N. S. S. Narayana*

On Market Operations, Robert Lane's Unhappiness and Jay Hanson's Pessimism

Arguments for and against the markets-based economic systems, for and against centrally planned regimes or for a combination of the two continue to be debated till date. Some researchers object to market operations with a view that markets are not able to deliver happiness to people at individual levels; whereas, some others think that markets' capability to bring about benefits to the society in general is rather limited. This paper argues that, markets only provide opportunities and it is for the individuals to make the best use of them. Circumstances leading to market failures do exist. However, personal weakness of individuals should not be treated as markets' inability. At macro level too, one need not be unhappy with market operations based on pessimistic beliefs. Markets have played commendable role to the benefit of the society.

"In the old days, when people were poor they lived poor. Today they live rich. I've discussed this with many wage earners in the eight-to-ten thousand-dollar-a-year class and, in most cases, they admit that almost everything they own, they don't – their automobiles, their television sets, their houses, and the furniture. Their philosophy seems to be, 'What the hell - we may be dead tomorrow !"

Groucho Marx (1963)

Introduction

One of the dominant themes of economic literature in the twentieth century has been the (un) desirability of market operations in various economies. While both the groups of protagonists, arguing for and against leaving the economies in the invisible hands of market operations, seem to have at times taken extreme positions, they are also well aware of the limitations of their arguments. The spirit of socialism versus capitalism also got intertwined to a great deal behind these arguments since socialist economists view that free markets would breed capitalism. Much discussed are the questions such as, 'can economies run without markets?', 'Why are markets needed at all ?' 'isn't planning the best strategy to bring about

* Economic Analysis Unit, Indian Statistical Institute, Bangalore

economic development ?', 'do governments need to interfere in free markets at any stage; if so when ?', and fundamentally 'do markets need to be developed when and where they don't exist to start with ?' etc.

In the twentieth century, Barone (1908) and Mises (1920) initiated the discussion of these issues. A chain of arguments and counter-arguments followed. The discussion continues even at the close of the century – as reflected in the writings of numerous economists and others. For the latest literature see Streeten (1995), Lane (1998), Hanson (1998a,b,c, 1999, 2000) etc. Meanwhile economically much has happened in various countries all over the world; viz., countries of the East-European bloc, South-east Asia, India, China and so on. And perhaps not much has happened in several other countries particularly in Africa. There is plenty to learn from these experiences.

One may feel that most parts of the already developed high-income countries (ADC, henceforth) are economically organized through well-developed markets, and can self regulate. Hence governments in the ADC may only have a minor role in interfering in market operations. On the other hand, the unorganized parts of the economy are still substantial in many of the yet developing low-income countries (YDC, henceforth). Here markets are not yet fully developed and hence governments have a major role to play and interfere in whatever markets that exist to achieve socially desirable results. Of course, one issue here is, whether market development itself leads to a transformation of the unorganized economic sectors into organized ones. Whether it is market operations or non-market operations, the concern is about the level of social welfare and efficient utilization of resources.

This paper provides in the next section a brief, but not exhaustive, review of the various arguments raised for and against market operations. We confine ourselves only to the literature that appeared in the twentieth century. In the later two sections, two recent articles – one by Robert Lane (1998) and the other by Jay Hanson (1998a, b, c, 1999, 2000) – both of them arguing against market operations – are taken up for discussion and the strengths of their arguments assessed.

Brief Review

Barone (1908) conducted a 'minute quantitative analysis' of the issue of markets, comparing the product-organization and consumption levels under two different regimes; the individualist regime (old regime) changing to a collectivist regime (new regime). He demonstrated that the levels of production as well as consumption would not be substantially different between the two regimes. Besides, under the new regime to obtain the collective maximum, the same two fundamental conditions, which characterize free competition have to be fulfilled; that is, the minimum cost of production and the equalization of price to cost of production. He concluded, "To promise increased welfare and to propose to 'organize' production and to preach about free love in the new regime is simply ridiculous nonsense." He also pointed out the enormous administrative costs involved in maintaining an army of officials whose services would be wasted in laborous bureaucratic work but not utilized in useful production activities.

Barone was followed by Mises (1920) for whom economic worth of resources is an important criterion for their optimal allocation. He argued that achieving economic efficiency under socialist regimes where all the means of production are the property of the community is an impossible task. Since monetary exchange does not exist for production goods[1] and unfinished goods, calculation of their economic worth becomes impossible. No markets means no prices, and hence no economic calculation. Without economic evaluation, success or failures of the economic changes in a socialist system cannot be apprised nor can be compared over time. Besides, when production resources are mutually exchanged among various 'syndicates' with no ownership rights and no price formations, that would not be socialization but workers' capitalism and syndicalism. For him, only private ownership provides a meaningful basis for exchange relationships among produced goods and price formation for economic calculations. With private ownership of the resources, prices as the basis of economic calculation are formed in free market dealings. Mises admits that a money based exchange system may not be free from defects. Yet he feels that nothing better is available to put

[1] Production (consumption) goods are those used in production (for consumption)

in the place of money as medium of exchange. Mises advocates a distinction between objective and subjective use values of goods; and similarly between a neutral observer's judgement of the utility of goods and judgement of the people at large participating in economic transactions. That is, consumption patterns/choices should not be imposed by someone from above. He asks, is there a way in which some kind of economic calculation might be tied up with a socialist system?

It was Lange (1936-37) who picked up the thread and argued that their is indeed a way for economic evaluation of the resources in a socialist system even though markets don't exist.[2] Planning can be substituted to perform the role of markets. Lange viewed the role of prices in a competitive economy as mere parametric function that equates demand and supply for each commodity. It is not only markets where goods are exchanged at certain prices that can achieve such equilibrium. A Central Planning Board (CPB) also can achieve it through proper planning. Lange explains how the CPB can arrive at a rational economic evaluation of the production resources. His model assumes freedom of choice in the consumers' market and labour services. Typically, there is no market for capital goods which are allocated directly by the CPB. The CPB adopts a trial and error method starting with announcement of an initial set of arbitrarily chosen prices. At these prices, the consumers exhibit their demands according to their wants and needs within their budgets. Simultaneously, the production managers stick to the stipulated rules that combine productive factors minimizing the average production costs and fix the output levels at which marginal costs of production equal the announced prices. The CPB evaluates the resulting demands and supplies of all the factors of production on the production side, and similarly, all the demands and supplies of the final goods on the consumption side. Initially, equilibrium may not result. But by iterating and revising the previously announced prices, a set of equilibrium prices can be ultimately arrived at equating all the supplies with respective demands. Thus the CPB performs the role of a market and a set of social 'accounting' prices is achieved as against market prices. In principle, a rational economic evaluation thus prevails. Lange later on argues that the process would work even if consumption choice and freedom of labour services are restricted.

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[2] Also see Lerner (1936 and 1937), and Hall (1937).

Lange (1936-37) also discussed (i) the issue of distributing the social dividends generated out of public production (the dividend levels may depend on age etc. but not on occupation category); and (ii) the issue of rate of interest and capital accumulation. The latter issue involves questions such as, how much of the social dividends should be set apart before distribution to the public ? Can it be arbitrarily decided by the CPB? Would the individuals' options with respect to future income streams be considered ?

Lange (1936-37) discredits the arguments that the state would have to have enormous information on the behaviour of the producers and consumers and that it would imply solving thousands and millions of demand – supply equations for achieving equilibrium.[3] He believed that such a trial and error procedure would work much better in a socialist economy than it does in a competitive market, i.e., the Walrasian case of competitive general equilibrium system. Right prices could be more easily found by the CPB (than by the free market) since it can directly watch the changes in quantities demanded and supplied and suitably adjust the prices accordingly.[4] In practice, free markets themselves implicitly solve these equations. In the case of planned economies without markets, computers may be utilized for solution purposes. See Lange (1967) for elaboration on free markets versus computer utilization in this context.

Practicable or not, at least at theoretical level Lange's models at the outset seemed to have completely negated Mises's arguments. However counter-arguments, some by socialist economists themselves, have been extended showing the weakness of Lange's socialist models. Dobb (1939) argued that unless some stabilizing mechanism in addition to Lange's accounting price mechanism is introduced, the socialist economic system may become unstable in an even more pronounced form than a capitalist system. Besides, fixing the output levels based on the equality of marginal cost to price may lead to large measures of unemployment; and the rate of investment that becomes necessary to avert the unemployment may turn out to be so arbitrary that it is irrational from other considerations.

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[3] Taylor (1929) had already earlier described the trial and error process of price setting in a socialist state, which was criticized by Hayek (1935) and L. C. Robbins (1934).

[4] Erstwhile East Germany seems to have actually followed somewhat a similar scheme. An institution of consumption studies monitored weekly inventories of more than 1000 items in all the government food shops and directed food-producers to adjust their production levels accordingly.

Hayek (1937) did not view the markets merely as devices for price formation. Markets also discover and disseminate economic knowledge. Each participating agent has some specific knowledge with him and markets bring such innumerable agents together and disseminate all their knowledge to the benefit of the society. A single source such as a CPB of the socialist system can never achieve this task. His arguments imply that the CPB would be overloaded with impossible tasks to perform, that too, with incomplete information. However, Joan Robinson's (1964) arguments amount to giving even more responsibility to the CPB. She points out certain weaknesses of Lange's model of market socialism. She picks up the claims of Lange-model with respect to (a) correct plan of production to ensure maximum social benefit from given resources, and (b) devolution of production decisions to promote economic efficiency. She argues that the whole beauty of the system is lost and cannot achieve the results claimed if the entrepreneurs can manipulate the sale prices of the goods while the CPB's trial and error process is going on. The Lange system can achieve the results claimed only if the CPB can straightway specify the prices, reflecting scarcities relative to demand, to the producers who would than adjust their costs accordingly. Secondly, the plans with regard to the product mix also should not be left to the free choice of the producers. The features of a free market system, which according to her only pretend to ensure consumers' sovereignty, should not be carried on into the socialist system. Instead, the socialist system should collect all the relevant information on the demand side of the consumers and plan for the product mix accordingly.

The scope and limitations of market operations have been well expounded further by several economists. Arrow (1985) provided a synthesized view of various arguments on the potentials and limits of the market in resource allocation. He recalls the two fundamental theorems of welfare economics in relation to competitive equilibrium.[5] Accordingly to the first one, as long

[5] Note that if the indifference maps and the production sets are convex, a competitive equilibrium exists, whether the markets are complete or not. The convexity is sufficient but not a necessary condition for the existence of competitive equilibrium. The two theorems of welfare economics are : (1) Every competitive equilibrium is a Pareto optimum if the markets are complete; and (2) Under certain strong economic assumptions and feasibility conditions of income / assets transfer (particularly completeness of markets and the convexty), with any Pareto optimum there is an associated endowment-distribution and a set of prices, which sustain it as competitive equilibrium. The second theorem helps to show that production efficiency and distributive equity are compatible; and the problems of efficiency and equality can be separable.

as the markets are complete, a competitive equilibrium allocates resources efficiently. If the resulting Pareto-allocation turns out to be socially unacceptable, the solution does not lie in interfering with the markets. Then it is suggested to first redistribute the endowments and then allow the markets to work freely. It can be inferred under the conditions of the two theorems that, individuals would be most benefited by the price system of exchange process under competitive markets. In other words as long as markets are complete and the convexity assumption holds, competitive markets would result in equilibrium, and covering all the possible bargains among the economic agents, do the best for the individuals. Then the questions arise : does convexity always hold true ? Are markets complete in the real world? Several important issues arise. One of them is the existence of transaction costs, which include costs of information flows across the society. Open markets provide the cheapest way of meeting the costs of these flows compared to other systems including authoritarian regimes. Admittedly, there are some features in the market economies which could cause welfare losses, like uniform rates for peak and off-peak usage of transportation, electricity etc; margins between the buyers' and sellers' prices etc. Arrow thinks that mechanisms to remove such losses may turn out to be quite costly and may cause even more welfare losses. Another issue is the ability of markets to distribute risks and uncertainty costs. Insurance and stock operations essentially distribute the risks over a wide range of agents through markets; otherwise industrialists would not be adventurous enough to engage in production activities. Similarly, in order to avoid uncertainty costs it can be shown that existence of contingency markets improves welfare. Contingent markets (not very common though) are characterized by promises to buy or sell commodities which would remain valid contingent upon the prevalence of an agreed state of the world/environment in future. Unless the economy is highly flexible in its production, contingent markets, rather than provision of public information about the future, provides for higher social welfare [see Arrow (1978) for more details]. Problems due to indivisibility, inappropriability, time and uncertainty, increasing returns to scale, externalities, public goods etc. do come in the way of the price-system achieving efficient resource allocation. These are market failures in general. In such cases, it is argued, other social devices such as government intervention, codes of professional ethics or something else may be tried. But the point remains. That is "if an

opportunity for a Pareto improvement exists, then there will be an effort to achieve it through some social device or another. In our theories and to considerable extent in practice, the cheapest way in many cases is the creation of a market; and markets do emerge." (Arrow, 1985)[6].

Two points are to be noted. One, even the neoclassical economists, the staunchest believers in free markets and state minimalism, do admit the limitations of the market systems. Second, the most common social device adopted in practice in the case of market failures is the government intervention. When should a state intervene? What should be the extent of the government intervention? Can governments succeed where markets fall? How should a government regulate markets? For example, it is a widely held view that Indian economy until recently was over and ill regulated by the government with far excessive doses of direct quantitative controls instead of utilizing price mechanism; and as a consequence consumers suffered severely.

Meade (1975) argues that the market mechanism is a foundation over which must be built a superstructure of governmental interventions and controls. Some interventions are needed simply to create an environment in which free competition can work effectively; others are needed to replace entirely the mechanism of competitive markets if that mechanism cannot operate effectively; others have an intermediate purpose, namely to modify without replacing the operation of a market price mechanism. In a similar vein, Streeten (1995) argues that governments should intervene in the markets in the process of price formation, production and finance to make markets work better for all. In other words, governments can transform markets to become user-friendly. There are other economists such as Michael Lipton who argue that it is not just failures but also the kind of success that may cause problems. If the markets thrive on inappropriate signals thrown up by unequal distribution of land, income and other assets etc., that is not desirable and must be discouraged. But it is anyway admitted that a market solution in principle need not be socially satisfactory; and precisely for that reason the interventions are called for.

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[6] See also Arrow (1974)

Usually, the efficacy of markets is judged from the point of social justice. But it may be naive to expect that whatever the markets cannot achieve, governments can do! Governments also may fail just as markets do. However, there is an important distinction to be noted between the effects of public and private sectors' failures. An inefficient monopolistic public sector unit can also force others to become inefficient. Several examples can be cited from India in this context. The public transport system in the city, Bangalore, runs so inefficiently that it forces commuters to waste their time on the roads waiting for the buses instead of taking them to their work-places/destinations in time. Several State Electricity Boards in India are known to be inefficient in generating and distributing the power. Let alone the travails of firms and factories, often farmers also face problems to get the power in time to operate their water pumps. Thus both the firms and farms are made to become inefficient producers. Such damage effects tend to be much wider in the case of public sector units (PSUs) because generally the scale of operations is much larger in the case of PSUs. If a firm in a private sector operating under competition is inefficient, it goes out of business on its own. But if a firm in the public sector is inefficient, it is rarely possible to shut it down. Neither closure nor disinvestment of the public sector units (especially the large ones) is that easy.

Frank Hahn's, (Hahn, 1984) caution is worth noting in this context. "To demonstrate the logical possibility of market failure, indeed to demonstrate that such failure actually occurs on a large scale, is not in itself a demonstration of the desirability of government intervention. For market failure is not a necessary ground for intervention – the market outcome may be associated with great injustice even when there is no market failure. Nor is such a failure sufficient ground for intervention, since it remains to be demonstrated that 'government failure' is less damaging than market failure. Hence although there may be a prima facie ground for intervention when the invisible hand fails, and no such grounds when it does not, there is some arguing and thinking to be done before a case for intervention has been clinched." Quite opposite is what Streeten (1995) argues. "There are, it is hardly necessary to say nowadays, also government failures. But equally, though less widely noticed, government failure is not necessarily an argument for the market." Yet, Streeten is not opposed to the markets. In fact he objects to the way

rational behaviour of an individual participating in the market is usually characterized by some as selfish behaviour. He correctly characterizes rationality in the sense of constancy and consistency of behaviour; and selfishness itself as irrational. However, since markets need not be kind to their victims, state intervention may be necessary. He wants, when and where intervention is the lesser evil to be decided on pragmatic experiments. Institutions that combine private initiative and enterprise with social objectives and public accountability must be designed. Exploring the possibilities for creation of such institutions, Streeten argues that the distinction between central planning and free markets is not the same as the distinction between private ownership and public ownership. He cites the examples of a "large third sector ... neither private nor public, consisting of non-governmental, non-profit organizations that draws on the voluntary energies of its members". These are the NGOs such as Red Cross, Amnesty International, Grameen Banks etc. which, covering costs of their own operations, are simultaneously accountable to the public. These are the institutions of a 'civil society' that can intervene and inhibit the mutual weakening and undermining that is often found to exist between governments and the markets.

Thus the arguments for and against markets-based economic systems, for and against centrally planned regimes or for a combination of the two continue to be debated till date. In the next two sections we turn to Lane (1998) and Hanson (1998a,b,c, 1999, 2000). Both of them argue against the market operations with perspectives that differ from the above discussion. The former relates to the perspective of happiness at individual levels and the latter to the perspective of sustainability of the pace of growth and development. Thus the range between them covers micro to macro views.

Robert Lane's Unhappiness

Lane (1998), opposing market operations argues that they do not lead to happiness or subjective wellbeing even in the high-income developed countries. In his elaborate study, "The Joyless Market Economy" he claims,

(a) money is losing its power to make people happy; and

(b) the principal sources of subjective happiness / unhappiness such as job security, work enjoyment etc. are market externalities.

Markets according to him often inhibit rather than facilitate the maximization of utility. Since we plan to look at Lane's arguments somewhat critically, first a brief review of his article follows.

Lane initially considers the time-trends of "imperfect measures but quite good indicators of subjective well-being" over a fairly long period corresponding to a reasonable sample of US citizens. These indicators are basically measures[7] of the responses from the people to questions such as, in general

Are you very happy / pretty happy / not too happy ?

How do you feel about your life as a whole ?

Is your marriage very happy / Pretty happy / not too happy ?

Are you very / moderately / satisfied, or a little / very dissatisfied with your work ?

Are you pretty well / more / less / not at all satisfied with your financial situation ?

How much (very great deal / great deal / quite a bit / a bit / a fair amount / some / a little / none) satisfaction you get from the place where you live in ?

The time plot of the overall measure of the subjective wellbeing (SWB) derived from the first two question above covers the period 1946-90. The plots corresponding to the happiness measures in specific domains of life derived from the responses to the other four questions cover the period 1972-94. The data used by Lane were collected by some prominent social organizations as well as by some individual researchers. All these five plots show a clear declining trend over time. Overall happiness as well as happiness in specific domains of life has been consistently falling over time for the

[7] We believe, over some scale say 0 to 10, or 0 to 100.

US citizens. Along with this, Lane also cites some other studies to point out that (a) incidence of depression is alarmingly rising over time particularly for the youngsters of the advanced economies; and (b) the natural rate of unemployment has also been rising.

Why are these people unhappy ? Lane gives several arguments that include declining marginal utility of income and certain institutional factors. The latter include family problems, perhaps the most important. The most important reasoning he extends for the losing power of the money is the following. In economically advanced countries, above the poverty line the effect of level of income in improving the level of subjective wellbeing is weak or nonexistent. The rich, the merely comfortable, and the lower middle classes – all of them have more or less only equal levels of satisfaction with their lives. He admits however that for the poor more money decreases their unhappiness.

Based on this arguments he suggests,

"If, over most of its distribution, income has only minor effects on SWB (which is already much more equally distributed than income), the target of reform policy should be relief of poverty rather than greater income equality. And, as Scitovsky pointed out more than twenty years ago, most sources of pleasure do not go through the market. It is time to look for the major sources of 'utility' in work and social life."

One cannot disagree that SWB is more equally distributed than the income in today's world. But while admitting that for the poor more money helps, why does Lane rule out greater income equality as a policy target ? We return to this point shortly later. With regard to the second point of principal sources of the SWB being market externalities, Lane focuses on the labour and labour-market, and not on the consumer market. However, one may think that the economic content of the arguments with respect the first point (money losing power) are implicitly based on the consumer market

Lane points out several aspects. First, contrary to the general presumption, for many people work is not a disutility but can even be a source of very

great pleasure (even in market economies). Seconds' worker, satisfaction has no effect on productivity and workers are rarely compensated for any unpleasant features, hazards and dirtiness involved in the jobs. Third, high unemployment is quite compatible with market equilibrium. He cites a survey result where in response to a question as to what does money represent to them, highest percentage (78%) of them responded as security. Given that the incidence of unemployment is rising over time in the market oriented capitalist countries, people end up with job insecurity and income insecurity. Markets according to him do not deal with these issues. They also do not deal with job satisfaction for those who are employed. Getting a job, earning reasonable pay, enjoyment of the work, security of the job etc. are all incidental. As far as their relation to market operations are concerned, they are simply externalities. Thus he argues, "...market economies can no longer count on increased income to 'maximize utility' and have no endogenous interest in or power to cope with many of the sources of unhappiness, and in more extreme cases, of depression."

It may be rather difficult to agree with his analysis on several counts. Before proceeding further let us first note that Veenhoven (1997)'s comparative study across countries shows that people are happier in the countries with the highest unemployment rates. Veenhoven concludes that involvement in work is not always beneficial to everybody. Basically, this finding should have raised doubts regarding the comparability of happiness measures across countries.

Serious problems crop up in framing questions in surveys especially when the subject concerns personal details. Quite often tact is required in designing questions that would lead to bias-free responses that suit the purpose of the survey. If the responses are to be provided on some numerical scale, personal ability of measurement also come into picture. Besides, many aggregation problems and problems of inter-temporal comparison persist in the case of such data and the plots of happiness levels. One is not sure whether the measures of happiness / utility can be summed over across individuals. Also, the character of (un)happiness for the same individual could be vastly changing over time. For instance, an individual may be unhappy at a particular time because he has no job. The same individual may be unhappy at a later point of time that he was not promoted to a higher level in his work

place. Comparability of these two situations involves subjective evaluations. The individual may say his unhappiness is more in the latter situation than in the former. A neutral observer may however feel that lack of job brings more unhappiness than not getting a promotion. The point is, unhappiness of the people some forty years ago was in relation to a particular set of situations; and unhappiness of the people today is in relation to a different set of situations. People are different between the times; and even if the people are not different their unhappiness cannot be compared over time because the situations are different some of which may be purely personal. Finally, whether personal happiness measures can be aggregated over different individuals is doubtful. Therefore, time trend plots of such measures of (un)happiness may carry little meaning. One may also wonder, what would have been the responses of the people if they were straight away asked the question as, "do you think markets are responsible for the level of your unhappiness ?"

Next, with regard to the concepts of utility, satisfaction, happiness, welfare and SWB, one cannot be sure that they all exactly mean one and the same. Lane does not attempt definitions and distinction of these terms. However, some literature on understanding happiness has distinguished, rightly or wrongly, between them. Veenhoven (1977), for example, defines happiness as how much he (she) likes his (her) present life. Veenhoven, reporting on Easterlin's (1974) conclusion that money does not buy happiness, also states that the latter "observed that average happiness remained at the same level, in spite of a doubling of economic welfare." Thus, for some, economic welfare and individual happiness are distinct.

Economists believe that provision of basic minimum goods such as food, shelter, clothing etc. assures (more or less) a minimum SWB at individual levels. Such goods are basic necessities with an economic characteristic of income elasticity of their demand less than one. At individual level satiation occurs relatively fast while consuming / enjoying them. People do not generally eat many meals a day simply because they have enough money. However, when it comes to non-necessities or luxury goods, reaching satiation levels fast is rather doubtful. Besides, there is no guarantee that the incremental happiness is in tune with the incremental expenditure on luxury goods. The rich need money, more for sustentation of their life styles. Whereas, the poor who do not have any conspicuous life style need it for

their survival and sustenance. In the contemporary world, this aspect is also reflected in the costs of insurance. Life is filled with participation in several insurance coverage schemes – accident insurance, health insurance, theft insurance, life insurance and so on. Costs and payments denote disutility. Every insured person is currently incurring some unhappiness in terms of having to pay insurance premla to get happiness assured (or unhappiness minimized) in future. The world is becoming increasingly risky and insecure. Somewhat closely related is the aspect of costs of sophistication. When consumers buy more expensive durable and non-temperable goods (eg., CDs and DVDs instead of simple audio and video tapes), it means they are willing to pay more now for an assured happiness in future also. But whether the rise in happiness in such situations is in due proportion to the rise in the costs of sophistication, is questionable. It is not the money, but the types of commodities and expenditure that the rich indulge in, which lack the power of sustaining the happiness. The result is that, for the rich the money elasticity of happiness is less than what it is for the poor.

Thus Lane is quite right when he says more money does not mean more happiness. But he seems to have wrongly inferred that money is losing its power to bring happiness. It is not the money but the commodities that only rich usually (can afford to) buy, which have no power to sustain real happiness. Within economic sphere, money loses its power only under certain situations. (a) When commodity prices rise. Then same amount of money has less purchasing power. Also, more money need not imply more purchasing power. (b) When wrong currencies are used. No one may offer any goods against Indian Rupees in the US. (c) When our expectations fall. This is a case of asymmetric information. Here again, it may be noted that our expectations fall mostly in the case of luxury goods and services, and less in the case of necessities such as bread and butter. When expectations fail (due to bad quality of goods bought) the implicit price turns out to be higher than the prices quoted.

Money at individual level may be characterized by diminishing marginal utility. But it need not be so at the aggregate level especially when it is unevenly distributed and there are some very poor in the society. We just noted and Lane agrees that whatever money poor have, it contributes to their happiness enabling them to buy such goods which help their wellbeing. Purchasing power is what the money provides and that is what the poor do

not have adequately. They need more incomes to be free of poverty. A purely economic growth oriented strategy, without explicit redistribution of incomes, can in principle generate enough incomes and eradicate poverty. But how fast it can, is a question. For faster growth, is some inequality in incomes better than no inequality at all – is another issue. However, income redistribution can also be one of the means towards achieving the target of poverty relief to some extent (see Fig. 1.) In the real world, purchasing power is unevenly distributed. Since the money elasticity of SWB is higher for the poor, if money could be transferred from the rich to the poor, the total overall happiness in the society would only rise. For that reason income transfers or income redistribution is also pleaded for either by way of direct transfers if that is feasible, or by way of indirect transfers such as taxes, subsidies etc. Some economists have also argued that incomes need not be specifically transferred from the rich to the poor if the economic activities are such that the incomes accrue to the poor straight away during the income creation stage itself. This is a choice of techniques problem within the growth process adopted.

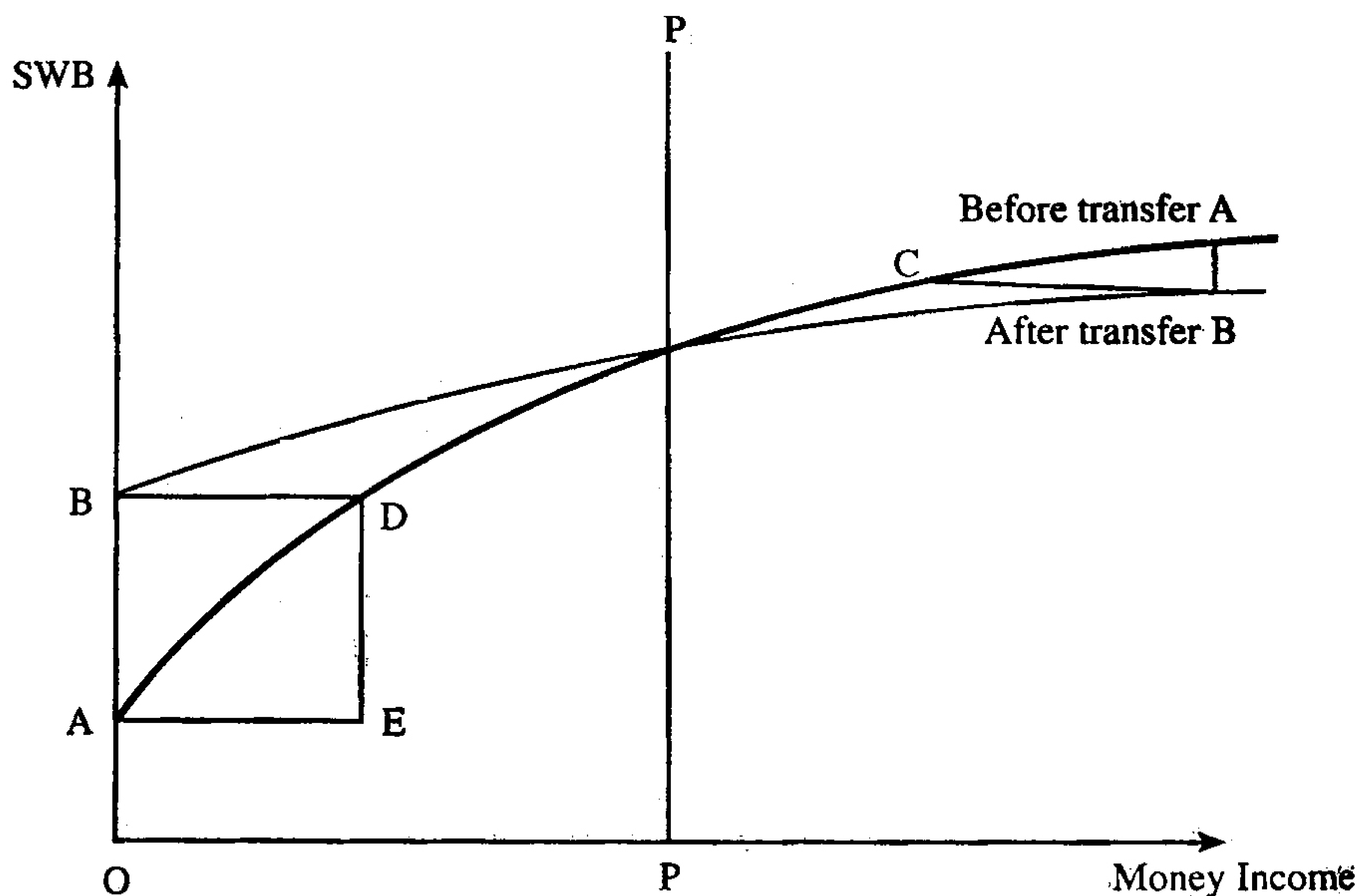

Fig. 1

Income transfers from people with income levels right of the poverty line (PP) to the people with income levels left of the poverty line, would raise the total SWB of the society. Income transfer from the rich by an amount BC to the poor (AE - bar E = BC) would cause for the rich a fall AB in their SWB which is less than the rise DE in the SWB of the poor.

Over time the commodity space has kept on increasing. Nowadays many new commodities keep appearing. For instance, computers (PCs), CDs, Cellular phones etc. were unheard of half a century ago. But now they figure in the utility functions of the individuals. Many such goods are produced with special skills in some parts of the world and transported to people all over the rest of the world. World markets and technological development hand in hand supported each other and thrived to the benefit of the societies. In the absence of markets consumers would not have been able to enjoy the benefits of not only such goods nut also medicines and other necessities. For that matter, in India the agriculture sector owes its own growth and progress as much to the development of the markets and transportation facility as to the modern technology. Farmers are able to produce to the best of their ability and to the capacity of the land only with the hope that they can indeed sell the produce that is in excess of their self-consumption. Not only the farmers' incomes have increased, but also, the numbers of starvation deaths have been checked. One special feature of this kind of phenomenon at the global level is the interdependence and realization of comparative advantage. The principle of comparative advantage is the mother of markets. Markets have developed accordingly and the world today simply cannot deny having derived great benefits from this principle as well as markets. However, a serious problem with the markets is that they are susceptible to external interference and bargaining power. Ensuring that developing countries are not unduly victimized in global markets by interference and bargaining power of the developed countries and the struggle of the World Trade Organization where the former outnumber the latter.

Now let us consider, how individual (un)happiness results – an issue that has become a serious research concern recently. We believe that people are more or less rational in their economic decision making and in spending their money. Drunkards are also rational individuals. Drinks do not come free and cost money. That drinking is injurious to health in the long run is known virtually to every drinker. Ill health is unhappiness. Then why do rational individuals, if they are really interested in maximizing their wellbeing, spend money on drinks and beverages, cigarettes, non-vegetarian food etc.? This is not really a riddle or anything. Russell (1968) explains happiness derived out of such consumption as momentary cessation of unhappiness. But such

consumption takes place even at the times of being happy. Utility, satisfaction etc. are relevant mostly in the short run – i.e., current moment, current period, and current phase of life. Overall happiness, SWB, welfare etc. are relevant mostly for the long run – i.e., for overall life. Thus, even though a poor person gets by chance a sumptuous meal on a particular day, his SWB is not considered to be reasonably good if his next meal is not yet assured. Assured by whom ? The social system has to provide for such economic conditions that he can assure it for himself forever rather than waiting for the state to provide it to him.

A poor person is rarely unhappy that he does not possess a car or some such thing, yet he is quite happy if he could buy his meal. For the rich, their happiness and wellbeing are not judged by their ability to purchase basic goods. For them, having a meal is not a source of happiness (since they are assured of it), but not having a car / TV / cell phone etc. could be a matter of serious unhappiness[8]. Therefore a right question to ask is, not whether people are happy. Almost all are unhappy over something (sometime) or the other. Instead ask, why people are not happy ? We get to know that (a) at lower income levels the causes of unhappiness tend to concentrate towards not having basic minimum goods; and (b) at higher income levels the causes of unhappiness are quite diverse. The diversity arises out of personal desires and abilities brought by the extent of money possessed.

The Indian classical literature in Sanskrit distinguishes among three types of personal abilities. These are (a) Itchhaa Sakti (Strength of will and desire), (b) Gnyana Sakti (Strength of knowledge required to achieve), and (c) Kriyaa Sakti (Strength of transforming knowledge into action). The first one indicates that the personal will must be strong enough. You can only take a horse to the river, but cannot make it drink. The second one is supposed to provide guidance on the means to be adopted in action. The third one relates

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[8] Values maintained in the society matter a lot here. Any individual is first concerned with his own assessment of his wellbeing. After he ensures this, then he becomes conscious of others' assessment of his wellbeing. These are stage 1 and stage 2 respectively. Poor rarely cross stage 1. Rich are usually born straight into stage 2. The latter consider themselves wellbeing (doing) only when their neighbours and others also consider them wellbeing (doing). If a rich person doesn't own a car / house / etc., it is a loss of prestige that causes tremendous unhappiness for him; and hence he decides to buy them whether he needs them or not. Economically, there is nothing irrational here (may be psychologically something wrong).

to the strength of the action itself. This perspective may help in understanding the fundamental causes of individual unhappiness. A person endowed with all the three abilities can manage to be happy. But any individual rarely ever possesses all the three abilities to a right extent in all the contexts of life. More importantly to be noted is that outside efforts can impart only the latter two categories of strength to an individual. Thus, education, training, employment, provision of environment etc., be they by way of market operations or non-market operations, can help an individual if only the basic will to achieve and become happy exist in that individual. Therefore, social and economic policies, which are basically external, have limitations too in ensuring individual happiness. This may answer the question that was asked – why people are unhappy ? Basically, at least one of the three abilities must be lacking or inadequate, ultimately leading to unhappiness of the individual.

Philosophers are concerned too with individual happiness and SWB[9]. Russell (1968)[10], after examining the causes of happiness and unhappiness at individual level, says, "The man who is unhappy will, as a rule, adopt an unhappy creed, while the man who is happy will adopt a happy creed; each may attribute his happiness or unhappiness to his beliefs, while the real causation is the other way round. Certain things are indispensable to the happiness of most men. But these are simple things; food and shelter, health, love, successful work and the respect of one's own herd. To some people parenthood also is essential. Where these things are lacking, only the exceptional man can achieve happiness; but where they are enjoyed, or can be obtained by well directed effort, the man who is still unhappy is suffering from some psychological maladjustment which, if it is very grave, may need the services of a psychiatrist, but can in ordinary cases be cured by the patient himself, provided he sets about the matter in the right way. Where outward circumstances are not definitely unfortunate, a man should be able to achieve happiness, provided that his passions and interests are directed outward, not

[9] The Anandavalli part of Taittireeya Upanishad discusses various kinds of happiness that a person can experience One of them is Maanusha Anandam (worldly happiness of a human being).

[10] Russell (1968) is a very elegant exposition of the issue of individual happiness. His view is that competition (personal struggle for success), boredom and excitement, fatigue, envy, the sense of sin, persecution mania and fear of public opinion are the main causes of individual unhappiness Zest, affection, family, work, impersonal interests, effort etc. are causes of happiness.

inward. It should be our endeavor therefore, both in education and in attempts to adjust ourselves to the world, to aim at avoiding self-centred passions and at acquiring those affections and those interests which will prevent our thoughts from dwelling perpetually upon ourselves."

If one were to take Russell's opinion seriously, several implications follow. If one believes only in non-market operations he would forever remain unhappy with market operations. Next, Russell also thinks that successful work is only a simple thing in life. If work is performed without self-centred passion, it is perhaps easily enjoyable. No one can believe that the circumstances in the US and other economically advanced countries are that unfortunate compared to many developing countries. Still if some people in the advanced countries are unhappy, they either may need psychiatric services or can cure themselves.

There are several national and international organizations concerned with measurement of happiness at the individual level as well as the society level based on certain social indicators. Now a World Database of Happiness is available at the Erasmus University. Apparently, the whole movement of social indicators research was born when the American space agency, NASA, wanted in the 1960s to assess the side effects of its space program and found that adequate and appropriate data on social aspects were not available. The Canadian Council on Social Development (CCSD) conducted some years ago a symposium on measuring wellbeing and developing of social indicators.[11] Experts from various countries discussed several inherent problems under such an exercise. One of the several interesting issues raised by them is, how to characterize the "wellbeing" of a society and that of an individual in that society ? Two different concepts are followed. One is the level of living approach (LLA) as adopted by the Scandinavian welfare research programs. The LLA represents social facts based on certain objective indicators (OI) independent of personal evaluations. The OI include unemployment rate, poverty, working hours per week etc. The other is the quality of life approach (QLA) as adopted by the American welfare research programs. The QLA

A lot of information in this context is available on the Internet. See for example, http://www.eur.nl/fsw/soc/database.happiness; http:/www.ccsd.ca/symre1.html;and http://www.eur.nl/fsw/research/happiness/hap_nat/reports/Nreport/NA10.HTM

represents personal happiness based on subjective perceptions and evaluations of social conditions. The subjective indicators (SI) include life satisfaction, job satisfaction, perception of distributive justice etc. The OI measure how (un) favourable are the living conditions in general compared to some normative levels while the SI are based the welfare experiences at the individual levels. The methodologies of these two approaches of welfare measurement have become controversial. The followers of the LLA do not believe in the survey questions and opinion polls of the QLA since responses to such questions can be personal idiosyncrasies. Noll (1996) considers that social indicators both OI and SI could be of importance since wellbeing results when both the objective living conditions and subjective welfare experiences are combined for good.

Be that as it may, problems do arise as already mentioned above with regard to aggregation over individuals as well as with regard to inter-temporal comparability particularly in the case of the SI. However, this criticism is not meant to discredit the importance of the research on social indicators of happiness and gathering of this kind of data. Inferences with serious implications should however not be drawn in haste based on data that are inadequate and methodologies that are weak. Researchers are in general quite aware of the limitations of the social indicators," the successes of social indicators research are to be found more in the area of general societal enlightenment than in the production of technical expert knowledge or the provision of special planning intelligence for politics. The ambitious ideas of using social indicators to contribute to a rationalization of the political process, to establish goals and priorities, to evaluate political programs, and develop an early warning system have proven to be too far from reality. In this regard, social indicators have suffered a similar fate as other scientific instruments of political decision making, e.g., cost-benefit analysis or the Planning-Programming-Budgeting System" (Noll, 1996). None of the social indicators researchers concluded (to the best of my knowledge) that running an economy as a market oriented system is responsible for the individuals' unhappiness levels. Such a linkage is perhaps far-stretches. Lane seems to have ignored Noll's caution.

Jay Hanson's Pessimism

Market based economic operations recently came under severe attack in a different context also. The particular attack came from Jay Hanson (1988a,b,c, 1999, 2000).

Hanson (1998c) convinced himself that policy economics is not empirical science and it is more of a "belief" based on false assumptions. He argues that instead of governments regulating the markets, it is the market interests that regulate the governments. Historically the market, money and advertising have remained 'uncontrollable technologies'. Hanson is not alone in his beliefs as he cites several others who also hold similar opinions.

Hanson, concerned with the energy and environmental problems, doubts whether markets can reflect at all long-term declines in natural resources such as oil, coal etc. He argues, "As the demand for oil increases, the increase in price signals oil companies to pump more oil out of the ground – which lowers prices again. The oil market has no information about the amount of oil left in the ground until production is unable to keep up with demand" (Hanson, 1998b). He terms the phenomenon as malfunction of money-price and develops a distaste towards "standard" economics as expressed in his suggestion that the "start of the new millennium is an ideal time to dump economics in the trash and invent something new."[12] (Hanson 1998b). Along with some other scholars (that he names), he too believes that a large number of America's economic problems could be solved by closing down the Chicago School of Economics.

The reason for Hanson's pessimism about markets, money, prices and the incapability of economists' analytical power in understanding the economic problems is based on certain serious differences between energy scientists and energy economists.

[12] Readers who would like to be amused in his usage of more vile language against economists may see his papers on the Internet.

Hanson's simple argument, conveyed with a lot of fervour, is as follows. For anything to be achieved, physical possibility must be ensured before economic possibility is analysed. Earth is a finite sphere. Hence it can only hold finite amounts of energy resources. Consumption of these resources implies exhaustion of these resources at some point or other. As energy resources become limited over time, the rich and powerful would buy up all the energy they need leaving out the poor. Market prices do not convey adequate information about the quantities and qualities of the extent of available resources. Economic development is primarily driven by energy resources and not by markets and prices. Modelling energy inputs using 'energy price' is different from modelling using market prices as usually done by economists (Hanson, 2000). Since the society may run out of the non-renewable resources pretty fast (i.e., 2072 at the current rates of economic growth) there could be an ultimate limited to economic growth as indicated by the calculations of a study called Limits to Growth (LTG henceforth) by the Club of Rome. Hanson (1999) points out that the usual hopes, particularly maintained by economists, are not based on adequate understanding of the energy issues, in particular the 'net energy' concept (the difference between the amount of energy generated and the amount of energy wasted in that process)

Economists are concerned too with the energy problems. However, they are in general more hopeful and optimistic. Some of them disagree with the LTG scenarios. First, they consider the non-renewable resources as neither essential for economic growth, nor as forming any special kind of capital goods (i.e., natural capital versus produced capital). While scientific research indicates enormous substitution possibilities replacing the oil, gas etc. by nuclear energy, solar energy etc., many of these new possibilities originate from renewable and inexhaustible resources (such as tar sands, shale-rock oil, solar etc.). Thus there is no need to fear that future generations would face a grave energy crisis. It is the markets, which take care of the problem. Prices do convey information about the availabilities. While feasibility aspect is taken into account, economic availability must be distinguished from the physical availability, both are not the same. Markets and prices are capable of bringing together wide knowledge and information, and would lead the future course of developing alternative energy resources.

Hanson does not agree. He derides such arguments as extended by Milton Friedman, Paul Samuelson, William Nordhaus, Robert Solow etc. According to him, the economic methodology as taught nowadays is flawed and defective "filled with idiosyncratic self-serving definitions, arcane mathematics and circular arguments which make it very difficult to understand" Hanson, 2000). He asks, why economists never test their often-made assumption of 'rationality (Hanson, 1998a). If people prove to be not rational, can the economists' normative claim for market outcomes be defended at all ? He sees the market system as only serving political interests, and possession of money as possession of social power.

Historically, not only the necessity but also profit motives led to inventions. And will continue to do so. Hopefully, costs of the new substitution possibilities would not be enormous (or they could be brought down) and one day the non-renewable resources would really cease to be essential. Markets do have a tremendous role to play here. Secondly, by arguing for limits on growth, Hanson is only arguing for postponing the inevitable. The exhaustible resources would anyway exhaust sometime in the future. If without limits on growth in 2 or 3 generations, with limits on growth they will exhaust in (say) 10 or 12 generations. A sustainable solution has to be found some time or the other anyway. In that sense, our present concern to already find alternatives can only help the future generations with our own knowledge in this regard. One hopes that the future generations will be even more knowledgeable. But still, our experiences will facilitate their task. Thirdly, whether the resources exhaust sooner or later, the need for limiting our growth and changing our life styles is anyway arising from the environmental side effects, which we are witnessing.

Conclusions

While arguing against the markets, some researchers object to market operations with a view that markets are not able to deliver happiness to people at individual levels; whereas, some others think that, markets' capability to bring about benefits to the society in general is rather limited. This paper argues that, markets only provide opportunities and it is for the individuals to make the best use of them. Circumstances leading to market failures do

exist. However, personal weakness of individuals should not be treated as markets' inability. At macro level too, one need not be unhappy with market operations based on pessimistic belief. Markets have played commendable role to the benefit of the society. International economic experiences during the twentieth century are perhaps sufficient enough 'pragmatic experiments' demonstrating this.

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