Saving is a fine thing. Especially when your parents have done it for you.

Winston Churchill

Does Man Have Altricial Young?

- an observation on the Modigliani's life-cycle hypothesis

Thomas Stanley and William Danko, authors of the book *The Millionaire Next Door*, have studied lives of American millionaires and they came to the conclusion that "the large majority of these millionaires are not the descendents of the Rockefellers or Vanderbilts. More than 80 percent are ordinary people who have accumulated their wealth in one generation."[1] And some pages further the authors come to other interesting conclusions: „… in general, the more money adult children receive, the fewer they accumulate, while those who are given fewer money accumulate more."[2]

This can be seen as the American conception of an early independence and absolute self-reliance or realization of the American dream. But wasn't this self-reliance of children who weren't given a lot achieved through loans? Biologically speaking man as a mammal has so called altricial young[3] they aren't able to take care of themselves. Translated into the economic language: requirements and financial demands of a man don't correspond in terms of time with his financial gainful possibilities and then one cannot do in life without loans.

This (maybe a little "rough") comparison with altricial young probably would be refused by the supporters of the Austrian school of economics which refuses finding parallels in natural sciences for the needs of the social sciences (i.e. economics as well) because the behaviour and decision making of individuals is controlled by their subjective preferences rather than natural laws. But let us stay by this analogy for a while.[4] After all, at the beginning of the development of economic thought there was Fable of the Bees (1714) by Bernard de Mandeville (1670 - 1733), i.e. inspiration from nature.

People since time immemorial realized the fact that the financial and material requirements of a man don't correspond in terms of time with his gainful possibilities. This was described in economics by American economist of Italian origin Franco Modigliani (1918 - 2003), Nobel laureate in economics in 1985. Where the social conditions enabled it (and it wasn't only in the rich aristocratic or bourgeois families) parents within the bounds of possibility saved for their children for their start. They starting to stand on their own two feet didn't have to run into debt thanks to the savings they have got from parents. And because they in period when they were on the top of their work capacities and gainful possibilities didn't have to pay off debts from the youth they ware able to save to the start for their children, i.e. for the next generation.

[1] Thomas Stanley and William Danko: The Millionaire Next Door. New York, Simon Schuster Inc. 1998; 258 pp. (page 4)
[2] Ibidem, page 142 - 143
[3] In the animal kingdom the altricial young are dependent on the parents for food.
[4] On the other hand the American evolutionary biologist and sociobiologist Robert L. Trivers (*1943) in 1972 introduced the term "parental investment" defined as "any investment by the parent in an individual offspring that increases the offspring's chance of surviving (and hence reproductive success) at the cost of the parent's ability to invest in other offspring".

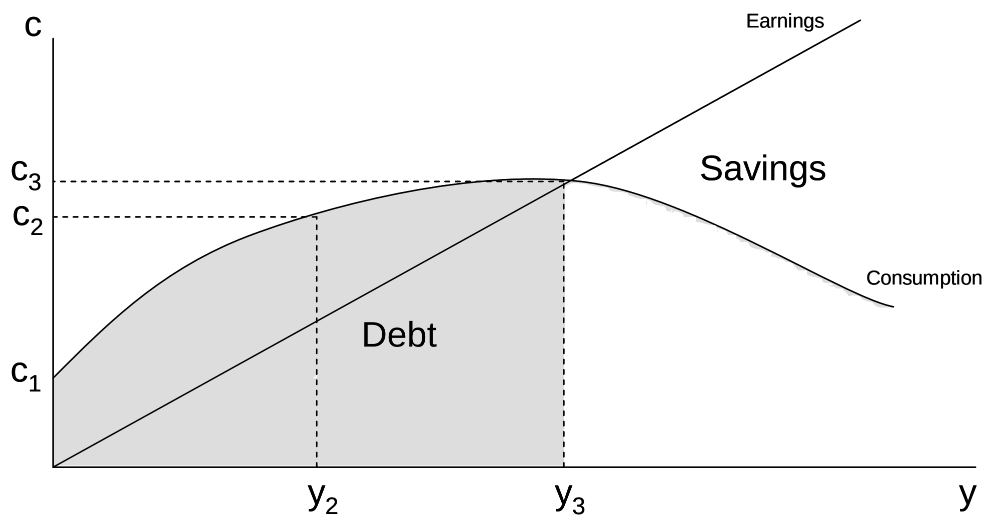

Figure 1 Modigliani's life-cycle hypothesis

There in Eastern Europe the debt of population isn't yet as large as in Western Europe and in U.S., but we are getting to the point when the current young generation gets from the parents either no savings or savings arisen in the eighties and in the early nineties and its purchasing power is depreciated by inflation.[5] The inflation, which puts savers at disadvantage and debtors at advantage, demotivates from saving and supports consumerism and debauchery on credit.

There are also opinions that the opposite phenomenon, namely deflation,[6] is an undesirable phenomenon to the same extent as the inflation. Not because the decelerating inflation causes unemployment over the natural rate, but because as inflation causes another inflation, so deflation causes another deflation. Falling prices lead the manufacturer to postpone the purchase of raw materials and the final consumers to postpone the shopping. The buyers succumb to the impression, that the good will be a little cheaper after a certain time. The only asset of deflation is maybe the reward for savers whom inflation mostly depreciates their savings, because the interest rate usually doesn't compensate the inflation. Deflation reallocates the wealth strongly in favour of a creditor who receives back more valuable currency.

Logically, it should be valid that a purchase on credit is after accounting the interests on loans ultimately more expensive. But nowadays debts are wiped out by destroying the value of money. "With continuing rising prices future money is always cheaper than present. Debts thus become investments."[7] Is it still valid that households have savings and lend them through banks to them who have investment opportunities on which the nature of functioning of the economic system is based? Or do the banks make a living more from the instalments of

[5] These savings arose from labour in the technologically backward economy with a low capital participation that would increase the labour productivity and from this point of view the depreciation - compared to the values of goods from economically developed world towards which the economy in Eastern Europe in the nineties opened - is understandable.

[6] Monetarists distinguish between the benign deflation when economy grows faster than the money supply and the detrimental deflation caused by a sudden and unexpected decrease of the amount of money.

[7] Gerhard W. Ditz: The Protestant Ethic and the Market Economy. Kyklos, Vol. 33, No. 4 (1980), pp. 623-657 (p. 648)

households for consumer credits than from the instalments of the investment credits?[8] If the banks are not willing to grant credit to businesses for investments, because it is more convenient for them to finance themselves from the yields of the consumer credits of households, it's an unhealthy (and in long run unsustainable) phenomenon!

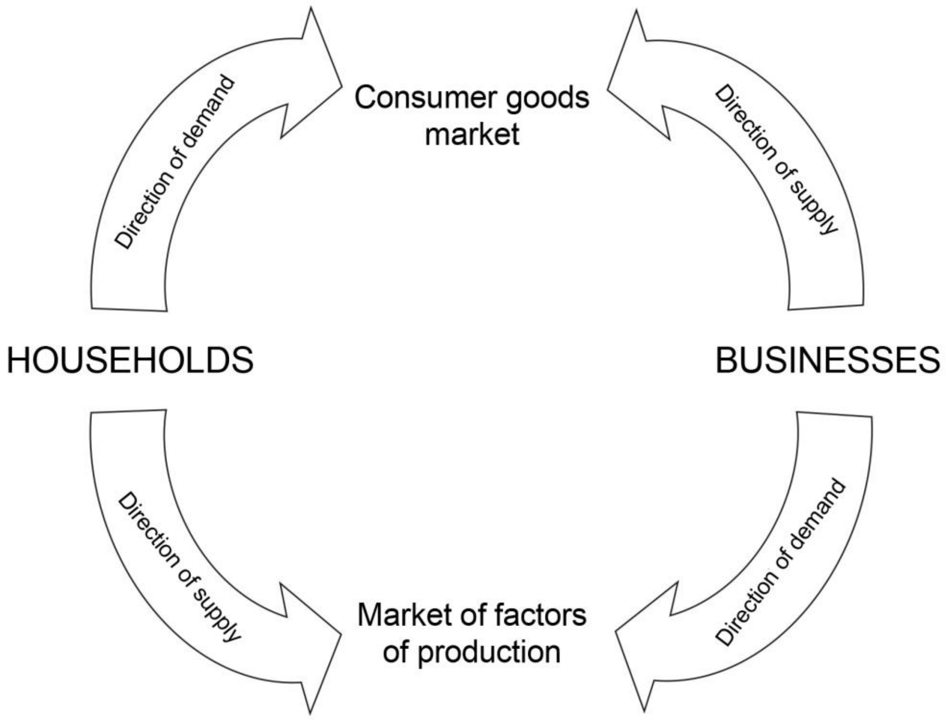

Figure 2 The simple circular flow model of the economic system

In the upshot it's the same for the bank, money as money. If, however, loans, i.e. principal and interest are paid properly! But the bank prefers debtors to pay instalments as a liability to the bank than its clients to save responsibly as a liability to the next generation of their family in order to leave them (if possible not destroyed by inflation) approximately as much as was left to them.[9] Anyhow this system would call for the minimal inflation and very long run price stability.[10] The price stability was the supreme imperative also for Ludwig Erhard, called "father" of the German economic miracle.[11]

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[8] According to the economic theory, business sector as a whole is a net debtor, which borrows from the household sector. Household sector as a whole is a net lender (creditor) who lends to the business sector. (Both belong in the private sectors.)

[9] Arabian scholar Ibn Khaldun (1332 - 1406) examining the history noticed already in 14th century that there is some kind of unwritten law of four dynasties, which causes that the prestige of one family ends after four generations. He, who created the glory of one family, knows what effort it cost to reach it, and thus keeps the founding principles. Son, who comes after him, has personal contact with his father and he learns these things from him. But he is less mindful. The third generation learns by imitation and by relying on tradition. The fourth generation loses these properties and holds everything in low esteem.

[10] "Zero inflation is a politically feasible objective." - Milton Friedman and Rose Friedman: Free to Chose – A Personal Statement. New York and London, Harcourt Brace Jovanovich 1979; 349 pp. (p. 276)

[11] Ludwig Erhard: Prosperity through competition - subchapter Price stability is imperative. London, Thames and Hudson 1958; 260 pp. (p. 73)

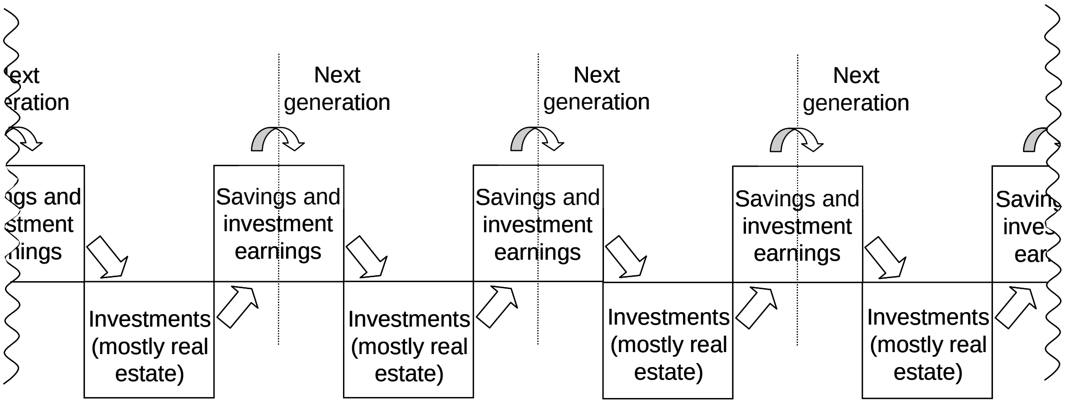

Figure 3 Altricial young model

The changeover to the model of “economically precocial young” would be probably very difficult because the current young generation usually doesn’t get a lot from the parents and in addition it would have to create something for the next generation. So there obtrudes the idea that the world doesn’t get better every day. It seems that each generation due to uncontrollable and unpredictable alternating economic cycles (which have different reasons - from technological innovation to political influence and interference in the functioning of the economy) inevitably must experience their lean and fat years.

Abstract

Even though the Austrian school of economics refuses finding parallels in the nature for the needs of the social sciences, there seems to be a pertinent parallel with the altricial young among animals and children, i.e. human babies. The material and financial requirements of a man don’t correspond in terms of time with his gainful possibilities which was described among others also by economist Franco Modigliani. In order young men not have to run into debt when starting their live their parents should do savings for them. It calls for zero inflation and very long run price stability, too.