Altruism and market efficiency

A proposal to change the syllabus

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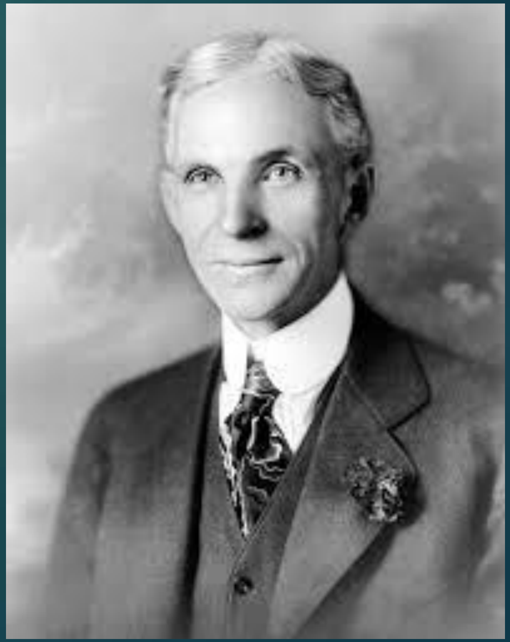
Contents

Introduction

- The textbook makes the mainstream assumptions that people are fundamentally rational, selfish and asocial
- There is plenty of evidence indicating that the contrary is sometimes observed
- With regards to selfishness, for example, hundreds of experiments show that people display altruism and reciprocity in addition to selfishness
- We will now argue that selfishness is a fundamental cause of market failure, and that altruism can diminish or even eliminate market failure.
- We will then discuss the implications for economics education.

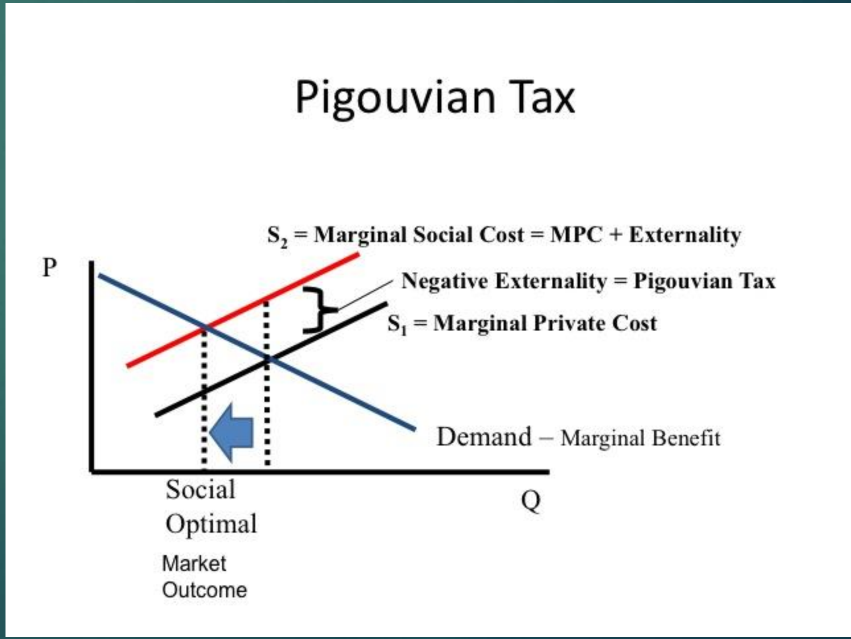
Monopoly

- A monopoly raises price above marginal cost because it does not care about consumers' welfare
- If it did, the price increment would not take place or take place to a smaller extent, improving efficiency
- Example of altruistic monopoly: Ford in its early days, when its founder, Henry Ford, was taken to court by a group of minority shareholders for wanting to reduce prices to benefit consumers (and for wanting to provide more jobs). See Bruni and Uelman (2006).
- Note: consumers may well reciprocate and reward an altruistic firm



Externalities

- Externalities occur because buyers and sellers don't take into account the impact of their actions on third parties, e.g. pollution and climate change
- If they did, the externality would be reduced or even eliminated, improving efficiency
- Increased altruism can be represented diagrammatically as a shift (inwards) of demand and supply, avoiding the need for a Pigouvian tax or some other form of state intervention.



Public goods

- Public goods cannot be provided by private firms because of free riding by consumers
- Think of a firm providing street lights and how difficult it would be to compel users to pay for the use of those lights when they pass underneath
- An altruistic user would want to support the firm (!) in its provision of street lights.
- Note: the firm may well reciprocate and benefit altruistic consumers

Distributional efficiency

- Some textbooks refer to distributional efficiency – this is improved in a direct and obvious way as a result of altruism.

Some counter-arguments

- Altruistic agents may be cheated – but a rational altruistic agent will have taken this possibility into account in advance
- An altruistic firm may provide employment (and a high wage) to a low productivity worker who could find more productive employment elsewhere (Crivelli and Gui 2014)
- An NGO providing a flat in the city centre to a poor family may offer to the poor family to go and live in the suburbs and receive compensation for doing so, freeing the flat to be rented to a wealthy family and generating more financial resources for the NGO to help the poor – so that all agents are made weakly better off (Gui 2004).
- The above examples suggest that altruism needs to be moderated by prudence and reliance on market signals.

Fostering a culture of altruism

- Having accepted the positive role that altruism plays in achieving efficiency, the next step is to promote it in the classroom.
- This may sound strident to an economist's ear, since economists are used to thinking that they are scientists and so – the reasoning goes – should not get involved in promoting particular values.
- Yet society expects all professions, and educators in particular, to promote pro-social values, as reflected for example in the so-called Golden Rule: do to others as you would like them do to you (or do not do to others what you would not like them to do to you). This rule is widespread across societies both past and present. Another example is that most - if not all - quoted companies claim to have social objectives.

The Economy of Communion (EoC) group of firms

- An example of firms pra1ticing altruism is the Economy of Communion group of firms
- 750 businesses spread around the world selling ordinary goods and services
- Aiming to spread "the economy of giving, not of having" and "fraternity among agents in the market"
- 1/3 of profits go to poor, 1/3 for self-education, 1/3 for investment within firms
- Its primary goal is to help the poor and most vulnerable members of society (the 'unimportant').
- Love your neighbour (workers, suppliers, customers) including your 'enemy' (rivals)
- EoC firms transform cold and cautions business interactions into relationships of reciprocity and mutual openness, and often generate benefits that are more significant than those that can be measured in monetary terms.
- E.g. of Argentinian cement manufacturer who helped rival in distress, and of firm that gave away its technology to another firm while they were both bidding for a government contract.
- Important to point out to students that firms with social objectives can effectively operate in conventional markets populated by more conventional profit maximizing firms.

http://edc-online.org/en/

Conclusion and implications for economics education

- We have seen that altruism can significantly reduce market failure.
- In other words, market inefficiency is often a problem of selfishness rather than of anything else, i.e. it is a cultural problem.
- It follows that a culture of altruism should be encouraged, including in the classroom - this can be done simply by teaching the material laid out above.
- Altruism avoids the need for state intervention aimed at addressing market failure, reducing the possibility of inefficiency associated with state intervention; note that state inefficacies, too, are likely to be mitigated by altruism.
- Thank you for listening!

References

- Bruni, L. and Uelmen, A. J. (2006), *Religious values and corporate decision making: the Economy of Communion project*, Fordham Journal of Corporate & Financial Law, 11(3)
- Crivelli, L. e Gui, B. (2014), *Do 'Economy of Communion" enterprises deserve the 'social' label? A comparative discussion of their aims and logic of action*, Revista Portuguesa de Filosofia, 70(1)
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