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Speaker's Corner

Sen on Public Policy: Private Incentives, Public Virtues?¹

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In his Presidential Address to the American Economic Association in 1995, Amartya Sen discussed ways in which social decisions could be rationally reached in addressing “economic problems, including, among others, the persistence of poverty and deprivation despite general economic progress, the occurrence of famines and more widespread hunger, and threats to our environment and to the sustainability of the world in which we live” (Sen 1995:1). Sen’s work in social choice theory and welfare economics has provided a framework in which policies can be derived socially in order to address and alleviate economic problems. Sen follows “Aristotle’s general recommendation that choice should be governed by ‘desire and reasoning directed to some end’” (Ibid.). For Sen, the end-purpose of economic development is overcoming problems which make life difficult: economic problems, such as the persistence of poverty and hunger, political problems, such as the violation of political freedoms and basic liberty, and problems of maintaining the environment, among others. Existence and persistence of these problems pose a threat to the well-being of the individual members of society as well as to the very sustainability of our economic and social lives.

¹ We would like to thank anonymous referees for comments and Robert McMaster for constructive encouragement. This paper draws on the scholarly work of Hans Jensen, who, sadly, passed away before he could see this in print.

Adequate and appropriate (even “radical”) policies must be implemented for development to be achieved.

Sen, however, has been surprisingly silent on how to implement such policies; rather, he stresses the need to use appropriately aligned private incentives to attain the public good. We argue that Sen cannot have his cake and eat it, too. Private incentives may well be at odds with the public good—one need not be a rational fool to shun commitment to others and to the public good. Private incentives might be an adequate means of achieving the public good only to the extent that individuals possess an adequate degree of economic chivalry and a moral compass sufficient to guide behavior leading to collective decisions in pursuit of social goals. Economic chivalry, though, has not yet proven particularly effective in achieving the substantive freedoms for which Sen argues. We would hope to see more specific policy recommendations from Sen. Discussing Economic Development as part of Social Choice, Sen has proposed Radical Public Policies. Sen relies on private incentives to bring about development in a broad sense of the term, while we argue that he cannot have his cake and eat it too. The possibility of reconciling public interests with private incentives is not obvious.

SOCIAL CHOICE

The “widespread allergy to interpersonal comparisons among professional economists” (Sen 1973: 14; Sen 1999b), starting at least with Lionel Robbins’ 1932 essay, should be shunned says Sen. Soft-pedaling Robbins’s *tour de force* did not prove successful. At first, the efforts of economists resulted in the construction of “a so-called ‘new welfare economics’” whose Paretian parentage was unmistakable. Further work by Bergson, Samuelson, and others led directly to Arrow’s impossibility theorem which claimed that “interpersonal comparison of utility has no meaning and, in fact, that there is no meaning relevant to welfare comparisons” (Arrow 1951: 9).

Sen (1995: 9) redefines the social choice framework, vanquishing the impossibility problem, by using “richer information than in the Arrow framework.” Economists are able to judge, for example, the “size and distribution of overall achievements” (Sen 1995: 8) because “we have reasons to want to reduce deprivation, poverty, and inequality” (*ibid.*). Sen’s capability approach allows him to construct a theory of economic development and the requisite policy implications. Using the capability approach allows investigation of economic affairs and conditions in both poor and rich economies in order to identify those variables which were responsible for

improvements in the quality of life and in well-being in different countries and regions.

Achievement may be measured in terms of a person's ability "to do certain basic things," such as meeting "nutritional requirements," as well as in terms of a person's ability to realize more refined capabilities which engender sophisticated achievements. A functioning, then, is the actual thing that a person does. The combination of a person's functionings represents actual achievements, and "the capability set represents the *freedom* to achieve"—the different combinations of functionings from which a person can choose (Sen 1999a: 75). Appropriately redefining the framework and by "enriching the informational base" allows judgments about social welfare to be made (Sen 1995: 18).

ECONOMIC DEVELOPMENT

Economic growth is "no more than a means to some other objectives" (Sen 1983: 753), and these objectives include the optimal well-being of human beings, brought about through the reduction of poverty, both absolute and relative, and its causes. Development is an increase in capabilities, or in freedoms to achieve, reducing inequalities in capabilities, in consequence of the awakening of agency freedom in those who are disadvantaged. People playing agency roles activate their latent capability sets and, hence, are endowed with increased functionings. The result is the achievement of more well-being among those who suffer deprivation; the achievement of well-being also depends on the sufficient availability of primary goods. The development process is one in which agency roles, capability sets, and, hence, functionings are mobilized along with the expansion of the resource base of primary goods.

While development, leading to increased well-being, depends on appropriate policy implementation and the choice of appropriate policy targets, the development process begins with the awakening of the agent's desire to realize her "goals" in the form of "functioning achievements." Unlike capabilities, these functionings can be observed empirically (Sen 1992: 135; 1999a: 19). Life expectancy, instead of income, may be a good proxy for economic performance, as it relates "to a variety of economic influences, including epidemiological policies, health care, educational facilities, and so on" (Sen 1997: 387). Per capita gross national product (GNP) serves as a proxy for convertible primary goods, and the provision of health care and education are indices of capability promoting social services.

The development of much of Sen's theories has been the result of his empirical work on famines and starvation. A person's capability set, such as

meeting nutritional requirements, depends on “the entitlement relations that govern possession and use in that society” (Sen 1981: 154). Entitlements are the “legal means available in the society, including the use of production possibilities, trade opportunities, entitlements *vis-à-vis* the state, and other methods of acquiring food” (Sen 1981: 45). Capability deprivation occurs when people are not able to establish entitlement over adequate food, shelter, or health care. A person’s entitlement depends on 1) endowment, or ownership over productive resources, 2) production possibilities and the use and the impact of technology, and 3) exchange conditions, including the influence of, for instance, macroeconomic developments such as recessions, labor market conditions such as employment opportunities, and speculative activities which alter prices (Sen 1981: 159; 1999a:162–164). Understanding deprivation and poverty requires “an analysis of the entire economic mechanism” (*ibid.*).

Income-poor people of Kerala, China, and Sri Lanka, for instance, experience higher levels of life expectancy than inhabitants of richer countries such as Brazil, South Africa, Namibia, and Gabon (Sen 1997: 387). People in some poor countries enjoy more well-being than inhabitants of relatively more affluent countries. Sen highlighted how Chinese and Keralan male life expectancy was greater than African-American males in the USA despite the latter having a higher level of real income. Also, for example, babies born in Greece have a life expectancy of 1.2 years more than do babies born in the US, even though average income in Greece is just over half the level of average income in the US (Wilkinson and Pickett 2009: 79–80).

“Public support,” in addition to economic growth, plays an important role in achieving well being (Dreze and Sen 1989: 222; Sen 1997: 387–388). Public support included “extensive medical coverage of the population through public health services, helped by the determination of the population . . . to seek medical attention,” because of high literacy rates among both males and females (Dreze and Sen 1989: 222–223). High literacy levels also facilitated “public participation in social change and in generating public demand for social security.”

RADICAL PUBLIC POLICY

If the well-being of human beings is the purpose of economic science then how is that end to be achieved? Although Sen has, throughout his life, “avoided giving advice to the ‘authorities’” and has “never consulted any government” (Sen 1999a: xiv), he has sensible things to say about a role for government.

Comparatively high levels of well-being may be attributed to “radical public policy” (Dreze and Sen 1989: 222–224). Policy recommendations are two-tiered. Development first requires an “expansion of human capabilities” through stimulation of poor people’s (more or less latent) propensity to play agency roles. Strategic development policies must be designed to effectuate the removal of major sources of “unfreedoms.” Sources are “poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states” (Sen 1999a: 3). Development next requires that people’s entitlements should be increased because resource inadequacy is instrumental “in curtailing capabilities (that is, their role in severely restricting the choices people have to lead valuable and valued lives)” (Dreze and Sen 1998: 11).

Any intrinsic and categorical expansion of capabilities must involve a substantial expansion of “constructive public action” designed to improve people’s capacity to play agency roles. Action must be crafted to spread “economic opportunities through an adequate supportive social background” (Dreze and Sen 1989: 257; Sen 1999a: 91). Concretely, the following institutional arrangements may be listed: “health care and ... medical services”; quality “education”; regulation of the relations between employers and employees so that workers may enjoy the “dignity” that is associated with their having some degree of “control” over working conditions, working hours, and remunerations; “political and legal privilege”; “freedom ... in the conduct of social and personal relations,” such as “family relations and relations between the sexes” (Nussbaum and Sen 1993: 1). Public investment in the faculties of agents such as these spark a “process of expanding the capabilities of [disadvantaged] people” (Sen 1983: 755). Individuals would be enabled to reach successively higher functioning vectors of superior quality, as they become intellectually fit for perceiving and conceptualizing the nature, desirability, and attainability of a superior vector.

Improving capabilities ultimately can only be a partial solution to the problem of poverty as public efforts to improve human agencies run into diminishing returns if there is no increase in the availability of convertible primary goods (cf. Van Staveren 2001). Economic growth, produced principally by science and technology, will expand absorbable commodities. Technology, or “‘technique’ is ... an individually acquired and socially secured way of doing something; a science is a way of understanding how to do it in order to do it better” (Sen 1975: 11; see also Mokyr 2002). Two obstacles may hinder technology propelled economic growth in the

underdeveloped countries. First, science, scientists and all kinds of research tools and laboratory instruments may be in short supply. Second, and closely associated, “some of the major problems of technological advance in developing countries seem to arise from difficulties in the translation of science into technology” (Sen 1975: 11). Achieving growth through science and technology requires the expansion of old and new functions in the institutions of the state, including economic planning; performance of research and development activities in public institutions, and dissemination of their results, as well as support of research and development in private organizations; and the financing and organization of expanded science and technology education at all relevant levels of instruction. Increased public spending for research and development activities in both public and in private institutions and organizations must take place in order for primary goods to be increased, and the results of these activities must be widely disseminated.

PUBLIC PURPOSE AND PRIVATE INCENTIVES

“Is this not a hopeless time to write in defense of public action? The world has, in recent years, moved decisively toward unhesitating admiration of private enterprise and towards eulogizing and advocating reliance on the market mechanism.” Hence, what “chance is there of getting much of a hearing at this time for an argument in favor of more public action” (Dreze and Sen 1989: 257). While that sentiment in favor of private enterprise and the reliance on the market is still strong, as we write this today conditions have changed in some respects that might allow progress in achieving useful public action. Many countries, both economically developed and underdeveloped, have in place policies such as those recommended by Sen, making available to their citizens adequate and quality health care and education. For example, in Norway almost all spending on school education is public spending (97.8%), while in the US about two-thirds (68.2%) of all spending on school education is public spending (OECD 2004). Governments in many countries provide adequate protection to labor on a wide scale and have in place sufficient regulations of the relations between labor and their employers so that workers can exercise some control over their work life. People experience better physical and mental health when they have more control over their work, and the importance of control at work involves greater workplace democracy (Wilkinson and Pickett 2009: 249). Many countries in Scandinavia and Europe provide paid parental leave for both mothers and fathers, and programs such as these, in addition to others such as family

allowances, health care, and early childhood education, are all examples of support-led policies which generate significant returns in terms of well-adjusted, healthy, and productive adults. However, much poverty and capability deprivation remain, even in well-developed countries, including the US.

Publicly engineered, support-led expansion of capabilities fused with the likewise publicly stimulated, growth-mediated expansion of entitlements to primary goods is required for economic development in the long term. Hence, Sen emphasizes “the enormously positive role” of the state as both a deliverer of “public action” and as a coordinator of public and private undertakings (Dreze and Sen 1989: 257).

To “emphasize the vital role of public action in eliminating hunger [and poverty and unfreedoms] in the modern world must not be taken as a general denial of the importance of incentives, nor indeed of the particular role played by the specific incentives provided by the market mechanism” (Dreze and Sen 1989: 259). Public action uses “incentives” as they “are, in fact, central to the logic of public action.” (*ibid.*). Sen conceptualizes incentives in rather broad terms: “incentives that must be considered are not only those that offer profit in the market, but also those that motivate government to implement well-planned public policies, induce families to reject in-house discrimination, encourage political parties and the news media to make reasoned demands, and inspire the public at large to cooperate, criticize and coordinate” (*ibid.*). The “complex set of social incentives can hardly be reduced to the narrow—although often important—role of markets and profits” (Dreze and Sen 1989: 257, 259). Thus, while private incentives have an important role to play in achieving well being, we also “have to recognize the functions of public action and the rewards they can bring” (Dreze and Sen 1989: 259).

HAVING HIS CAKE AND EATING IT, TOO

Can Sen have it both ways? Can the public good be promoted by relying on private incentives to work? Making this claim certainly places Sen in a long tradition of thinking in economics, including Smith’s butcher, Mandeville’s bees, and others praising sweet commerce (Hirschman 1982). Indeed, as Bowles and his collaborators have shown (2005), having been in contact with markets makes people more likely to concede to and share common resources with others.

In spite of these findings, promoting the public good by using private incentives is still problematic, and assumes an overly simplistic view of both

the individual as well as of society. Private incentives tend to cater primarily to extrinsic motivations, to be fulfilled by means of material goods. Recent evidence shows that introducing incentive structures that cater to people's materialistic inclinations, so that they will behave for the good of all, can actually have the opposite effect of what is intended. Fining parents who are not diligent in collecting their children from kindergarten at the appropriate time, for instance, leads parents to feel less guilty for their bad behavior; "paying" for their misdemeanor makes these parents feel less badly about themselves when they are late. Being able to pay penitence, they will in larger numbers start picking the children up even later (Gneezy and Rustichini 2000).

People do things *Not just for the money* as well (Frey 1997)—there is a need to conceptualize individuals in far richer terms than is usually the case in economics (Davis 2003). Bringing two categorically different value domains onto the same playing field so as to incentivize people to do one thing rather than the other can have unexpected effects (cf. Van Staveren 2001; Dolfma 2009). Suddenly, people may demand substantially more than just a marginal increase in reward to supply a marginal increase in their contribution to a public good, as Le Grand (2003) argues persuasively in analyzing public policy domains such as health care and education. Le Grand (2003) and Frey (1997) explain how people such as school teachers, GPs, police officers or firemen often accept a lower material (financial) remuneration because they also feel rewarded intrinsically (non-materially). If the approach towards them changes to one where a close link between effort and remuneration is stressed, playing primarily into extrinsic motives, they may actually *reduce* their efforts. Thus, in such cases, where previously someone's contribution was partly framed as a service to society, now it is framed as a self-interested activity, and intrinsic motives are given little value. Maintaining, let alone increasing, the supply of public goods when explicitly relying on private incentives and material remuneration may then require a substantially *higher* material investment of primary goods. Given the general thrust of Sen's work, his concern for the common good, and the scope and depth of his scholarship, an elaboration by Sen of just how, and under what circumstances, private incentives contribute to the public good would be both very appropriate and most welcome.

At least when discussing the *implementation* of the radical kind of policy that he promotes, Sen too easily wants to reconcile insights from apparently opposing views of what motivates human beings. Sen has been presented an opportune time to make specific recommendations for implementing appropriate public policy and for designing appropriate private incentives

to contribute to the public good. The current economic, financial, and social crises make such actions both increasingly necessary and increasingly possible, as evidenced at least in part by discussions involving health care and other social policies in the US. Further, Sen's work on the *Commission on the Measurement of Economic Performance and Social Progress* (Stiglitz *et al.* 2009) provides an opportunity for him to discuss how best to achieve societal goals through public action. Though the recently released report of the Commission focuses on measurement only and includes no policy recommendations, a follow up report addressing policy design and implementation would be very useful. If anyone should be able to resolve the issues regarding appropriate public policy and appropriate private incentives, both necessary to achieve the public good through collective action, it is Amartya Sen. Doing so should then earn him a second Nobel Prize.

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