Introduction

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The compartmentalizing of the study of human behavior and human knowledge into separate fields of inquiry, and the segregation of scholars into these compartments, seems to be a widely acknowledged fact of scientific life. However, the separations have never been airtight, and the leakages and seepages have often been as important as the walls limiting them. Men of great talent like Hume, Mill, Pareto and Ramsey commuted comfortably from economics to philosophy, or to politics or sociology, with their talents evidently conserved in the process. Just as successful nuclear physicists have felt licensed to share with us their views on the theory of knowledge, the distinguished economic theorist in the autumn of his career has often enjoyed visits to the interface of his subject with other fields. When Sir Dennis Robertson lectured at the bicentennial celebrations for Columbia University, it was therefore expectable that he would address a question of grandeur: "What Do Economists Economize?" His unexpected answer: They economize on love.

In recent years there have been leakages from the economics compartment springing more from a curiosity to try the methods of economic analysis in other fields than from the restless talents of a versatile few. We have witnessed excursions into the theory of national defense, the axiomatics of neo-utilitarianism, the economics of crime and punishment—and it has seemed to some that the leaks from economics threaten to inundate the compartment of political science. Because the areas of competing wants within a person and conflicting desires between persons go beyond the marketplace, it is natural that economists should check to see to what extent the techniques for analyzing the market mechanism (its successes and failures) as a means of resolving such wants and desires carry over to these other areas.

One (only one) mission of the present volume is an expedition of that kind, this time into the area of altruism, of behavior actuated by a sense of others, their desires and expectations. Several of the authors here have brought the concepts of economic theory, including game theory, and sometimes the theory of other disciplines as well, to bear on the analysis of the altruistic use of scarce resources. The range of altruistic behavior, or what we commonly interpret as such, is impressive. It is sometimes exhibited (for good or ill) by sellers and buyers in the marketplace. The presence of altruistic behavior, as economic activity in general, is even more pronounced away from commercial settings. More than one half of the American population depend for their security and material satisfactions not upon the sale of their services but rather upon their relationships to others. Altruism is expressed in varied forms. It may be individual, interpersonal, and unilateral, as within the family. It may also be cooperative and multilateral, being institutionalized in agencies of government, voluntary associations or private philanthropies. If a task of economists is to illuminate the allocation of resources, then the analysis of altruistic resource use is a bridge to be crossed.

The wonderment over the phenomenon of altruism has led to several questions. Can altruistic behavior be fit into some version of the economist's beloved model of utility maximization subject to constraints? Or must that model be importantly modified and hooked up to some complementary body of analysis to yield a satisfactory product? More specifically: why, when and how do some persons behave in a way that is apparently altruistic—for what motives, under what circumstances, through what channels?

In such an analysis, it would seem important to classify the various kinds of motives behind the collection of acts that are called altruistic. Possibly some acts called altruistic are interpretable as an investment, a *quid* for some implicit and conjectured *quo*. Another polar case in the typology is the altruistic act which is an unrequited transfer; the giving provides its own gratification. There should be room too in the taxonomy for acts of altruism in which there is "nothing personal," only a generalized regard for human rights, social codes, business "ethics," and so on. This last type of altruistic behavior is perhaps best thought of as the result of additional, moralistic constraints on utility maximization rather than the result of a compulsive or superstitious utility function (in a manner of speaking).[1]

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[1] Why? Presumably a moral constraint could and might cause the consumer to fail to obey the law of "compensated" consumer demand in some neighborhoods of the (amoral) choice set. To say this, however, is not to suggest that a particular morality may not be driven out if the costs of adhering to it should come to exceed some threshold level.

There is also the where and how, the study of the occasions and vehicles for altruism. Why do we often find a good being supplied altruistically, without charge or at less than maximum gain to the supplier, while another good in the same society is supplied at the market price? What accounts for the success of some voluntary associations of potential "free riders" in providing certain goods without charge, especially when governmental mechanisms for providing like goods exist alongside? May the provision of some goods by the market or by the government spoil the reserves of altruism, as GNP may pollute water and air, a hypothesis suggested by Titmuss? Or was Robertson right that the use of competitive market processes wherever the technical requirements for their functioning are met, like the use of perfect capital markets in an economy of certainty to ration privately owned exhaustible resources over time, will really economize our limited reserves of love for uses in the ways we care about most?

These are difficult questions, and full answers to them are a long way off. The place of this volume in relation to those questions is that of a starting place where they are thought about and, in some cases, where some tentative candidates in the way of partial answers are explored. Nor is it an assumption or conclusion of the papers here that economics alone can necessarily provide answers.

The impression should not be left that this volume is another essay in academic imperialism by the queen of the social sciences—a queen who need not (or cannot) learn anything new. Thinking about the economics of altruism has contributed to the rethinking of economics. Important as the recognition of altruistic behavior may be for the explanation of certain resource allocations, especially those outside the market, altruistic phenomena are equally crucial to the functioning of markets. The adherence to certain altruistic precepts and traditions by the participants in commercial markets makes a crucial contribution to the national income and thus, very likely, to Bentham-Bergson economic welfare. The price system would work less well, and would be less widely applied, were it not that the economic agents—portrayed by the Walrasian model of the price system as flint-hearted maximizers—in fact display a decent regard for the interests of those with whom they exchange and for society as a whole.

The other mission of this volume, then, is to inquire into the economic functions served by certain kinds of altruistic behavior in the society's "production" of economic welfare. That altruism can play an economic role is a theme heralded earlier by non-economists. It was a motif of the German Historical School, as in Sombart's *Capitalism*. Among recent studies, one may cite Banfield's *The Moral Basis of a Backward Society* and Titmuss's *The Gift Relationship.*[2] It has remained for economists to scrutinize and elaborate the proposition, and to reexamine accordingly the postulates of the Walrasian model. What sorts of altruistic behavior are productive, and for what reasons?

What sorts are not productive, or even counterproductive? What are the costs of altruistic conduct? If it sometimes substitutes for law and regulation, what are the costs of the responsibility and power it thus places in private hands?

Just as the builders of the pure theory of international trade developed the welfare-economics theorem that "some" international trade is unambiguously better than none, the authors here are groping towards the elements of a pure theory of altruism which says that, for economic welfare, some kinds and amounts of altruism are better than none. It should be remarked, perhaps, that the claims made here for some altruism, like the claim for some trade, hold for a conception of economic welfare of *arbitrary* distributive bias, that is, for *any* Bentham-Bergson welfare function, $W(U_1 U_2, \ldots, U_n)$. It is, of course, a triviality that the willingness of citizens to vote redistributive taxes or the generosity of a corporation in some social cause *may*, via the resulting redistribution of goods, increase economic welfare as measured by some Ideal Ethical Observer. It is also patent that the "altruism" of conniving oligopolists and the "ethical" codes of some business associations may, by their redistributive effects, decrease the level of welfare similarly measured. The claims for altruism developed here are that certain forms of it promote economic efficiency, so that everyone can be made better off—not just that some deserving folk will be made better off at the expense of others.[3]

The attribution of that sort of efficiency function to altruistic market behavior clashes with some tenets of classical economic liberalism still clung to in some quarters today. Smith pronounced that "It is not from the benevolence of the butcher . . . that we expect our dinner but from his regard to his own self interest," and the classic liberals apparently made no room, at least explicity, for altruism in the marketplace. In our own time, many conservatives decry the doctrine of corporate responsibility and see no useful role for altruism outside the voting booth and the nuclear family. If this classical position has any foundations in economic theory, it probably rests on the neoclassical analysis of atomistic and monopolistic markets under the Walrasian postulate of perfect information and perfect foresight. In that world there is no uncertainty of the sort arising from the costs of transmitting and acquiring information about current prices, wages, rentals, the characteristics of goods, jobs, factor services

[2] Not to mention literary works such as Ibsen's *Enemy of the People* with its examination of business responsibility or Traven's *Treasure of the Sierra Madre*. Undergraduates seeing the film version of the latter often note the lecture on the labor theory of value, but its lessons on the economics of trust are its main concern.

[3] Of course, any change in morals or conventions may require an investment cost for its realization, and once effected it may cause random casualties. A cautious theorist would prefer to defend this weaker version of the thesis: the resource saving permitted by (some) altruistic behavior helps every "type" of person "over life" and "on the average"—that is, raises expected remaining lifetime utility for persons in every broad impersonal class.

and the rest; taken literally, there is not even uncertainty as to the numbers and preferences and technologies of economic agents yet unborn so the future can also be known. It is for that Walrasian world that modern mathematical economists prove the "fundamental theorem of welfare economics": A decentralized perfectly competitive price mechanism will, under suitable technical conditions and the right tax-subsidy corrections, produce a Pareto efficient allocation of resources—without benefit of altruism.

Evidently the efficiency functions of altruism depend upon an unclassical view of the conditions under which markets operate in the contemporary world.[4] Some early steps have recently been taken toward the development of non-Walrasian models of economic behavior in which the participants have to make decisions without perfect information and perfect foresight. From that more realistic view of the economic environment one sees unsafe factories and unsafe products (beyond the economical danger point), labor unions and business associations, bad debts, discrimination (of the statistical sort), gouging, extortion, and short-weighing by Smithian butchers. But in that frightening world one is relieved to see also the prevalence of altruistic behavior: a producer may advertise his product truthfully when he need not, a labor union may refrain from breaking the law when it could do so for a net gain, a producer may resist contaminating a river when he could do so without detection, a firm may elect to pay "fair wage rates" when it could exploit some workers' ignorance of wage rates and job availability elsewhere with impunity, a benevolent butcher may abstain from short-weighing. These altruistic practices involve imperfections of information and foresight in a central way: they represent the refusal to deceive through false information (truthfulness) or the refusal to mislead through concealed information (disclosure), or the refusal to test the information costs for others of investigation and prosecution (lawfulness), or the refusal to let uncertainty that others will keep their bargain discourage one's own good faith (trustingness).

The prevalence of such altruistic conduct in non-Walrasian markets contributes to their economic efficiency. Certainly it reduces the risks and anxieties of being cheated or exploited. Beyond that, it tends to improve market resource allocation by lowering the transaction costs of an informational origin that society pays in doing business and running markets. Truthfulness and disclosure by others will often avert initial misallocations and subsequent search costs; there may result a reduction in the investment of resources in gathering information necessary to achieve a given resource allocation. Lawfulness reduces the costs of protection against crime, particularly the costs of enforcing market

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[4] It is not being asserted that altruistic behavior itself requires imperfect information—whatever such a thesis might mean. And even in the classical economy, cooperation springing from mutual affection, say, might produce "economies" outside the market.

contracts and the tax system. Mutual trust in the adherence to some contract or obligation will often permit a resource allocation that is superior for everyone to any allocation reached by the noncooperative actions of distrustful individuals. Paradoxically, the presence of these altruistic virtues in the real non-Walrasian world, with its vast potential for damage and waste, may make the Walrasian perfect-information model a more accurate description than it could be if these virtues were absent. In any case, whatever the final verdict on the usefulness of altruism in economic life, as economic theorizing the efforts here belong alongside some recent developments in the pure theory of idle resources and the pure theory of money as evidence of the growing effort to build a welfare economics of the non-Walrasian economy.

The papers in Part 1 emphasize, though they do not wholly concentrate on, this second theme of the volume, the scope for altruistic codes and conduct in economic life as a means of raising economic efficiency. The applicability of the fundamental welfare theorem of neoclassical economics—the usability of markets as a decentralized allocation technique for maximizing some prescribed Bergson welfare function—rests on the neoclassical assumption that the government has perfect information and foresight from which to calculate needed corrective taxes, subsidies, etc. In the non-classical world of ignorance and uncertainty, the willingness of the public to abide by certain moral constraints permits the self-enforcement of some desirable resource allocations that could not be enforced by pecuniary incentives and legal sanctions of the government.

Kenneth Arrow considers some contributions of altruism to economic welfare, using Titmuss's investigation of the commercial system of blood distribution as a point of departure. He argues that truthfulness in exchanging goods of uncertain quality has the economic virtue of increasing the efficiency of markets when, in its absence, there would be a difference in knowledge between buyer and seller. Competitive markets for some goods would be unworkable, and indeed the whole price system would break down, were it not that these non-self-enforcing economic arrangements were supported by voluntary adherence to implicit or explicit social contracts.

Many examples of the cost savings that result from the ability to trust others to stick to rules, as well as what he calls non-rule-oriented altruism, are provided by Roland McKean. This leads him to a much-discussed question of the day, the reliance that should be placed on voluntary corporate responsibility instead of or in addition to detailed governmental regulation. If the willingness of physicians to be guided by ethical codes is a satisfactory way of reducing the information-gathering and decision-making costs we pay in the protection of our health, why may we not trust corporations to do the right things about product safety? Why not entrust them with the protection of our environment? McKean believes that the success of ethical codes has depended upon their reinforcement by enlightened self-interest—and the latter is of limited applicability. (A more sanguine tone is taken by Bruce Bolnick in Part 3.)

Even if a wholesale desire to do good in their every transaction were to sweep over the country's businesses, however, it might well do more harm than good if it were not channeled and confined to the right directions. William Baumol in his paper examines some of the dubious responsibilities that American businesses have recently been called on to assume. He concludes that the most important contribution that corporations can make in this regard is to reveal their interests and share their information in an open and forthcoming participation in the legislative process.[5]

A person's altruistic behavior may express his desire that others' welfare should be increased, or his gratification in making a gift to someone else, or his sense of obligation to others to behave that way, to use the classification suggested by Arrow. Even when these motivations can be fitted into persons' individual utility functions (the first two can), however, explaining the behavioral outcome of altruistic utility maximization is not a problem that is characteristic of neoclassical economics. There are typically strategical aspects to the interactions of altruists owing to the potential or actual uncertainty of each as to the conjectured responses of the others. In Part II James Buchanan discusses the situation of the samaritan who, if he acts pragmatically and, nonstrategically, will obtain a result that is not the most desired by him. The samaritan may be able to do better in an intertemporal setting if for a while he plays to demonstrate his strategic courage. The members of society may all be able to do better if, recognizing the interdependence among behavioral patterns, they voluntarily adhere to certain rules of individual conduct or cooperate to impose such rules. But Buchanan suspects that short-sighted pragmatic utility maximization is on the ascendancy.

The other two papers in Part 2, by the present writer and by Peter Hammond, bring out somewhat differently the role that morals may play in certain game situations. My paper considers the process of game-equilibrium growth in which each generation wishes to bequeath some capital to the next generation in an amount that depends upon its conjecture of how the consumption of its bequest will be distributed over infinitely many future

[5] Without attempting to identify their various themes, I would like to call attention to the presence of the extensive commentaries by Guido Calabresi and Thomas Nagel at the end of Part I, and the comments of the other discussants that follow the papers in Parts 2 and 3. It is presumably unnecessary to add that the remarks on each of the papers in this introduction are selective, sometimes arbitrarily so, thus not a full account or summary of them.

generations. To any given assumption that all generations commonly make about the rest point which the economy approaches, there corresponds a game-equilibrium fixed-point solution that describes the bequest behavior of any generation as a function of its current capital. But there is a multiplicity of such game solutions corresponding to the multiple assumptions that can be entertained, with internal consistency, as to the rest point the economy is headed for. The determinacy of the game-equilibrium growth path would appear therefore to require the existence of some restrictive convention, or the existence of a prevailing "ethic," that helps the players calculate what to expect of other players.

Peter Hammond studies possible cooperative solutions to somewhat different dynamic games when the infinitely many players are egoists, not altruists. The apparent charitableness of B to A and of C to B cannot be explained as a noncooperative game solution of rational egoists if C will rationally take no account of whether B was charitable before when C is deciding whether to be charitable; then B has no incentive to be charitable. Hammond shows, however, that in his "pension game" charitable behavior would be shown even by total egoists provided they share the appropriate expectations. Further, by "agreeing" to form expectations that are in their mutual interests they can achieve a solution to the game that is better for every player than the noncooperative solution.

Part 3 deals with the motives and mechanisms that underlie certain institutions of cooperative altruism. William Vickrey considers the role that public policy can play in situations where A would spend more on his pet charity if B were taxed some matching (or fractionally matching) amount for the same purpose and B would spend more on his pet charity if, reciprocally, he could force A to match (or match fractionally) his spending; it may result, then, that A and B will agree to a certain tax deductibility for their gifts to certain types of philanthropic and religious agencies. The merits of such decentralization of governmental support include savings in information costs and, as Vickrey emphasizes, the avoidance of any discriminatory "establishment of religion" such as to contravene the Constitution. The same "externalities in giving" may cause every shareowner of a corporation to vote his stock in favor of a certain sum of corporate donations despite the sacrifice of individual control over the amount and distribution of the corporate contribution.

The other two papers in Part 3 take up the explanation of the voluntary organization, particularly as a provider of public goods to its members. The "demand" for such voluntary organizations as a residual supplier of public goods not provided by the various layers of government is studied by Burton Weisbrod. He views the governmental production of certain public goods as leaving some voters undersupplied and some voters oversupplied with each public good because voters cannot arrange the lump-sum surtaxes and compensations envisioned in classically pure theory. The undersupplied are thus motivated to attempt to provide some public goods to themselves through voluntary quasi-governmental organizations.

Bruce Bolnick tackles the "free-rider dilemma" that the individuals desiring to have such a voluntary organization must overcome if the organization and its public good is actually to be supplied. It may be that each individual prefers that only the others give their efforts and money to the organization so that he can receive the benefits at no cost. However, if everyone acts in accordance with this preference the organization will not succeed. Bolnick believes that role expectations and the psychic satisfactions from heeding them may permit the formation of an organizational core. But once the organizational core is formed, who will be willing to pay to it the needed revenues? The author discusses the manner by which social influences are transmitted by the leaders to create new social costs and rewards that re-shape individual preferences even if the underlying preference orderings away from the social context are left unchanged.

According to the pure theory of altruism, prefaces like any advertisement ought to have the virtues of truthfulness and disclosure. But the limitation of space, if nothing else, ensures that many features of the papers here have been neglected or distorted. The fretful prefacer conquers this worry with the trust that the readers he may interest will want to see for themselves what the papers say.