On Modernity and Wellbeing

By ODED STARK

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Understanding Change

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Edited by

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From Notes on Contributors

Oded Stark is a Professor of Economics at the Center for Development Research, University of Bonn, a University Professor and Chair in Economic and Regional Policy at the University of Klagenfurt, an Honorary University Professor of Economics at the University of Vienna, a Distinguished Professor of Economics at Warsaw University, and the Research Director of ESCE Economic and Social Research Center, Cologne and Eisenstadt. He served as a Professor of Economics (Chair in Development Economics) at the University of Oslo, and prior to that as a Professor of Population and Economics and as the Director of the Migration and Development Program at Harvard University. He has written on development economics, labor economics, population economics, international economics, urban economics, and the theory of the firm. He is the author of the critically acclaimed books *The Migration of Labor* (1991 and 1993), and *Altruism and Beyond*, *An Economic Analysis of Transfers and Exchanges Within Families and Groups* (1995 and 1999), and is the co-editor of the *Handbook of Population and Family Economics* (in *Handbooks in Economics*, 1997).

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Oded Stark

A statement that there are different types of modernity is interesting but not very useful. We would want to know which type of modernity is more supportive of, or conducive to, economic betterment, what are the conditions that yield one type of modernity as opposed to another, and whether the evolutionary path from pre-modernity to modernity is amenable to policy intervention.

The idea that there are different types of modernity – 'multiple modernities' – is not alien to economics. In economic analysis we have many dynamic systems that converge to multiple steady-state equilibria. (A steady state is a situation in which all the relevant variables completed their adjustment to exogenous changes.) We often have steady-state equilibria that are stable – perturbations around them will set in motion adjustment processes that bring us back to where we were prior to the disturbance, and equilibria that are unstable – once tinkered with, we will be thrown far off course. Do we have a similar characterization of states of modernity?

Moreover, we are also able to rank equilibria – for example a high per-capita income steady-state equilibrium as opposed to a low per-capita income steady-state equilibrium, and characterize the transition from one steady state to another. Can a similar ranking be invoked and can a characterization akin to the one we employ in economics apply to states of modernity?

Taking the view that the division of labor, specialization, and the associated needs for cooperation and coordination are major constituent elements of modernity brings us quite close to basic concepts of material development and economic growth, and hence modernity is of natural interest to economists. But in economics we would seek to know whether a particular social and organizational structure is better at coordinating, more effective in inducing cooperation, more successful at prompting and promoting trust. Note, however, that contrary to the received wisdom in contemporary social science, the proposition that people are better off in a society with trust than in a society without trust need not necessarily hold. Consider a two-players, single-shot prisoner's dilemma game with the strategies and payoffs as per Table 15.1. Both

Table 15.1

		Player F	
		C	D
Player E	C	3, 3	1, 4
	D	4, 1	2, 2

Table 15.2

		Player F	
		C	D
Player E	C	3, 3	$2^1/_2$, $2^1/_2$
	D	$2^1/_2$, $2^1/_2$	2, 2

players agree to play C which entails the highest per-capita payoff in the economy. In an economy with no trust, player E conjectures that player F will not trust him to stick to C. Player E's best response to player F's expected playing of D is to play D himself. Due to the symmetry of the game, the same reasoning applies to what player F conjectures, and so on. Thus, we end up with both players playing D. In an economy with trust, player E trusts that player F will keep his word to play C, which entices player E to choose D. Again, symmetry prompts player F to reason and act likewise, resulting in both players ending up playing D.

Interestingly, if the players were sufficiently altruistic towards each other – attaching each a weight that is a little more than 1/3 to the wellbeing of the other, and a little less than 2/3 to his own wellbeing, the economy will settle at CC. For example, if each player were to attach a weight that is a little less than 1/2 to the wellbeing of the other and a little more than 1/2 to his own wellbeing, Table 15.1 will be converted, approximately, to Table 15.2 and the economy will be at CC. If altruism is a trait, per capita income and thereby wellbeing in a society with altruistic individuals will be higher than per capita income and wellbeing in a society with trusting individuals. How does the altruism trait come to be? Which processes, institutional forms, and modes of incorporation of individuals and communities into a larger society are likely to be conducive to the evolution of altruism and cooperation? These are questions to which the multiple-modernities line of inquiry is yet to provide answers.

The argument that modernity entails expansion of the set of communities to which people belong is tantamount to stating that the onslaught of modernity brings about a substitution of a large reference group for a small reference group. This substitution raises the interesting spectre that modernity introduces new complications when it comes to the sensing of improved wellbeing. It could also explain why modern societies are characterized by both 'a culture' of political protest, and by 'a culture' of uncertainty. Suppose that an individual i whose income is 10 belongs to a small reference group in which the incomes of the other three members are 12 each. If, as for example in Stark and Wang (2000), we measure i's relative deprivation, RD(i), by the proportion of those in i's reference group who are wealthier than i times their mean excess income, we have that

$$\mathrm{RD(i)} = \frac{3}{4} \cdot \frac{2+2+2}{3} = 1.5.$$

If, while holding i's income unchanged, i's reference group expands to include one additional member with an income of 12, then

$$\mathrm{RD}'\mathrm{(i)} = \frac{4}{5} \cdot \frac{2+2+2+2}{4} = 1.6.$$

Individual i may even have an income that is a little bit higher than 10, say $10 + \varepsilon,\ \varepsilon > 0$, such that

$$\mathrm{RD}''\mathrm{(i)} = \frac{4}{5} \cdot \frac{2-\varepsilon+2-\varepsilon+2-\varepsilon+2-\varepsilon}{4} = \frac{8-4\varepsilon}{5} = 1.6 - \frac{4}{5}\varepsilon.$$

Yet, for a small enough ε,

$$1.6 - \frac{4}{5}\varepsilon > 1.5;$$

the material gain that modernity confers may not be enough to counter the increased relative deprivation and the associated feeling of eroded wellbeing that could arise from modernity's expansion of the reference group.

Drawing the attention of economists to the concept of modernity and to the process of modernization is very tantalizing. Both concept and process raise challenging questions, some of which I have sought to pose. A thorough dialogue between sociologists and economists on these and related questions is yet to begin. The study of the linkages between modernity and economics lies at the very frontier of social science research.

Reference

Stark, Oded and Wang, You Qiang. 2000. 'A Theory of Migration as a Response to Relative Deprivation'. *German Economic Review* 1, pp. 131–43.