

Caring Economics

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A New Approach to Prosperity

Caring Economics is about a new way of thinking about human prosperity. In mainstream economics, prosperity is a matter of consumption, income and wealth. By contrast, Caring Economics conceives of prosperity in terms of deeper sources of durable human wellbeing. From this perspective, people are prosperous when life is going well for them. This sense of prosperity is not restricted primarily to the gratification of individualistic material needs and wants. Beyond that, it has an interpersonal dimension. It arises from affiliative and compassionate personal relationships, a sense of social belonging, cooperative contributions to the workplace and society, and creating trustworthiness and trust. It comes to the fore when we seek to promote the happiness and relieve the suffering of others. This deep sense of fulfillment often emerges when we use our greatest abilities in the service of others.

This sense of prosperity is overlooked by mainstream economics, since it focuses on the maximization of individuals' utility, which is assumed to depend primarily on goods and services. This conception makes no contact with our hopes to end poverty, overcome injustice and create a peaceful, harmonious world.

Background: Approaching Prosperity through Traditional Economics

Traditional economics assesses humankind's prosperity primarily in terms of the growth of economic output and the decline of poverty.

Since 1950 real gross world product has increased over 11-fold, and even in per capita terms it grew more than fourfold. In the developed countries, our material living standards exceed anything that was imaginable a century ago.

Over the past two decades nearly a billion people have escaped from extreme poverty, conventionally measured as less than \$1.25 a day. That is a colossal achievement, since those who live in extreme poverty lack enough food, clothing, shelter, sanitation and health care to meet their most basic needs.

This collapse of poverty has been associated with accelerated growth in developing countries over the past two decades.

This account of material progress encourages us to find ever new ways to stimulate growth and shrink poverty. This is commonly viewed as involving substantially deregulated economic markets, with strong forces of competition among individualistic decision makers.

This material progress is commonly set against the dangers to which they are linked. Free markets not only promote rising availability of private goods, but also proliferation of externalities from public goods (like greenhouse gas abatement) and the commons (such as

ocean fish stocks). The reason is simple: Free markets compensate people adequately for the costs and benefits associated with private goods, but not those associated with public goods and the commons. The resulting market failures generate many of our growing global problems – ranging from climate change to resource depletion, from pollution to biodiversity loss, from energy security to food security, from banking crises to sovereign debt crises, and much more.

Looking towards the future, the global risks are likely to escalate. The world's population is expected to grow by another 2-3 billion people in the next 50 years, and the average income per person is expected to rise fourfold, mainly in the developing countries. The number of middle-class consumers is expected to increase by 3 billion by 2030. If these new consumers copy Western lifestyles, then the resulting worldwide economic activity may lead to irreversible environmental damage and threaten the earth's capacity to meet our food, water, energy and resource demands.

The awareness of global risks widens our conception of success by considering not only current affluence, but the sustainability of this affluence.

Furthermore, it is well-known that free markets have no way of ensuring that income and wealth is distributed equitably. Perhaps this will be known as the Age of Inequality. The inequalities come in many guises: the widening gulf between the world's richest and poorest countries, the even more rapidly widening gulf between the richest and poorest inhabitants within countries, intergenerational inequities as exemplified in Europe's protected pensioners and unemployed youth, and so on.

Many developed and emerging countries have achieved impressive success in terms of aggregate wealth accumulation, but have failed to distribute this wealth to those whose wellbeing could benefit most from it. In the United States, for example, the median earnings of full-time male workers peaked in 1973 and have declined slightly since then. Per capita American GDP, in real terms, grew by over 90 percent in this period. The bottom half the American population did not participate in this growth at all; all of this growth went to the rich Americans. For example, the net worth of the wealthiest 1 percent of American households exceeds that of the bottom 90 percent.¹ In China and other emerging economies, inequalities of income and wealth have widened dramatically over the past two decades.

Interestingly enough, in many of these countries – such as the United States and China – the rising inequalities have not led to any appreciable social conflict, largely on account of what may be called “the dream of widespread opportunity.” In the United States this is known as “the American Dream,” according to which anybody is can achieve anything, provided one is willing to exert the requisite effort and inspiration. The American Dream presupposes that the United States is a land of equal opportunity. Poor, unprivileged people are meant to have the same chances of economic success as rich, privileged ones.

There is nothing inconsequential about this dream. When much of a society dreams it, it produces a significant double dividend: it motivates people to be productive and it reduces social tensions from positional competition. If everyone has the same chances of success, then poor people have the same incentive to work hard as rich people, which leads to outcomes that reinforce the dream. While it is human nature to seek status, the dream ensures that positional

¹ Prante and Robyn (2010).

goods generate little envy. You have little reason to be resentful of another person's success if you believe that you could achieve this success yourself. If pride from relatively high economic status is accompanied by little envy, then positional quest might even promote social welfare overall.

The usefulness of the American dream is beyond question. What is at issue, however, is whether Americans are entitled to dream it. Similar questions could be asked about the inhabitants of China, India, and other emerging countries.

American family income mobility has been declining for the past forty years.² There is by now a stronger association between the education of parents and their children's success – in income, labor market position, cognitive and educational test scores, mental health and measures of good childhood behavior – in the United States than in other European countries, including not only Denmark, Sweden and Finland, but also France, Germany, and Italy. By these measures of equal opportunity, the United States also performed worse than other Anglo-Saxon countries (Australia, Canada and the U.K.).³ With complete equality of opportunity, only one fifth of the children of the poorest fifth of the population would remain in the poorest fifth. But whereas 75 percent of Danish children move up out of the poorest fifth, only 58 percent of American children do.⁴ According to a recent study of lifetime inequality in the U.S., “differences in initial conditions account for more of the variation in lifetime earnings, lifetime wealth and lifetime utility than do differences in shocks received over the working lifetime.”⁵

The American dream is not living up to reality. The impressive growth of aggregate U.S. income has bypassed those whose long-term welfare could have benefitted most from it and gone instead to those whose long-term welfare benefits least. In fact, reality is even more depressing: those who could have benefitted most have witnessed declines in their income and chances of economic and social improvement, for the sake of those who could extract the smallest welfare benefits. Unless we redefine success more inclusively, we will remain blind to these problems.

As noted, these issues are not confined to the United States. *We need to redefine prosperity more inclusively.* This is a challenge facing most countries, whether developed or developing. The main job of humanity is to help the poor meet most of their basic needs and to help the rest achieve happiness largely in other ways. Many countries have failed to heed this guideline and their public spaces are ablaze with the resulting tensions and conflicts.

The Happiness Approach

Another approach assesses prosperity in terms of how happy people say they are. The evidence gathered over the past few decades shows that material prosperity has a diminishing payoff. This is a weak form of the Easterlin Paradox,⁶ named after the American economist Richard Easterlin, who found that although people with relatively high incomes in a particular county at

² For example, Bradbury (2011, p.26).

³ Pew Charitable Trusts (2010).

⁴ Jäntti, Bratsberg, Roed and Eriksson (2006).

⁵ Huggett, Ventura and Yaron (2011).

⁶ Easterlin (1974). The strong form of the hypothesis is that happiness ceases to increase with income beyond a particular level of affluence. This has been disputed by various authors (e.g. Stevenson and Wolfers (2008)). The weak form, described in the text above, is undisputed.

a particular time report relatively high happiness, for the population as a whole, rising income through time is associated with less and less reported happiness.

The reason why a population-wide rise in income has diminishing returns on reported happiness is that people quickly become accustomed to their more affluent lifestyles. In relation to their new material aspirations, their newly accumulated wealth is no longer so thrilling. The reason why people with relatively higher incomes tend to be happier is that money buys status. But for all those who are made better off buy high status, there are others who are made worse off by low status. Thus, the quest for status has no clear-cut influence on social welfare overall.

So the pleasures of material accumulation are fleeting, continually eroded by the forces of habit and status-seeking. So, you may well ask, are these fleeting pleasures sufficient to justify the damage we do – the resource depletion, the environmental degradation, and the endless conflicts over material possessions? Why do we do this?

Based on the accumulated research of the past few decades, we can answer this question with some confidence. We persist in the pursuit of material wealth for the following reasons: (i) because we have acquired the habit of pursuing wealth and habits are difficult to break; (ii) because everyone around us is doing so as well and we have a deep-seated urge to follow others; and (iii) because we systematically overestimate the pleasure we will gain from material wealth. Buying expensive cars and designer clothing, for example, easily becomes a way of life for those who can afford it; it is an established way of gaining social standing; and it is virtually impossible to imagine how the thrill of the purchase will wear off, once we get used to our purchase and once our friends have made it as well.

The happiness approach to prosperity implies that we need to redefine success more inclusively, as discussed in many guises in this Symposium. If additional income produces less and less additional happiness, then raising the incomes of the poor becomes much more important than doing so for the rich.

The happiness approach also implies that we need to redefine success less positionally. As noted, goods demanded for status contribute little to the overall wellbeing of society.⁷

A final implication of the happiness approach is that prosperity should be redefined so as to make human cooperation more central in our daily pursuits. Nowadays we face myriads of problems because people do not cooperate sufficiently in the provision of public goods, the responsible use of common pool resources, and the support of the poor and disadvantaged. The happiness approach highlights the dangers of engaging in positional struggles. These make sense individually if we find ourselves in an environment in which status seeking activities play a socially salient role, but they may not contribute to our inclusive prosperity once all our social interactions have been taken into account. The happiness approach suggests that prosperity should be assessed not only individually but also socially. This implies that human cooperation must play a central role in generating inclusive prosperity. Unfortunately, the strict methodological individualism that governs mainstream economic analysis has blinded us to important channels that human cooperation and thereby limited the prosperity that we are able to achieve.

⁷ Frequently the losses from envy exceed the gains from pride, in which case positional goods diminish overall social welfare.

The legacy of Economics

Economists have done significant harm to public policy by defining economics as the study of how people use scarce resources to satisfy their unlimited desires. According to Lionel Robbins, economics is “the science that studies human behavior as a relationship between ends and scarce means which have alternative uses.”⁸ This conception of economics implies, first, that people’s wants are exogenously given when they make their economic decisions, hard-wired in the brains and, second, that people’s wants are necessarily unlimited.

From this perspective, it is impossible to redefine prosperity. After all, success lies in satisfying our desires and these desires are assumed to be given, outside our control. The satisfaction of these desires depends on how we use the resources at our disposal. Since our desires are unlimited, these resources are scarce. By satisfying our predetermined desires through economic markets, we respond to market prices, which mirror the resource cost of each good and service. Then our success in satisfying our desires is measurable in terms of the market value of the goods and services we use. We are, in short, locked into one definition of prosperity and one metric for measuring it.

However well-known insights from psychology and the neurosciences indicate that this conception of economics – resting on exogenously given and unlimited desires – is both misguided and harmful. It is misguided because our desires are demonstrably not exogenously given; on the contrary, they are profoundly influenced by our economic activities – working, consuming, saving, investing. When we choose to conduct these activities in a social setting that is individualistic, grasping, materialistic, competitive, and selfish, we stimulate our appetitive and competitive motivations. But when we choose to make our decisions in a more cooperative, supportive, kind and compassionate setting, we stimulate our caring motivations. Different motivations are associated with different desires. We have more choice over our desires than economists have led us to believe.

Moreover, these desires are not necessarily unlimited. Our essential material needs are limited.⁹ There is only so much food that we can eat and only so much clothing that we can wear. What is potentially unlimited are our positional desires. The struggle to outdo the others is endless. For every winner, there is a loser whose positional desires have remained unsatisfied. But we have some choice over our positional desires as well. By choosing our social setting, we can get locked into battles for power and status, or live in mutually supportive communities of care.

Our struggles to outperform and outearn our colleagues and to outconsume our neighbors ignite our drives for status and domination, but pursuing these drives need not make us happy. The overstimulation of our acquisitive, competitive, threat-sensitive motivations is bad for our long-term mental and physical welfare. Chronic anxiety, apprehension, burn-out, depression and unquenchable greed are some common symptoms. Our mental and physical health requires a balance between our acquisitive, threat-avoidant and caring motivations. In the daily business of modern capitalism, the first two motivations tend to get overstimulated at the expense of the

⁸ Robbins (1932, p.16).

⁹ They are limited with respect to our current opportunities, though they may grow when our opportunities expand. For example, our needs to avoid serious illness expand with our technological opportunities.

third. There is nothing natural or inevitable about this. By defining prosperity less positionally, centered more strongly on human cooperation, we direct our lives towards more balanced, healthy states of being.

Avenues of Human Cooperation

What are the fundamental avenues of cooperation among human beings? Going beyond the current balance all of traditional economics, we may identify six such avenues:

- First, there are what we will call *instrumental synergies*, by which we mean synergies that provide instruments whereby people can achieve their individual goals. The most commonplace of these are economic synergies arising from the division of labor in accordance with comparative advantage. Each of us produces what we are relatively good at and we then trade the resulting goods and services with one another to acquire the things we want. Furthermore, there are political synergies generated by institutions and rules that turn zero-sum games (situations in which one person can gain only at the expense of another) into positive-sum games (situations in which everyone can gain). For example, institutions such as the United Nations and World Trade Organization, and rules such as those set by the Nuclear Nonproliferation Treaty, enable nations to cooperate where otherwise they would pursue beggar-thy-neighbor strategies. Beyond that, there are social synergies generated by moral principles and social norms that also induce people to help one another to achieve individual wellbeing.
- Second, there is *direct reciprocity*. I help you if you help me. Conversely, I hurt you if you hurt me. The greater is the degree of direct reciprocity in our social groups, the more incentive each of us has to cooperate with one another. After all, benefiting another person becomes the means to achieve benefits myself. Furthermore, I am discouraged from hurting others, since I would thereby induce them to hurt me. Reciprocity reduces the opportunities to seek gains at your neighbor's expense and increases the opportunities to benefit by promoting the common good. Direct reciprocity works in groups that are sufficiently small to enable people to recognize each other and to remember past favors to repay them.
- Third, there is *reputation*.¹⁰ When I help others, I gain a reputation for being helpful. This encourages others to seek my company and help me, in the expectation that I will continue to live up to my reputation. When I harm others, I gain a harmful reputation, which induces others to avoid me. Reputation induces me to be cooperative since it gives me the means to secure the cooperation of others, far more than I have thus far cooperated with. Whereas direct reciprocity only works in small groups, the power of reputation can extend over large societies. To establish reputations, we require not only the faculties of recognition and memory, but also reliable communication networks, which come in diverse forms, from

¹⁰ This is sometimes called "indirect reciprocity."

credit rating agencies to informal gossip. Reputation also discourages me from being uncooperative, since it induces many other people to be uncooperative towards me.

- Fourth, there are *social norms of cooperation* that specify particular levels of support for members of one's social group. Following these norms commonly elicits rewards from other group members and violating the norms may elicit their punishment. The rewards and punishments may also be internal, generated by one's own sense of propriety and conscience.
- Fifth, cooperation may arise from the *repression of competition*. When members of a group have little opportunity to compete with one another, then they have little possibility of making gains at their neighbor's expense. In the absence of competition, one can make oneself better off primarily by pursuing the interests of the group. Relatively powerful individuals, or groups of such individuals, generally have a disproportionately large incentive to devote some of their resources to reduce conflict in the rest of the group.

There are many examples of this phenomenon in nature. In groups of pigtailed macaque monkeys, the dominant males have been observed to resolve disputes among lower-ranking members. When these males are removed, conflicts break out in the rest of the colony.¹¹ In human societies, the laws of crime, property and contract – suitably enforced through the police and justice systems – create a level playing field that induces people to engage in voluntary exchange. Active labor market policies and welfare measures that improve the opportunities of the disadvantaged at the expense of the advantaged may, under the appropriate circumstances, also improve social cohesion, since the more productive members of society cannot promote their welfare at the expense of the disadvantaged ones.

- And finally, there is *care and compassion*. I cooperate with you because I benefit from your happiness and participate in your suffering. My wellbeing depends positively on your wellbeing. This is a psychological synergy whereby people achieve happiness for themselves by promoting the happiness of others.

Though this phenomenon of altruism is ignored in mainstream economic analysis, it is commonplace in biology, where altruism is shown to depend on genetic relatedness. Parents, for example, have a direct interest in the survival of their offspring. Altruism can be extended to non-kin through various psychological and social processes. Our circle of altruism – the size of the social group toward which we are motivated by care – can be extended through a variety of activities, including some social norms and religious practices, as well as education and training in compassion.

¹¹ Flack et al. (2005).

These various avenues of cooperation are of course not mutually exclusive. They often operate together and are complementary with to another. For example, one tends to like altruistic people and one tends to be altruistic towards people one likes. This is a complementarity between care and reciprocity.

The main contribution of Caring Economics is to provide a framework of thought for understanding the channel of care and compassion.

The Contribution of Caring Economics

An new research program on Caring Economics of the Institute for New Economic Thinking (INET) – founded on a cooperation between the Kiel Institute for the World Economy (under the guidance of Dennis J. Snower) and the Department of Social Neuroscience at the Max Planck Institute for Human Cognitive and Brain Sciences (under the guidance of Tania Singer) – addressed these challenges by integrating knowledge from social neurosciences and psychology focusing on the interdependence of human beings and their ability to empathize and care for each other.

The research project of Caring Economics is based on a novel motivation-based computational model of decision making. Drawing on a sorrow integration of scientific knowledge derived from diverse disciplines ranging from social and motivation psychology, social and cognitive neurosciences, neuro- as well as micro-economics, this new approach to cooperation and decision making is organized around the claim that humans are subject to multiple, discrete motivational systems, associated with different decision making patterns. Based on an extensive literature review integrating biological and psychological perspectives, seven relevant motivational systems – Consumption-/Resource-Seeking, Care, Affiliation, Power-Status, Achievement, Threat Avoidance and Threat Approach are proposed. Each of these motivational systems correspond to distinct behavioral tendencies that can be characterized as self-interested, prosocial, conforming, competitive, defensive or aggressive, respectively. The model allows linking the different motivational systems to different aims (economic or non-economic) through the formulation of corresponding utility functions that in turn enable clear quantifiable predictions for behavior in psychological experiments in the context of specific game theoretical paradigms such as a common good game. Further, the activation of the different motivational systems depends partly on people's context and partly on the individual's appraisal of this context. In sum, the aim of the research program is to explore how new avenues of how psychological and neuroscientific knowledge about human motivation, emotion and social cognition can inform models of economic decision making in addressing global economic problems. In particular, the program seeks to generate a new generation of economic models that explore the opportunities for more cooperative, pro-social and sustainable economic behaviors.

The insights emerging from this research enable us to understand how our economic and social aspirations can become misaligned. It suggests that societies which focus primarily on the expansion and satisfaction of wants are ones where social prosperity may suffer. This is the sense of prosperity addressed by Barack Obama when he said, "I think all of us here today

would acknowledge that we've lost that sense of shared prosperity."¹² It is a sense of prosperity that connects us to our conceptions of the good life.

The policy implications of Caring Economics are profound. A large and rapidly growing body of evidence suggests that we automatically represent the mental and feeling states of others in our own brains and bodies and that we are thereby become affectively interconnected. But even more importantly, recent progresses in contemplative and social neurosciences have proven first evidence that our human brains are plastic and trainable not just in younger years but also later in life and not just in primary domains such as language, memory or motor actions but also in higher cognitive and social functions such as empathy, compassion, emotion regulation, attention, and cognitive perspective taking of others. These exiting findings suggest that similar to our capacity of training our body muscles through physical training, we can develop our brain and mind and by this shape our prosocial motivation and behavior. For example, some mental training studies focusing on compassion and altruism in healthy adult populations revealed that already after one week of intense training in these wholesome social emotions level of cooperation could be enhanced and this was accompanied with changes in brain functions and subjective well-being. Other studies focusing on cultivating mindfulness could show that 8 weeks of such secular mental training lead to a reduction in stress levels and an increase in other health parameters. The human brain is plastic and thus we have the potential to augment our social preferences and our cooperative motivations.

As plasticity is largest in childhood, there is a case for starting mental training already early on in schools, to assure forming an early and solid basis for secular ethics necessary to work towards a more caring society. As this mental training has also been shown to be efficient later in life, "mental gymnasiums" should also be introduced in firms and businesses, as well as in political and research institutions. Furthermore, social environments could be adapted through choice architecture and institutional design to foster cooperation and activate caring motivation.

People's potential for pro-social motivations has important implications for generating the human cooperation required to address global problems. Most global problems – such as climate change, over-fishing, financial crises, and extreme poverty and inequality – arise due to the existence of public goods, common-pool resources and poverty in the midst of plenty. Whereas mainstream economics focuses primarily on how policy makers can provide appropriate incentives and constraints for selfish, rational agents, Caring Economics involves stimulating cooperation through policies, institutions and norms that motivate the appropriate motivation systems and widening people's in-group identities in line with the global problems to be addressed.

As such, Caring Economics seeks to create incentives and institutions that will promote our motivations for altruism, compassion and loving-kindness and widen our circle of moral responsibility to include all living things. There are many ways of doing this, ranging from compassion training for school children to classes on emotional literacy, from conflict resolution workshops to reconciliation commissions, and from cross-cultural education programs to compulsory civic duty for school leavers. Policy incentives could be provided for literature, films and TV documentaries that promote empathy and understanding for stigmatized groups.

¹² Speech at Cooper Union, New York, 27 March 2008.

In encouraging pro-social motivations along these lines, the research on Caring Economics uncovers new avenues for achieving a deep sense of prosperity that includes social cohesion, as well as resistance to social injustice and environmental destruction. It points to a sense of wellbeing that extends well beyond our material concerns. It builds on the strength and breadth of our social relations and is meant to help us generate a sense of shared meaning and purpose.