Book Reviews

Modern Economies and the Prospects for Social Welfare

Social Limits to Growth. FRED HIRSCH. Harvard University Press, Cambridge, Mass., 1976. xi, 208 pp. $10. Paperback edition, 1978, $3.95. A Twentieth Century Fund Study.

The basic argument of *Social Limits To Growth* concerns the presumptive limits on the real economic growth rate of the U.S. and other Western economies arising from two basic propositions: first, that a significant proportion of real output in postindustrial economies consists of "positional" rather than "material" goods and services and that by their very nature the supply of positional goods and services cannot be increased (much); and, second, that the dynamics of self-interest motivation on which market economies depend for their efficiency inevitably weaken the ethical and moral constraints that hold society together, a deterioration that can be limited only by the substitution of scarce "policing" resources for internalized constraints.

The first section of the book outlines the argument with respect to positional goods and services. The second and third are concerned with the production of "public goods"—commodities that cannot be produced for the exclusive use of individual consumers, such as national defense and public parks—and contain extended discussions of both the conventional wisdom regarding the economics of public goods and the role of internalized constraints (moral, ethical, social) in the functioning of modern economies. The final section contains "perceptions and conclusions."

A simple illustration conveys the flavor of Hirsch's argument regarding the role of positional goods in undermining conventional economic growth. Suppose the economy produced only two goods—a composite commodity called food and shelter, output of which can be expanded along conventional lines as population and productivity increase, and recreational land, viewed as fixed in absolute supply. The fixity of recreational land combined with its high income elasticity of demand means that the real growth potential of society is sharply limited: increased demand can only reallocate the existing stock among various claimants. Though consumers can individually aspire to ownership of recreational land, such aspiration is doomed to failure for society as a whole. In consequence, rising affluence produces frustration and disappointment.

Hirsch elaborates this theme for a number of other areas of economic activity, including suburban land and educational opportunities. But the core of the argument is that a major part of the societal demands that grow as real incomes increase is bound to become frustrated by supply limitations—an absolute limitation in the case of residential land, a limitation reflected by increasing congestion in the case of suburban living, and a limitation reflected by the dominant importance of ranking in the case of educational attainment. The result is a frustration of real growth owing to the impossibility of expanding the supply of desired positional goods.

Hirsch then uses this argument to explain three modern phenomena—the continued pressure for economic advance despite its frustrating and disappointing results, the continued concern with distribution rather than with higher productivity as a means of increasing societal well-being, and the tendency toward collective action and regulation in areas where individual freedom of action has historically been the controlling attitude.

The argument about positional goods and their inability to respond to increased demand, while valid in qualitative terms, seems to me considerably overdone. Even in advanced postindustrial economies, most goods and services are more like food and shelter than like recreational land. Moreover, the strongest case that Hirsch can make for the supply limitations on positional goods seems to me an uninteresting one. At the extreme, the only goods and services totally limited in supply consist of those where ownership per se—with the ability to prevent others from enjoying the product—is what is being purchased. If I have a prime piece of recreational property with an extraordinary view, having a neighbor who shares the view does not diminish my welfare if I am concerned with the view and not with my exclusive rights to it. Thus the supply of the product "access to prime recreational land" is a lot less limited than that of the product "exclusive access to prime recreational land." It is the latter case that is most sharply defined by Hirsch. But I would judge that for the majority of individuals access to goods and services, not exclusive access, is what matters. If so, the supply of positional goods is nowhere near as unresponsive to changes in price.

Hirsch's view with respect to the positional nature of education is also suspect. The view that education is a positional good rests on the proposition that the benefits that accrue from educational attainment are relative gains over others in competing for a limited supply of desirable jobs. If instead education produces higher productivity, and not just a means of identifying those who are highly productive workers, and if the economy is capable of adapting its job structure to the skills and talents of the available work force, education ceases to be a positional good and becomes much like any other product. The weakness in Hirsch's argument about education seems to me to be best reflected by the fact that the same argument probably could have been made 50 years ago, when the supply of highly educated manpower was much less than it is today. All that does not of course prove that Hirsch is wrong—a good many people share his views on education.

In the middle sections of the book, Hirsch deals with a number of important issues. One is the difficulty of using conventional GNP accounting measures to record progress in real economic welfare. This is a well-worked field, and the omissions from the GNP accounts of factors that reflect changes in economic welfare have been extensively discussed. Though Hirsch is familiar with the literature, he does not seem fully aware that it is impossible to tell, given the present state of knowledge, whether appropriately measured social welfare has grown more rapidly than conventionally measured GNP or less rapidly.

Hirsch focuses on growth of certain types of output which this reviewer, among others, has labeled "defensive" or "instrumental" product (output that in a social welfare sense is intermediate, like iron to be transformed into steel, and thus is not properly counted as "net" output). But there are other omitted factors that probably tend to go in the opposite direction, which Hirsch ignores. For example, while focusing on the costs associated with increased congestion and urbanization, he ignores the considerable social benefit (judging by conventional evaluational procedures and not by personal tastes) associated with the huge volume of entertainment provided free by way of television. Hirsch ignores the substantial rise in the proportion of business costs that reflect research and development outlays, which add substantially to the true stock of capital, and pays insufficient attention to the considerable improvement in conditions of work, which are counted as costs but which are really output. His presumption that social welfare has grown less rapidly than conventional GNP cannot be demonstrated with existing data.

The discussion of the production of public goods suggests a number of insights into what is clearly an important set of issues. For noneconomist readers, a brief summary of the economics of public goods might be helpful. Littering may be taken as an example. There is no way I as an individual, acting by myself, can achieve a litter-free world; whether or not I litter makes very little difference to the amount of litter that exists. Since picking up litter involves a cost (inconvenience, time), my optimum solution as a utility-maximizing hedonist is for everyone else not to litter and for me to be free to litter or not as I choose—that way, I get a litter-free world at no cost to me. But of course everyone feels the same way in a hedonist world, and the result of unregulated private behavior will be a world filled with litter.

In more formal terms, there are four possible outcomes: (i) I litter but nobody else does; (ii) I litter and everybody else does; (iii) I don't litter but the rest of the world does; and (iv) I don't litter and nobody else does either. Assuming that individual preference orderings are i, iv, ii, iii, an unregulated free market in a hedonist world gives ii, harsh penalties on littering gives iv, penalties plus evasion on my part gives i, and Good Samaritan conduct in a hedonist society gives iii.

If the world consisted of all Good Samaritans, or if people acted as if they were Good Samaritans, we would get iv. In a hedonistic world with moderate penalties and poor enforcement, we would get ii. Thus in the absence of regulation society will get ii while it actually prefers iv. But the latter is not a product that can be purchased by an individual, being obtainable only through infringement on individual freedom of choice. Thus, the argument goes, society should vote heavy penalties on littering.

The basic point of Hirsch's chapter entitled "The economics of bad neighbors" is that the rising value of time in modern societies, and the greater mobility, are likely to produce a set of "investments" in social interactions of various sorts that are suboptimum from the point of view of society as a whole. The free market will not produce the optimum amount of interaction because the necessary investments are continuous whereas the returns, though substantial when they occur, are relatively rare. The analogy to racial tipping of neighborhoods seems to me an appropriate one: societies that invest less in Good Samaritan conduct toward unknown others will tend to find themselves in a long-run equilibrium position of distrust, fear, and sizable private protective expenditures, a situation that few will prefer, just as neighborhoods that pass the point of comfortable equilibrium in racial balance will find themselves 100 percent black or 100 percent white, a situation that survey data suggest is not the preferred outcome of the great majority of the population.

The most interesting and challenging part of *Social Limits to Growth* lies in Hirsch's attack on market systems by way of the allegation that behavior that is motivated entirely by self-interest will inevitably erode some of the conditions that make the system function efficiently.

Hirsch sees economic liberals as calling for inconsistent behavior on the part of individual economic actors. Liberal economic thought says that individual members of society will react to economic incentives in pursuing their own self-interest, within general ground rules set by public policies. The idea is that individuals are free to pursue their own narrowly defined self-interest within agreed on limits, the pursuit of self-interest thus being prevented from having undesirable social consequences.

But it is not true, as Hirsch suggests, that there is an underlying social convention that labor union leaders should not exploit the maximum benefits available to their members because of concern over the macroeconomic implications of high wage demands. Nor is it true that the market system depends on the convention that it is moral to tell the truth, to pay taxes, to avoid cheating one's competitors or customers, and so on. Nor does it have to be assumed that the macromanagers of an economic and social system are either brighter or motivated by a stronger set of ethical considerations than the microactors—the businessmen, consumers, and so on who constitute the great bulk of any society.

The primary factor that deters union leaders from seeking infinite wage increases for their members is not social conscience but the fact that employers are not prepared to grant infinite wage increases because they will face a competitive disadvantage if they do. A similar argument applies to honesty, tax payments, and not cheating competitors or customers. In the market system, what maintains honesty is the fact that relations between buyers and sellers are continuous; once a firm gets to be known as one that cheats or lies, others quite naturally avoid doing any business with it. Thus the sanction is primarily loss of markets and profits, not social opprobrium.

Perhaps most importantly, Hirsch seems to miss the point that this is crucial in any discussion of the relation between economic motives, economic behavior, and moral, political, or social preconceptions. No one ever claimed that price or economic opportunity was all that mattered to individual decision-making. Whether or not I pay taxes, or overcharge uninformed buyers, or try to underpay ignorant or poorly organized workers, or produce shoddy merchandise and try to sell it to unsuspecting buyers, is in part a matter of my own preconceptions as to what is moral and socially appropriate conduct, in part a matter of the economic penalties attached to those actions. In the market, decisions change "at the margin," because incentives change. Thus a shift in the penalty for tax avoidance is likely to induce some people to change their tax-avoidance activities. But it need not be true that the dominant factor that induces people to pay taxes, or to refrain from littering, is economic penalties: in many such cases the penalties are trivial and unenforceable, and social, ethical, and moral norms are much more important in determining behavior.

Thus it seems something of a stretch to blame the market system for all the social ills Hirsch attributes to it. On the other hand, Hirsch's principal point—that a set of moral and social preconceptions underlie the way in which market forces influence individual behavior—is certainly valid, as is the point that the workings of the market system itself may well tend to erode some of these preconceptions. And it is also true that economists have by and large ignored that problem, as Hirsch alleges. His argument that the market system carries the seeds of its own destruction is interesting and deserves close examination.

The market system relies on consensus in the form of legal constraints to discourage behavior that is personally advantageous but socially disruptive—speeders and embezzlers are fined or jailed, for instance. Similarly, the community obtains the desired output of common goods like public parks by collective decisions to impose taxes on all.

Hirsch argues that this system contains the seeds of its own destruction, since the personal incentive system tends to undermine socially constructive attitudes like coöperativeness, fairness, or personal morality. Enforcement costs thus tend to rise, and more resources are needed to hold disruptive activities at any given level. As a consequence, the intermediate product "costs of maintaining the fabric of society" rises, absorbing more resources and leaving fewer for the production of socially beneficial goods and services.

If society could count on community mores or religious constraints to induce people to refrain from disruptive activities, instead of having to use resources for that purpose, social welfare would be higher. Thus, internalizing these desirable behavioral norms is seen by Hirsch as a more efficient way to produce public good than having to use resources to make disruptive behavior unattractive on grounds of self-interest.

It is hard to quarrel with the general tenor of the argument. Clearly, a society in which everyone voluntarily refrains from littering, stealing, and tax evasion is more efficient than one in which billions of dollars are required to achieve the same outcome. The same argument, of course, holds for the production of goods that are public in a world rather than a national sense—protection against aggression being the obvious case in point. If no nation acted in an aggressive manner toward other nations because aggressive behavior was regarded as unethical or immoral, hundreds of billions of dollars worth of military goods and services could be dispensed with and no one would be the poorer for it.

The principal difficulty with the argument, as I see it, is not that Hirsch's portrayal of society is inaccurate but that the attempt to link the rising costs of providing public goods with the dynamics of the market system is tenuous. Moreover, it is not clear to me that human behavior has actually become more self-interested and self-centered and less socially responsible than it was in simpler times. What has happened over many decades is that attitudes toward the punishment of transgressions have shifted markedly. As a consequence of a more humanitarian view of how societal transgressors should be treated, penalties have become less draconian and thus we have made it more profitable to act in an antisocial way.

Thus, while I think it is true that the cost of producing various public goods has risen substantially, I am much less sure that it has risen because continued operation of a market-exchange economy has eroded societal norms, ethical constraints, and religious attitudes. In short, by pointing to the substitution of resource costs for internalized constraints as a way of maintaining the social fabric, Hirsch has correctly portrayed an important dimension of social welfare. But why this has taken place is something of a puzzle, and Hirsch is not persuasive in blaming it all on the market economy.

The presumption that Hirsch has identified a problem but not a viable solution is strengthened by reading the last section of the book. Here, the tight analysis of much of the book dissolves into a combination of wishful thinking and recommendations of conventional fiscal incentives—for example, the suggestion that the attractiveness of jobs that combine high pay with power and prestige be reduced by taxing pay differentials as a way of decreasing the attractiveness of scarce educational opportunities that lead to jobs that are high-paying, interesting, and at the top of the hierarchical pyramid. Similarly, Hirsch appears to call for measures designed to produce a leveling of opportunities available to members of society—the presumption being that the success of the haves, which cannot be shared by all the have-nots, would create less social tension if it were less conspicuous by way of being less successful.

One final note on a characteristic of *Social Limits to Growth* that seems to me not one of its strengths: the book is almost devoid of empirical data on actual performance of economic systems, actual distributions or changes in distributions over time, actual perceptions of well-being, or other relevant matters. While Hirsch has drawn on a few numbers gleaned from empirical or statistical studies, the gleanings are sporadic. A second shortcoming is the occasional misrepresentation of what other social scientists—particularly economists—believe. For example, I would not recognize modern wage theory in Hirsch's formulations of it.

Despite these blemishes, Hirsch has written a provocative book. It can be read with profit by anyone interested in the nature of modern industrial society, the characteristics of some of its problems, and the alternatives it may have to choose among.

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Coastal Habitats

The Coastline. A Contribution to Our Understanding of Its Ecology and Physiography in Relation to Land-Use and Management and the Pressures to Which It Is Subject. R. S. K. BARNES, Ed. Wiley-Interscience, New York, 1977. xii, 356 pp., illus. $28.50.

The primary goal of this book is to provide an ecological basis for decision-making by coastal zone managers. It is a collection of 15 chapters written by 13 British and two European scientific authorities. Each chapter attempts to summarize for a different coastal environment, such as salt marshes, shingle foreshores, and sand dunes, the following aspects of the environment: fundamental ecological and geomorphological processes; ecologically sensitive or special features and the pressures to which they are subject; methods of study; usage; and recommended conservation and management policies.

There is a wide range in the quality of the articles, with five adequately achieving the goal of the book and most of the rest falling short. The illustrations are generally abominable. Two chapters have no illustrations at all. Many chapters are dated, and some contain too much editorializing and too little data. In some instances, the authors' discussions of pollution problems are unbalanced, with overemphasis on their own pet pollutant.

Nevertheless, the book presents enough new material and stays on target successfully enough (because of the rigid format) to warrant its purchase by coastal zone managers as well as by marine scientists interested in some of the specific environments. The chapter on earth cliffs by V. J. May is the most original contribution in the book, being based in large part on May's personal experience. He presents a thoughtful, practical approach to dealing with earth cliff erosion problems. A. Nelson-Smith gives a well rounded summary of estuaries, which is accompanied by a detailed reference list of European studies. However, he tends to overemphasize oil pollution in his dis-