'The extent of the market' is limited not just by transport but by trust

Partha Dasgupta, *Economics: A Very Short Introduction,* Oxford University Press, 2007

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Not so long ago, economics had a major image problem. University enrolments were down, and the public impression of an economist was of a heartless, graph-wielding, bean-counter. I am not sure if enrolments are higher today, or if economists are better liked. Yet in the publishing world, it is an undeniable fact that popular economics has become much more, well, popular.[2]

The professional reaction to this commercial popularity has not been one of uniform gratitude. One must assume a certain amount of jealousy towards the fame and fortune of the lucky first movers. Yet there is also a feeling that some of the best-sellers have trivialised economics, titillating the reader with sex and drugs while neglecting the more important insights of the discipline.

Nobody could accuse Partha Dasgupta of deepening this rut. In this *Very Short Introduction*, he has taken as his theme the original mystery of economics: the nature and causes of the wealth of nations. And he motivates the study not with unadorned GDP statistics but by comparing the lives of two young girls: Becky, who lives in an affluent American suburb, and Desta, the daughter of Ethiopian farmers. Why do two children, born so much alike, live such different lives?

The question is compelling, and presents an opportunity to explore many branches of economics, in a concrete and relevant way. Unfortunately, Dasgupta does not use it consistently. While there are many references to 'Desta's world' and 'Becky's world', these are too often brief appendages to abstract discussions of agents A, B and C and factors X, Y and Z. At times one could be reading a textbook, except there are no problem sets, fewer graphs, and the pictures are in black and white.

This is a great pity, because there is a deep, coherent and insightful argument at the core of the book.

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[2] For example, *Freakonomics* by Steves Levitt and Dubner, *The Undercover Economist* by Tim Hartford, *The Wisdom of Crowds* by James Surowiecki, *Sex, Drugs and Economics* by Diane Coyle, *More Sex Is Safer Sex* by Steve Landsberg, *Gittenomics* by Ross Gittens.

One might begin with the proposition: wealth depends on the division of labour, and the division of labour is limited by the extent of the market. But the extent of the market is not limited only by transport and taxes. It is limited also by trust: by the rules and expectations that allow cooperation for mutual gain between people who do not know each other. And these rules and expectations, particularly the expectations, are hard to build but easy to destroy. In the worst case, not just the extent of the market but its very existence is threatened.

The logic for this argument is provided by game theory. Economic life, and indeed social life more generally, depends on trust; not necessarily that people will always do unto others as they would have done unto themselves, but that most people will keep their word most of the time. But even this modest level of trust cannot be gained just by wishing for it. People must believe that the long-run benefits from successful cooperation outweigh the short-term gains from cheating. And they must believe that other people think the same and act accordingly, so that their own trust will not be abused. Both of these beliefs depend crucially on expectations of the future. If prospects for the future become less bright, or if confidence in the other party is reduced, even for trivial or fallacious reasons, the balance may tip from cooperation to conflict very quickly. This has become a cliché in Yugoslavia, Rwanda and Iraq: political uncertainty resurrects dormant divisions and peaceful neighbours become killers.

Less dramatically, such calculations may just restrict the number of people any individual can trust and trade with. The 'community' is a natural boundary: any group which people are born into (and with no easy, voluntary exit) and must deal with repeatedly for their whole lives makes the penalties for cheating higher and more certain. The family is the ultimate example, and such is its strength that it is vitally important in all societies. Yet on their own, families and communities have their limits. They are small, so they limit the division of labour. Becky's father could not trade his services as a lawyer for food and shelter within an economy of four. Their members face the same risks, so insurance is difficult — if there is no rain in Desta's village, all the farmers suffer equally. And saving and investment opportunities are more limited — storing grain is the main option for the lean season, and losses to moisture and vermin make even this problematic. In the longer run, sons are the only effective retirement plan.

Markets, on the other hand, overcome these problems by allowing much larger numbers of people to cooperate. But these large numbers cannot rely on personal ties, so establishing the necessary trust is much more difficult. This may not be a problem in goods markets — Desta's father sells grain on the local market without any problems — but insurance, credit and employment are a different matter, requiring a complicated mechanism of formal law. Man may have a natural propensity to truck, barter and exchange, but not for banking or wage labour.

While consideration of trust, and its implications for communities, markets, households and firms, is the key content of the book, other subjects are considered. It begins with a brief consideration of the history of economic growth, contains an interlude on the contrasting incentives and institutions in science and technology, and concludes with chapters on sustainability and democratic decision-making. There is little to argue with in these chapters, but they are more abstract and ad hoc, and are linked less tightly to the rest of the book than they might have been.

The *Very Short Introduction* series is advertised as being for 'anyone wanting a stimulating and accessible way into a new subject'. Stimulating, yes. Accessible? I am not so sure. Popular economics is supposedly aimed at the whole literate population, or at least the university-educated, newspaper-reading part of it. Partha Dasgupta seems to equate them with his fellow Cambridge professors and their brightest students. And it is a shame, because the intellectual content of the book, combined with the Becky/Desta device, had the potential for a truly great and accessible introduction to economics.