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*Crossroads*
ISSN 1825-7208
Vol. 5, no. 3
pp. 109-118

# *The Economy of Love and Fear* by Kenneth Boulding

Kenneth Ewart Boulding (1910-1993) had been one of the most imaginative and creative thinker of last century. Educated as an economist, distinguished professor of economics, he was also an all-round scientist and philosopher. Intellectually unbound, he wrote as much as more than one thousand writings. *The Economy of Love and Fear* (1973) represents one of his most important books. In this book, he expresses in a more comprehensive manner the theory of 'grants economics', which he already outlined in several of his foregoing writings[1]. The central idea of 'grants economics' (hereafter GE for brevity), is that exchange does not fully explain contemporary economics, emphasizing the fact that both exchange and grants are necessary to organize the fabric of a modern economic system. The book consists of a short introduction and eight chapters. The first chapter analyses the concept of grant and the micro-theory involving this. The second chapter is devoted to the macro implications of grants. Chapter 4 examines the concept of implicit grants, whereas chapter 5 deals with a theory of exploitation and the problem of legitimacy in grants.

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[1] *Boulding (1989/1992) designs the broad and complex range of interests he covered in his own writings. A full bibliography is available on the website http://www.colorado.edu/econ/Kenneth.Boulding/*

Chapter 6 jumps to the international dimension of grants and Chapter 7 is an attempt to highlight the welfare aspect of grants economics. The final chapter deals with the evolution of institutions in time, and gives some prospects about the future of world economy.

The theory of grants economics cannot be disentangled from the approach and insights on social systems expounded by the author in other writings. To Boulding, the social system can be divided into three large, overlapping and interacting sub-systems: exchange, threat and integrative system. All human institutions and relationships involve different combinations of all three. Exchange relationships constitute the usual domain of economics. In its simplest form, two parties agree to exchange something with something else, usually money with goods and services. It is commonly understood as a positive sum game in which parties can be better off after the exchange is concluded. However, it still retains co-operative and competitive elements. The threat system, in its simplest form, is also a relationship between two parties and one party is capable to affect the other party behaviour through coercion. It is summarised in the statement: "*If you do not do something (or you do) I shall do something nasty to you*". Economic activity is full of examples. It is common sense that an executive can threaten a worker of firing. The government threatens individuals of expropriation if they do not pay taxes, or a state can threaten a tariff retaliation if another state (or a group of states) does not comply with some obligations. The threat system is less productive than exchange systems simply because exchange of goods encourages the production of goods, whereas threat discourages the production of goods. To Boulding, there are several feasible reactions threatened agents can set in response: *submission*, *defiance*, *counter-threat*, *flight*, and *integrative response.* Threat systems are pervasive in many human and institutional interactions. Boulding argues that all threat systems experience a basic long-run instability. The well-known threat system of deterrence, therefore, is unstable in the long run[2]. When a breakdown in deterrence occurs the subsequent outcome could take the shape of submission or defiance. If one party decides to carry out the threat, and the other party also decides to counter-threat a feasible outcome could be the occurrence of a war.

By contrast, a more stable response to threat appears to be the *integrative* action. Using Boulding's words: "*the integrative response is that which establishes community between the threatener and the threatened and produces common values and common interest*" (Boulding 1963a: 430). Examples falling into this category of responses are more difficult to find out. It commonly appears mixed with one of the other responses: Gandhi and non-violent resistance, for instance, seem to be a mixture of defiance and integrative response. In international systems a counter-threat response might appear together with an integrative action.

The **integrative system** involves many other different concepts. Among individuals, an integrative relationship involves a complex spectrum of feelings, such as respect, love, affection and so on. It also involves other

[2] The source of Boulding's argument is the pioneering work on arms race by Richardson (1960). Boulding espoused and discussed the Richardson argument in his *Conflict and Defense* (1962). He also gave a simple explanation in Boulding (1978c).

concepts emerging between individuals as well as organisations: legitimacy, status, sense of identity, community etc. In its romantic view, an integrative relationship implies a 'meeting of minds' (Boulding 1962a: 425). In general terms, an integrative system needs a convergence and interdependence of utility functions of parties involved. An example of integrative relationship is giving a gift. To Boulding, by abstracting the pure form of giving a gift, there is neither exchange nor barter. I give you something mainly because of love, affection or sympathy. Even if integrative relationships appear to occur mainly among individuals, they also work within other scenarios. In international interactions, for example, foreign aid flowing from a richer country to a poorer one can be included into integrative systems.

Cornerstone of the integrative system is the theory of 'grants economics' which is exactly the subject of *The Economy of love and Fear* (hereafter ELF). In the first two chapter, both micro and macro theories of grants are expounded. In general terms, a grant is supposed to be a unilateral transfer from an individual, a group or a social unit to another. When it occurs, the donor agent does not receive anything in return. In a simple two-actor scenario, it involves the grantor or donor on one hand and the recipient on the other hand. Note the deep difference from the exchange system, where an agent A gives an agent B something for something else. By contrast, a unilateral transfer occurs only when there is an integrative relationship between actors. A powerful example of an integrative system could be considered the modern nation-state. On one hand, states are usually committed to provide grants in different forms to their own citizens; on the other hand, citizens are expected to pay taxes, duties and excises. In particular, *"the grants economy represents the heart of political economy, because it is precisely at the level of one-way transfers that the political system intervenes in the economic system"* (Boulding *et al*. 1972: 21). Therefore, the existence of GE is a matter of institutions which inform and govern the economic life of individuals, groups and organizations. Different institutionalized scenarios contribute to shape different economic systems. The existence, the measurement and the classification of grant elements in modern economics ought to be considered as pivotal element in the regular framework of economics.

Grants can take different shapes. Grants can be either 'negative' or 'positive'. That is, negative grants imply that the utility of *grantee* diminish instead of increasing. Using Boulding's words *"Negative grants, unfortunately, are still an important element in the world system, especially in international system where the defense industries of the various countries are mainly concerned with producing the capability of making of negative grants to other countries"* (Boulding 1973: 22). Negative grants are costly for both actors. First the 'negative' grantor employs an amount of resources that could be employed in productive activities. Secondly, the recipient actor 'the grantee', is expected to suffer an injury.

Chapter 4 deals with the concept of 'Implicit grant'. In Boulding's definition, *"implicit grants may be defined as redistribution of income or wealth that takes place as a result of structural changes or manipulations in the set of prices and wages, licenses, prohibitions, opportunity or access"* (Ibi.: 49). A first example of implicit grants is monopoly. It is expected to distort the distribution of income in favour of monopolist. Hence, it can be interpreted as an implicit grant towards the monopolist, given that consumers are obliged to pay higher prices of monopolized commodity. Consider also a tariff. Once a tariff is levied, it is intended mostly to favour some home producers negatively affecting both consumers and foreign producers.

Chapter 5 deals with the theory of exploitation. It is strictly linked with a threat lacking of legitimacy. In Boulding's words, *"I propose a working definition of exploitation as a grant or one-way transfer of an exchangeable, whether explicit of implicit, that is regarded by the grantor at least as illegitimate. I have used this definition rather than the narrower one of the grants made under coercion or under threat, even though coercion is a very significant source of the sense of illegitimacy"* (Ibi: 63). The concept of legitimacy is useful for Boulding to bring light on the difference between socialist and capitalists societies.

Building bloc of Boulding's approach is the idea that the threat systems, the exchange systems and the integrative systems do not occur in pure form. Each situation can contain elements of more than one system. The nation-state also offers plenty of examples of hybrid relationships. Take again taxes and transfers: the government threatens individuals of expropriation if they do not pay taxes; individuals pay taxes, both under threat and also trusting the state administration to provide some public goods (that is, there is a form of exchange). Hybrid relationships also emerge in international scenarios. Consider again foreign aid. It is supposed to be a unilateral transfer provided to address issues of poverty and development. It does, but it is also designed to pursue foreign policy objectives of donor countries. In many cases the recipient country is expected to comply with some political 'obligations' in return. Then, it is possible to roughly classify institutions, regimes, organisations in regard to the proportions of threat, exchange and integrative elements they involve. Boulding creates a 'Social Triangle'[3] to illustrate these proportions. At any inner point, say A, there is a interconnecting of three systems. The closer is point A to the apex 'threat' the more threat there is and so on.

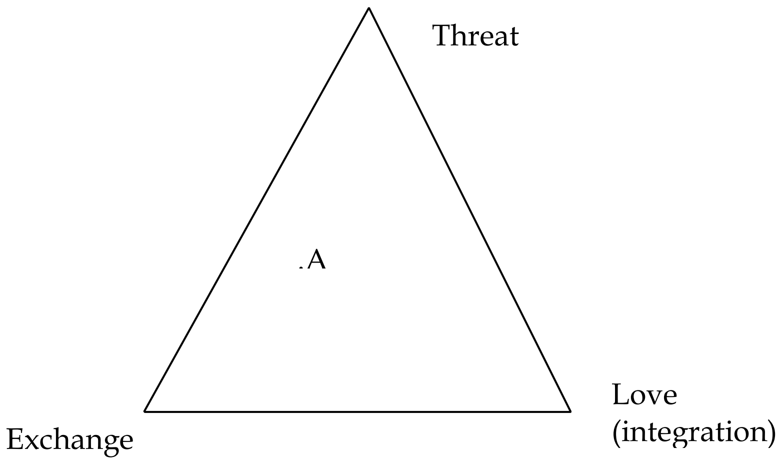


**Figure 1. Kenneth Boulding's social triangle**

The last chapter exactly describes the importance of such triangular diagrams taking into account also the aspect of possible evolutions of different

[3] Boulding presents his Social Triangle both in Boulding (1973, p.107-109) and in Boulding (1985a, p. 85-87).

institutions. Finally, it also deserves attention to some points for the future of the world economy.

The complex bundle of intuitions included in the ELF shockingly jumps in the very modern debate of current economic science. In recent years theories and analyses have been extended beyond the realm of conventional domain of economics, namely the behaviour of firms and consumers in both micro and macro aspects. Many modern economists actually stress the role of institutions as the "rules-of-the-game" governing economic interactions. The rules of the game do change and modify choices and behaviours of economic agents affecting processes of growth and development. Then, the rules of the game also shape incentives and disincentives occurring in any society.

However, what is hard to pin down is a comprehensive theory on how institutions emerge, survive and evolve. The theory of grants economics contributed to this debate thirty years ago. It sheds light on two peculiar aspects of institutions. Firstly, grants, that is 'one-way' transfers, shape the impact of institutions on behaviour and choices of individuals and organizations. Secondly, the richness of the intuition is also confirmed when considering that different sources of 'one-way' transfers do exist. This is exactly the major point in Boulding's book. It is also the most fruitful reflection given that different sources of grants evolve in different incentives, and eventually different norms and institutions. Consider that this line of theoretical analysis, which considers the interaction between threat, exchange and integration from the beginning, can have remarkable implications for the designing of economic policies in societies where the threat system is a founding feature. Consider for instance the case of post-war societies, some LDC countries or mafia-infiltrated states.

Eventually, ELF, as well as other writings by Boulding, avoid strict theoretical and empirical analyses. It is constructed upon narrative stories and intuitions drawing heavily from simple and ordinary-life examples. Boulding's style is often naïf and imaginative unprone to classical scholarly publications. However, Boulding's intuitions deserve a new attention and a deep rediscovering.

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