pollution and the intergenerational transmission of environmental quality. This literature examines, among other issues, whether it would be more efficient to institute a pollution tax on profit maximizing firms or to impose emissions standards. It is typically assumed that, in the course of maximizing its profits, a firm would behave morally in the sense that it would pay any applicable pollution tax, and would not try to bribe inspectors or falsify records, etc. It is typically not assumed that the firm, or any of its agents, has any moral worries about the well-being of future generations or the extinction of species (or the well-being of child laborers, or any other moral issue). Although an entire documentary film ("The Corporation") has recently been based on the premises that this limited moral vision is abhorrent, shocking evidence of "psychopathic" tendencies, "standard economics" sees it as quite normal.
8. Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, [1944] 1972) remains a classic statement of the individualist position. He argues (pp. 64-65) that no "common ethical code" exists that could define the "social goal" of economic activity.
9. John Rawls, *A Theory of Justice* (Cambridge, Mass.: Harvard University Press, 1971): 3; John Rawls, "Social Unity and Primary Goods," in *Utilitarianism and Beyond*, ed. Amartya Sen and Bernard Williams (Cambridge: Cambridge University Press, 1982): 159-186. For economists, Rawls is probably most familiar for his maxi-min criterion of distributive social justice — that social progress should be judged by the increase in well-being of the least advantaged. It is worth stressing that Rawls himself put this as a secondary priority. He saw a just society as incorporating two principles — the equal right of all citizens to basic liberties (primary goods) and a maxi-min criterion of distributive justice with respect to income. As he put it: "The first principle has priority over the second, so that all citizens are assured the equal basic liberties; similarly part (b) of the second principle (i.e. fair equality of opportunity) has priority over part (a) (i.e. the maxi-min principle)." Rawls, "Social Unity," 162.
10. Rawls, "Social Unity," 160.

11. Economists have relied on the idea of "compensating differentials" since Adam Smith — i.e., that in considering choice of occupation, workers weigh "the whole of the advantages or disadvantages" of each line of work and will accept a lower money wage if work in a particular occupation is otherwise more enjoyable. However, because occupations have many characteristics, some of which are liked by some people but disliked by others, one cannot (aside from the risk of injury or death on the job) predict from theory even the sign of a "compensating differential" in wages for a particular occupation, much less the magnitude.
12. Studies of work time synchronisation, all based on time use surveys, include Daniel Hallberg, "Synchronous Leisure, Jointness, and Household Labor Supply," Working paper 2002–2011 (Uppsala: Uppsala University, 2002). Forthcoming in *Labour Economics* (for Sweden); Oriel Sullivan, "Time Co-ordination, the Domestic Division of Labour and Affective Relations: Time Use and the Enjoyment of Activities with Couples." *Sociology* 30, no. 1 (1966): 79-100 (for Britain); Susan van Velzen, *Supplements to the Economics of Household Behaviour*, Tinbergen Institute Research Series No. 242 (Amsterdam: University of Amsterdam, 2001) (for the Netherlands).
13. Cf. Robert D. Putnam, *Bowling Alone: The Collapse and Revival of the American Community* (New York: Simon & Schuster, 2000).
14. Gicaomo Corneo, "Work and Television," Discussion Paper No. 376, IZA (Bonn, 2001) contrasts privately consumed leisure time (TV watching) and socially enjoyed leisure (which requires investment in relationships). Although solo television watching is certainly feasible, companionship may nonetheless increase the utility derived from the activity — but his model is quite consistent in spirit and implications. Yvonne Weiss, "Synchronization of Work Schedules." *International Economic Review* 37, no. 1 (1996): 157-179, examines the co-ordination of working hours. His model could be relabelled to explain the co-ordination of leisure hours, but he does not consider work and leisure jointly. An emphasis on the importance of sociability for choice has some similarities with discussion of "relational goods" by C.J. Uhlaner, " 'Relational Goods and Participation: Incorporating Sociability into a Theory of Rational Action." *Public Choice* 62 (1989): 253-285. F. Thomas Juster, "Changes in Work, Leisure and Well-Being for Men and Women," paper presented at 19th General Conference, International Association for Research in Income and Wealth, Noordwijkerhout, Netherlands (1985), 21 has compared the self reports of satisfaction derived from 25 specific activities (including jobs and types of housework and leisure) and has argued that, *in general*, "activities that involve interaction tend to have high process benefit scores."
15. Stephen P. Jenkins and Lars Osberg, "Nobody to Play With? The Implications of Leisure Co-ordination," *Working Papers of the Institute for Social and Economic Research*, paper 2004-19, Colchester: University of Essex, August 2003, also as *IZA Discussion Paper No. 850*, Institute for the Study of Labor (IZA) Bonn, August 2003, and also as *DIW Discussion Paper No. 368*, German Institute for Economic Research, Berlin, September 2003.
16. Jenkins and Osberg, "Nobody to Play With?"
17. Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993); Robert D. Putnam, *Bowling Alone*; OECD, *The Well-being of Nations: The Role of Human and Social Capital* (Paris: Organization for Economic Co-operation and Development, 2001).

18. Stephen Knack and Philip Keefer, "Does Social Capital Have an Economic Payoff? A Cross-Country Investigation." *The Quarterly Journal of Economics* 112, no. 4 (November, 1997): 1251-1288.
19. *The Economic Implications of Social Cohesion*, ed. Lars Osberg (Toronto: University of Toronto Press, 2003).
20. *EconLit,* the American Economic Association's electronic database, is the world's foremost source of references to economic literature — more than 610,000 records are available in the database.
21. Lars Osberg, "Economic Insecurity," *SPRC Discussion Paper* No. 88, Social Policy Research Centre, University of New South Wales, Sydney, Australia, October 1998. Osberg defines "economic insecurity" as: "the anxiety produced by a lack of economic safety — i.e., by an inability to obtain protection against subjectively significant potential economic losses." By contrast, "risk" is usually defined in economics in terms of a probability distribution over future states of nature. Hal R. Varian, *Microeconomic Analysis*, 3rd ed. (New York: W. W. Norton & Co., 1992). For example, the *Penguin Dictionary of Economics* states (London: Penguin, 1986), 385: "A decision is said to be subject to risk when there is a range of possible outcomes which could flow from it and when objectively known probabilities can be attached to those outcomes. Risk is therefore distinguished from uncertainty, where there is a plurality of outcomes to which objective probabilities cannot be assigned."
22. OECD, *The OECD Jobs Study* (Paris: OECD, 1994), "Foreword."
23. In Canada, for example, total expenditure under social assistance in the 1990s was about 15% of the amounts paid out under public health insurance, CPP/QPP pensions and Unemployment Insurance benefits. Although these latter programs are not means tested, they do redistribute income and they do prevent poverty, because of (1) differential probability of claim (e.g. the higher probability of unemployment among lower wage workers), (2) a pro-poor tilt in program benefit schedules and (3) the fact that per capita benefits are a larger fraction of lower incomes. Social insurance programs do provide greater relative benefits to the poor than to the rich — but that is not the main *purpose*.
24. David A. Moss, *Socializing Security: Progressive-Era Economists and the Origins of American Social Policy* (Cambridge, Mass.: Harvard University Press, 1996): 2.
25. Moss, *Socializing Security*, 14.
26. M. D. R. Evans and Jonathan Kelley, "Job Security." *Worldwide Attitudes* 19950911: 1-8.
27. George A. Akerlof and Rachel E. Kranton, "Economics and Identity." mimeo (January 18, 1998): 1, 6.
28. As well, insecurity may produce socially dysfunctional responses. I. Borg and D. Elizur, "Job Insecurity: Correlates, Moderators and Measurement." *International Journal of Manpower* 13, no. 2 (1992): 14 conclude that: "Employees with higher job insecurity cope with the potential loss by reducing the subjective value of the loss." Since employees with a strong work ethic are those who have the most to lose, when they lose their jobs, they also tend to have the strongest psychological withdrawal process. The effect of greater insecurity in producing decreased job commitment can be partially offset if social support is available to workers to reduce their sense of insecurity, but in general "job insecurity has a negative impact on employees' commitment and motivation" (p. 25). Because one way of coping

with the possibility of loss is to decide "I didn't want it anyway," long periods of employment insecurity may be dysfunctional to maintenance of a "work ethic."

29. J. H. Riskind, "Looming Vulnerability to Threat: a Cognitive Paradigm for Anxiety." *Behavioural Research and Therapy* 35, no. 8 (1997): 685-702, p. 685.
30. A. T. Beck and D. A. Clark, "An Information-Processing Model of Anxiety — Automatic and Strategic Responses." *Behaviour Research and Therapy* 35, no. 1 (1997): 49-58.
31. A. Wells and G. Matthews, "Anxiety and Cognition." *Current Opinion in Psychiatry* 9 (1996): 422-426, p. 422.
32. Riskind "Looming Vulnerability to Threat," 685.
33. Riskind, "Looming Vulnerability to Threat," 698.
34. As the saying goes, "once bitten, twice shy."
35. Jeff Dominitz and Charles F. Manski, "Perception of Economic Insecurity: Evidence from the Survey of Economic Expectations." *Public Opinion Quarterly* 61 (1997): 261-287.
36. Lars Osberg, Sadettin Erksoy and Shelley Phipps, "How to Value the Poorer Prospects of Youth in the Early 1990s?" *Review of Income and Wealth* 44, no. 1 (March 1998): 43-62 note that relatively few Canadians have enough liquid assets to last out a typical spell of unemployment at a poverty line level of consumption, without any income transfers.
37. E.g. Nicholas Barr, *The Welfare State as Piggy Bank: Information, Risk, Uncertainty and the Role of the State* (Oxford: Oxford University Press, 2001).
38. David M. Kreps, *A Course in Microeconomic Theory* (Princeton, New Jersey: Princeton University Press, 1990): 112.
39. For an extended discussion see Osberg, "Economic Insecurity."
40. Justifiable trust in market transactions is particularly important in the development process. As a practical matter, the "quality" of a service transaction is central to its value, but it is hard to specify in unambiguous language before the service delivery occurs what the "quality" of a service means (e.g. the "quality" of financial advice or restaurant meals?) and it is usually impossible to store the service and measure it again afterwards, in order to resolve any dispute. As a result, the problem of contractual incompleteness is greater, the more dependent an economy is on services production — and a key part of the development process is the expansion of the services sector. However, contractual incompleteness is not an impediment to exchange if one can trust others to deliver the agreed quality of good or service purchased.
41. For a somewhat "non-standard" perspective on the efficiency advantages of internalized norms of honesty see Chapter 9 of R. Frank, R. Bernanke, L. Osberg, M. Cross and B. MacLean, *Principles of Microeconomics*, Second Canadian Edition (Toronto: McGraw-Hill Ryerson, 2004).
42. Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, 3rd edition (New York: Harper & Rowe, 1950): 417.
43. Alexis de Tocqueville, *Democracy in America*, Vol. 2, Chapter VIII (New York: Schoken Books, 1961): 146.
44. James S. Coleman, "Social Capital in the Creation of Human Capital." *American Journal of Sociology* 94 (1988), Supplement: 95-121 argued that social capital is highly productive and identified three forms: obligations and expectations, information flow capability of the social structure, and norms accompanied by sanctions. A property shared by most forms of social capital that differentiates it from

other forms of capital is its public good aspect: the actor or actors who generate social capital ordinarily capture only a small part of its benefits, a fact that leads to under-investment in social capital (p. 119).

45. Cf. Putnam, *Bowling Alone*.
46. OECD, *The OECD Jobs Study*, 39.
47. See Tim Hazledine, "Agency Theory Meets Social Capital: The Failure of the 1984-91 New Zealand Economic Revolution," University of Auckland, Department of Economics, *Working Paper* No. 207, June 2000.
48. Cf. Jon Elster, *The Cement of Society: A Study of Social Order* (Cambridge: Cambridge University Press, 1989); J. Dayton-Johnson, "Social Capital, Social Cohesion, Community: A Micro-Economic Analysis," in *The Economic Implications of Social Cohesion*, ed. Lars Osberg (Toronto: University of Toronto Press, 2003): 43-78.
49. Elster, *The Cement of Society*, 285.
50. In addition, Robert D. Putnam, *Bowling Alone* has stressed the role of technology — the growth of hours spent watching television — as a determinant of social interaction. More recently, video games have pre-empted much social play time. See also Avner Ben-Ner and Louis Putterman, *Economics, Values and Organization* (Cambridge: Cambridge University Press, 1998).
51. Peter H. Lindert's, "Why the Welfare State Looks like a Free Lunch," Working Paper 9869, http://www.nber.org/papers/w9869 (Cambridge, Mass.: National Bureau of Economics Research, 2003) econometric evidence indicates that there is essentially no cost in the level or growth of GDP to an expanded welfare state.
52. For a list of references see Bruce Headey and Mark Wooden, "The Effects of Wealth and Income on Subjective Well-Being and Ill-Being," *IZA Discussion Paper No. 1032* Bonn February 2004, p. 1.
53. Heady and Wooden, "The Effects of Wealth and Income," 3.
54. See also Bruno S. Frey and Alois Stutzer, *Happiness and Economics: How The Economy and Institutions Affect Well-Being* (Princeton: Princeton University Press, 2002; Robert J. Di Tella and Raphael MacCulloch, "Income, Happiness and Inequality as Measures of Welfare," June 18, 2003.
55. Headey and Wooden, "The Effects of Wealth and Income," 17.
56. Di Tella and MacCulloch "Income, Happiness and Inequality."
57. Di Tella and MacCulloch, "Income, Happiness and Inequality," 24.
58. Richard H. Tawney, *Equality* (London: George Allen and Unwin, [1931] 1964).