Reviving and Revising Economic Liberalism: An Examination in Relation to Private Decisions and Public Policy

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Abstract

The principal objective of the liberal economic tradition is to encourage mutually advantageous actions between individuals, and the best means by which to do this, according to those who follow this tradition, is a demand-led competitive market. This article summaries the propositions of the liberal economic tradition and concludes that while its components ought to be tolerated over private decision-making in order to protect individual autonomy, the demand-led competitive market provides incentives for egoistic actions that may harm groups, and by extension, the individuals within those groups. As such, it is argued that it is not sensible to introduce or maintain a demand-led competitive market in public sector services because it may undermine the pursuit of broadly agreed-upon collective goals in these sectors. The article finishes with a discussion of some alternative public sector policy mechanisms that may better serve the aim of crowding in cooperative actions and behaviours.

Keywords: Competition; Cooperation; Egoism; Governance; Liberalism; Reciprocity

Introduction

Post-War British public sector services were designed under the assumption that the professionals who worked within them were, in the main, public-spirited altruists. Over recent decades, this assumption has been challenged, principally by those who contend that there are a mix of motivational forces that are intrinsic to human nature. A primary driver, they argue, is that people are motivated by self-interest, often termed egoism, and thus public sector services ought to be designed such that any prevailing egoism is channelled to serve the public good.

This article will challenge the view that a short-sighted form of self-interest, or indeed a pure form of altruism, are sensible motivational assumptions to inform the design of public sector services and institutions. But first, to avoid confusion going forward, it needs to be acknowledged that there exist conflicting definitions of what egoism entails. The sociologist Alvin Gouldner (1960, p. 173), for instance, defined egoism as 'a salient (but not exclusive) concern with the satisfaction of one's own needs', and thus lends scope for a concern for long-term mutual self-interest to be labelled as such. Indeed, he contends (on the same page) that 'the norm of reciprocity [i.e. mutual self-interest] enlist[s] egoistic motivations in the service of social system stability' (words in brackets added).

However, it is more common to view egoism as a somewhat narrower, exclusively selfish concern for the satisfaction of one's own needs or desires. That is to say, as a highly selfish form of self-interest, with egoistic actors willing to dismiss the interests of others to benefit themselves whenever the opportunity arises. Gouldner's preferred definition of egoism includes what will be referred to throughout this article as enlightened self-interest (underpinned by mutuality, reciprocity and cooperation); the term, egoism, will be from hereon in reserved for the more avaricious tendency.

Those who adopted the view that egoism is a principal driver of human actions and behaviour when challenging the traditional perspective of altruism vis-à-vis public sector policy design were influenced heavily by the neoclassical school of economic thought (which some refer to pejoratively as neoliberalism), in which the assumption of egoism, as defined in this article, is generally seen as foundational (as it is in the standard model of rational choice). The view is that egoism in market exchange drives optimal efficiency, and by extension, competitive market incentives ought to be embedded in public sector services such as health and education. However, it is the contention here that nurturing egoism is potentially highly detrimental to these complex services, riven, as they are, by market failures. Rather, if one wants to provide favourable circumstances for public sector groupings to thrive, then the design of the environment in which they operate ought to be informed by enlightened self-interest. This argument is aided by, and thus will be offered through the lens of, the liberal economic tradition.

The article is structured as follows. First, a little background on the increased prominence of the assumption that public professionals are substantively driven by egoism (and the associated view that the introduction of demand-led competition in public sector services can take advantage of this egoism for the common good) will be given. Then, the arguments of some of those who founded and follow the liberal economic tradition will be summarised, particularly their view that demand-led competition is the best means to secure their normative objective of greater social cooperation (i.e. that demand-led competition instils cooperative, rather than takes advantage of egoistic, tendencies). The liberal economic components will be further laid out, before concluding that while these components may be acceptable for decisions within the private sphere of people's lives (and to constrain them would place too many restrictions on individual autonomy), demand-led competition risks a crowding in of egoism that might undermine the pursuit of the broadly-agreed upon goals of public sector services (contrasting with the arguments presented earlier in the article). Finally, some alternative public policy mechanisms that are informed by, and serve to crowd in, the reciprocal, cooperative tendencies that lurk within the human breast, to benefit groups and, by extension, individuals within those groups, will be presented.

From Knight to Knave

As alluded to above, democratic socialists, such as the social policy scholar Richard Titmuss, influenced substantively post-War public policy institutions, and were convinced that an altruistic tendency was the principal driver of the actions of public sector professionals.[i] Consequently, resources, collected through taxation, were allocated to public sector professionals unconditionally; it was assumed that their altruism would lead them to perform their duties to the best of their abilities, and for the greatest social benefit. By the 1980s, some were beginning to contend that a lack of competitive incentives within public sector services were a major hindrance to their performing efficiently, with perhaps the most prominent example of this line of argument offered by the American economist Alain Enthoven (1985) in relation to the National Health Service. However, it was in the 1990s that more specific arguments were made that intrinsic human motivational drivers had to align with public sector service design if one is to improve the efforts of professional service staff. The most influential of those contributing to this new field of analysis was the economist and social policy analyst Julian Le Grand.

To be clear, Le Grand (1997) maintained explicitly that in his view humans are driven by a range of different factors, including purely altruistic – or what he called, knightly – motivations. However, he contended that egoism – the preserve of the knave – is common, and that this tendency ought to be exploited by public sector service planners and policy makers to benefit the people that they serve.[ii] Le Grand borrowed his terminology from the Scottish Enlightenment philosopher (and, I would suggest, political economist) David Hume (1742/1975), who wrote that every man ought to be supposed an avaricious knave, although their solutions diverge in that Hume, via the balancing of powers, argued that avaricious tendencies ought to be controlled rather than channelled towards the social good. Le Grand's preference to shape the environment such that others' pursuit of their own egoistic interest is conducive to one's own interests appears to be more Machiavellian (1532/1997) than Humean.[iii]

In a nutshell, Le Grand's proposition was for the introduction of demand-led competitive forces in the public sector so as to motivate performance improvements. Relying entirely on pure altruism, according to Le Grand, is a recipe for inducing laziness among public sector professionals. If they are instead required to compete for purchasers and service users on the basis of criteria that are deemed to serve the public interest, their egoistic concern for their revenue streams will incentivise them to improve their services.

Le Grand's proposal recalls Adam Smith's (1776/1999) famous rendering of the butcher, the baker and the brewer, none of whom were said to rely on gratitude and a mutuality of interests in order for there to be among them an optimal exchange of goods. However, it is worth reminding ourselves that Smith's exposition focused upon simple goods. Meat, bread and beer are perhaps not prone to much market failure, particularly when there is sustained trade between the various partners. The butcher, for instance, will probably be as adept at assessing the quality of bread as the baker, and vice-versa in relation to meat. Admittedly, there may be categories of public sector services that are sufficiently simple for a socially beneficial application of demand-led competition – for example, simple literacy level indicators in infants, refuse collection, road repairs, many dental procedures, and perhaps even cataract and hernia operations. However, for more complex services that are subject to substantial information asymmetries between providers and consumers, the opportunities for supply-side egoists to exploit their informational advantages multiply (see Akerlof and Shiller, 2015). Moreover, those who succumb to their egoistic tendencies in these circumstances may drive those who might be otherwise more public-spirited to do likewise, or face difficulties in securing revenues. Indeed, allowing free scope for egoism to thrive via demand-led competition over even simple public sector services might also present problems. It is sometimes said that a constitution built for knaves will drive out knightly motivations, and there is a danger that allowing egoism free reign in one domain (e.g. over simple services) will cause people to also exercise egoism over others (i.e. the more complex services), to the detriment of most people.

All this said, Le Grand and others are surely right to question whether public sector professionals are predominantly motivated by pure altruism, since pure altruism is an uncommon human trait. One could of course make the argument that public sector professionals can be made more altruistic if the institutional design is informed by pure altruism and thus crowds in this characteristic, but this is only likely to work in a sustained sense if altruism is a fundamental driver of human behaviour that is just waiting to be revealed. People do of course occasionally undertake what are at face value unconditionally generous acts, such as those associated with charity and self-sacrifice, but these are often performed to enhance reputation so as to indicate that one is worthy of esteem and consideration, or due to the belief of being rewarded in the afterlife. Moreover, pure altruists will be exploited by egoists which places them at an evolutionary disadvantage. In his study of indigenous hunter-gatherer societies in the Pacific North-West, the social anthropologist Marcel Mauss (1954) in his foundational text, *The Gift*, argued that humans did not evolve to give unconditionally, maintaining that gifts are rarely given as acts of pure altruism. Rather, they are exchanged to enforce and reinforce a cycle of mutual obligation. The evolutionary biologist Robert Trivers (1971) later noted that reciprocity is a principal motivator of human behaviour in all known cultures (Trivers, 1971). Since a pure form of altruism is not widely intrinsic to human nature, it is a poor form of human motivation on which to base public policy design.

However, since people are often driven by a cycle of mutual obligation, the assumption of predominant egoism is likewise flawed (and when used to inform policy design, is even more flawed because, when egoism is acted upon, it can harm the group). The economist Herbert Gintis and colleagues (2005, p.8) emphasised that "people are often neither self-regarding nor altruistic". It ought to be acknowledged that people are often self-regarding in an egoistic sense and will be even more so if circumstances allow, but Gintis *et al.*'s sentiment was correct in that in the right circumstances people are natural reciprocators, admittedly also for (more enlightened) self-regarding reasons. Unfortunately, those who have advocated and implemented institutional policy design informed by selfish egoism have perhaps served to crowd out the natural tendency for people to behave reciprocally, and may thus have undermined the possibility of achieving the consequent collective benefits that instead might have been realised from more mutually cooperative behaviours.

Some have argued that the fundamental driver of human actions and behaviours differs across economic and what might be considered social exchanges. Mauss himself seemed to believe this, and implied that exchange driven by the law of economic interest via money transactions is inferior to the gift exchange, contrasting with neoclassical economists who maintain that ridding transactions of mutual obligations and appealing to egoistic self-interest is beneficial for all parties. Titmuss, referencing Mauss quite heavily, also drew a distinction between economic and social policy in relation to human motivations in his book, *The Gift Relationship* (Titmuss, 1970/1997).[iv] He argued that social policy differs from economic policy in that it centres more on institutions that create integration and discourage alienation. Earlier, the sociologist Peter Blau (1964) contended that the difference between a social exchange and an economic exchange is that in the former, although a return is expected, it is usually a future obligation that is not precisely specified, and the nature of what is exchanged should not be bargained but should be left to the discretion of the giver. However, his fellow sociologist Anthony Heath (1976) countered that social exchanges are much more formalised than Blau suggests, with, for example, the division of labour in the family often proscribed rather than left to discretion, implying that the distinction between economic and social exchange may be on a continuum rather than a dichotomy.

For much of the remainder of this article, I will argue that the tendency towards reciprocity and the concern for mutual interest – i.e. conditional cooperation, with the threat of punishment as its negative expression – is the motivator of human actions and behaviours that is most conducive to the success of the group, and by extension, the individuals who comprise the group. That is, that exchange partners are (often) implicitly aware that acting fairly towards others ultimately benefits themselves. This tendency towards enlightened self-interest is irrespective of whether exchange is economic or socially-oriented, although there is, it is maintained here, a distinction between the private sphere of life and the public sector in the degree to which the risk of egoism can be tolerated (on which more later).[v] In recognising the importance of cooperative actions, my proposals are consistent with the normative aims of the liberal economic tradition.

Neither Knight nor Knave

To many, the liberal economic tradition is epitomised by either John Stuart Mill or the somewhat more laissez faire grouping of economists collectively known as the Austrian School. Some quotations from these scholars demonstrate that they did not believe that egoism is an admirable human quality. Mill (1859/1969, p. 75), for instance, wrote that '…the egotism which thinks self and its concerns more important than everything else, and decides all doubtful questions in its own favour; – these are moral vices, and constitute a bad and odious moral character.' And from the Austrian School, Ludwig von Mises (1927/2005, p. 14) maintained that 'The continued existence of society as the association of persons working in cooperation and sharing a common way of life is in the interest of every individual. Whoever gives up a momentary advantage in order to avoid imperilling the continued existence of society is sacrificing a lesser gain for a greater one.' Social cooperation, thought von Mises and his colleagues, was of paramount importance, and was best fostered through a freely competitive market.[vi]

Earlier classical liberal political economists also emphasised the importance of mutual engagement to the group, and thus to the individuals who comprise the group. For instance, Hume (1777/1983, p.103) believed that this trait has evolved because it benefits each party to the exchange (i.e. it underpins enlightened self-interest), noting that '…two men pull the oars of a boat by common convention for common interest, without any promise or contract'. As aforementioned, Hume recognised that egoism is also intrinsic to human nature and that there are those who succumb to their avarice, but he argued that this potential to harm the group is tempered by the risk of getting caught and the consequent punishment and loss of reputation: 'in all ingenuous natures, the antipathy to treachery and roguery is too strong to be counterbalanced by any views of profit and pecuniary advantage' (Hume, 1777/1983, p. 86).

Hume's friend, Adam Smith, whose writings are often used to justify egoism (c.f. the aforementioned butcher, baker and brewer), also wrote extensively on the importance of reciprocal motivations in *The Theory of Moral Sentiments*. For instance, he contended that: 'Actions of a beneficent tendency, which proceed from proper motives, seem alone to require reward; because such alone are the approved objects of gratitude, or excite the sympathetic gratitude of the spectator. Actions of a hurtful tendency, which proceed from improper motives, seem alone to deserve punishment; because such alone are the approved objects of resentment, or excite the sympathetic resentment of the spectator' (Smith, 1759/2009, p. 95). He went on to maintain that 'All the members of human society stand in need of each others assistance, and are likewise exposed to mutual injuries. Where the necessary assistance is reciprocally afforded from love, from gratitude, from friendship, and esteem, the society flourishes and is happy' (1759/2009, p. 103-104), but also that 'Nature has implanted in the human breast that consciousness of ill desert, those terrors of merited punishment which attend upon its violation, as the great safeguards of the association of mankind' (1759/2009, pp. 104-105). Smith clearly thought that reciprocity, both in its positive and negative forms, is central to maintaining the bonds of humanity.

It is possible that Smith believed that the social relations that underpin societal subsistence are often driven by fundamentally different motivations to economic exchange, but it is worth reminding ourselves that with respect to economic exchange, his exemplars of tradespersons – the butcher, the baker and the brewer – are local artisans producing relatively simple, easily understood goods with limited opportunities to exploit information or power asymmetries. As earlier noted, mutual indifference and moral neutrality between trading partners in a market exchange may well work in these circumstances (even if egoism spillovers may create problems elsewhere), since the trading partners are equally free to act on their own interests. That is, for everyone to get their fair share, no-one needs to be cognizant of the situation of their exchange partners. Although, in *The Wealth of Nations*, Smith (1776/1999) did explicitly worry about the avaricious tendencies of wealthy industrialists, he may have to some extent underplayed the extent to which asymmetries of information and power would pervade post 18th Century modern market economies. If so, and if he had lived later, he may have emphasised a need to foster reciprocity in the economic exchange of complex goods and services.[vii]

Like Hume, it is likely that Smith was in favour of enlightened self-interest and against egoism. The economist Robert Sugden (2018), a modern follower of Smith and the later liberal economists, similarly contends that if people wish to gain wealth through market transactions, they have to find ways of transacting that benefits both themselves and the persons with whom they are trading.[viii] Over complex goods and services, a fair exchange requires all parties to have an appreciation and concern for the circumstances and position of those with whom they are engaged, which helps to fill in for the missing part of incomplete contracts.

The Liberal Economic Components

Sugden (2018), drawing on Mill (1859/1969; 1861/1969; 1869/1988; 1871/1909), sees little distinction between economic and social transactions (or between private and public sector transactions), and in accordance with the liberal economic tradition suggests that cooperation for mutual benefit should go all the way down from international trade and the institutions of civil society to the relationships between spouses. He identifies the three key components of this school of thought as:

1. In a well-ordered society, cooperation for mutual benefit should be a principle that governs all aspects of economic and social life.

2. The competitive market is a network of mutually beneficial transactions, and competitive markets belong to the class of institutions in which individuals cooperate for mutual benefit.

3. Each individual can judge what counts as his or her benefit, and thus there ought to be no paternalism in these institutional arrangements.

The first component is a normative proposition that is consistent with the beliefs of all those reviewed in the previous section. Indeed some, such as Hume, would contend that this normative statement reinforces a reciprocating tendency that evolved organically in humans due to its potential to benefit groups and their individual members; that is, in this instance the normative – an admirable objective – simply serves to reinforce the importance of what many people, given the right circumstances, do naturally.

The second component reflects the aforementioned liberal economic faith that the competitive market is a driver of social cooperation, a point questioned in this article.[ix] There will be circumstances where a free competitive market may reinforce cooperation (e.g. in the division of labour), but as earlier stated, the contention here is that it also brings with it significant risks of incentivising egoism in the provision of complex goods and services (to reiterate, where there are information and power asymmetries between service personnel, between providers and consumers, between providers and funders etc.). In short, a competitive market can undermine the tendency to cooperate.

That being said, in private spheres of decision-making, to forbid a competitive market impacts to an unacceptable degree on individual autonomy. In their private spheres of action, people ought to be free to pursue their own goals, including, if they wish, to participate as a buyer and/or seller in a competitive market, and the role of government should perhaps be to facilitate them (and certainly not to impede them) if they are imposing no harms on others. The government can, however, regulate against any pernicious acts of externally harmful egoism that might arise from a competitive market. The public sphere is, however, different, in that it consists of sectors that have been established, in large part, to pursue pre-defined broadly agreed upon goals (e.g. better health and education) that facilitate people in their private pursuit of a flourishing life, whatever their individual goals in life might be (an argument akin to Amartya Sen's (1999) capability approach), and are sectors that cannot generally be created, at least not to serve the whole population, through private action. With government action agreed and directed at securing a limited range of goals in these sectors, respect for individual autonomy is weakened and with that so is the argument for the typically purported liberal economic means to forge social cooperation, if it is concluded (as it is here) that the demand-led competitive market is as likely to incentivise egoism as it is mutual interest.[x] I will later suggest that there are more direct ways to crowd in cooperation that are less likely to crowd in egoism in public sector services.

The third component of the liberal economic tradition – that the best judge of how good an action is for a person is not a policy maker or other third party, but is the person him or herself – has over recent decades been challenged by (most) behavioural economists, who claim to have uncovered systematic behavioural patterns that demonstrate that people often fail to act and behave in their own best interest, with 'best interest' usually assumed to be welfare or utility maximisation (see, for example, Thaler, 2015). However, the liberal economic tradition assumes that people have various and varied plans for their own lives in their private decision-making sphere and that a third party cannot really hope to understand the reasons why people choose and behave in the ways that they do; that is, what might appear unreasonable, flawed, biased or irrational from the perspective of utility maximisation may not be any of those things if people do not seek to adhere to this normative postulate (see also Sugden, 2018).

Sugden (2018) also highlights how the results from social dilemma games that apparently conflict with the assumptions of rational choice theory (and are thus a subgroup of behavioural economics) are consistent with the first component of the liberal economic tradition. For instance, although many readers may be familiar with the trust game, in order to understand Sugden's argument, consider the scenario that involves the two players labelled A and B summarised in Table 1.

[Insert Table 1]

Table 1 illustrates that if player A holds, both players receive nothing, but if she sends to player B, B can either keep or return. If B keeps, she receives $5 while A then loses a dollar, whereas if B returns then both players receive $2. Egoistic self-interest dictates that B will keep, and an economically rational A would expect that. Thus, according to standard rational choice theory, A will always hold, and the game ends with both players receiving nothing. However, significant proportions of respondents in this type of game act and react in ways that generate mutual benefit in situations where egoism would fail to do so (although, admittedly, egoism is still common). In short, reciprocity is often observed, which Sugden (2018) attributes to player A wanting to signal a cooperative intention, and player B returning due to a willingness to cooperate and play a part in a mutually beneficial scheme.

To sum up, in private and public decision-making, policy makers ought to nurture cooperative endeavour because that is good for all of us. Over private decisions, competitive markets may to a degree achieve that end, but they also lend scope for egoism to flourish, particularly in the supply of complex goods and services. That said, private decisions that impose unacceptable externalities can be regulated against if needs be; to protect autonomy in the private sphere, the competitive market is not to be discouraged. Moreover, policy makers cannot be sure that citizens are harming themselves in their private actions just because their decisions sometimes conflict with the assumptions of rational choice theory; indeed, some of their decisions may conflict with this theory precisely because they are trying to signal and act upon cooperative intentions. Thus, over private decisions, the contention here is that the three components of the liberal economic tradition ought to be respected. However, many aspects of the public sector are underpinned by broadly agreed-upon objectives (e.g. health from health care, advanced literacy from education etc.) that may be necessary for people to pursue their privately-held goals in life, irrespective of what those goals might be. Allowing demand-led competition, by providing the circumstances for egoism to flourish, potentially undermines the pursuit of the predefined collective objectives. Thus, while the normative objective of the liberal economic tradition (i.e. social cooperation) remains intact, and while we may assume that people have generally and sensibly agreed upon the appropriate broadly defined objectives for our public sectors (facilitated by campaigns and elections, consistent with component 3), the competitive market may in fact crowd out to an unacceptable degree social cooperation in these domains. Fortunately, there are other potentially less harmful ways of forging social cooperation in the public sector that align policy instruments and the policy environment with the human tendency to reciprocate.

Forging Cooperation in the Public Sector

There are of course many possible types of exchange relationship, but an important one is that between employer and employee. The economist George Akerlof (1982) has argued that a higher than necessary wage is often offered by employers in the expectation that employees will reciprocate by working harder than egoistic self-interest dictates. There is experimental evidence that precedes and yet is consistent with Akerlof's conjecture. For instance, the psychologists J. Stacy Adams and Patricia Jacobsen (1964) hired students to read galley proofs. The students were divided into three groups, and those in the first group were told that they were unqualified to earn the standard proof readers' fee of 30 cents per page but would be paid that rate anyway, those in the second group were also told that they were unqualified and would be paid 20 cents per page, and those in the third group were told that they were qualified and would be paid 30 cents per page. The first group worked harder and produced better quality work than either of the other groups, which is consistent with the notion that a relatively high wage strategy, from an employer's point of view, may be sensible.[xi] This might imply that relying on the public spirit – on the pure altruism – of public sector service staff to work hard for low pay where there are incomplete contracts is a mistaken strategy even if the market rate allows it (unless, of course, the purely altruistic self-select into the public sector, which is a risky assumption). This line of argument, synonymous with the slogan that you get what you pay for, thus calls for the payment of decent basic wages in public sector services.

However, reciprocity suggests that there may also be a role for pay-for-performance mechanisms, where public sector service providers are given additional money for achieving particular pre-set quality criteria. In theory, pay-for-performance is a simple exchange with neither payer nor provider necessarily seeking services or payment from other parties, and with both sides presumably committed to a continuing exchange. The structure of the mechanism appears conducive to reciprocal actions, but it is associated with several potential problems. For instance, there remains incentives for payers to try to underpay for performance improvements and for providers to produce less than what might be deemed objectively fair, with the latter a stronger possibility if the mechanism is imposed through a top-down process on providers, in part because it may then be seen as controlling rather than supportive, but also if it is perceived as offering unfair remuneration. Similarly, if the quality indicators are divorced from the providers' notions of genuine quality of service, the mechanism might either distort more fundamental priorities or be ignored entirely. On the flipside, if the payments are too generous, then this is problematic for those who ultimately pay for services (e.g. tax or premium payers).

A functional, genuinely reciprocal pay-for-performance mechanism requires providers and payers to be involved jointly in determining fair prices and indicators of quality that are broadly perceived as appropriate. Furthermore, given the potential for disagreements, the negotiations are likely to benefit from input from a knowledgeable arbitrator that all parties accept, that would monitor the fees and outcomes in the exchange relationship.[xii] If these conditions are met, then it may be sensible to subsidise a decent basic wage for public sector service staff with a pay-for-performance mechanism to incentivise particular tasks that are generally felt in need of highlighting. If a decent basic wage is paid, and through negotiations performance-assessed quality criteria are chosen that providers support, then any positive financial incentives in the mechanism may not need to be large in order to be effective, because they might be perceived not as a material inducement but more as a reminder that certain activities should not be overlooked. That said, there are forms of performance management that do not necessitate the use of money at all.

As intimated early in this article, a concern for one's own reputation and for that of others lies deep in human psychology and is crucial to the efficient functioning of a form of indirect reciprocity. In other words, when there are asymmetries of information between potential exchange partners who heretofore do not know one another, each relies on reputational indicators in order to decide whether to trade and/or cooperate – to reciprocate – with one another. That reputational effects can be used to affect behaviour has been known for a long time and is thus unsurprising; for example, in the 19th Century, the Welsh utopian socialist and manager at the New Lanark cotton mill in Scotland, Robert Owen, arranged for a piece of wood to be hung near to each of his worker's stations, with the colour of the wood indicating the conduct of the worker on the previous day: black for bad, blue for passable, yellow for good and white for excellent. Each day Owen walked through the mill, looking at the pieces of wood but not saying anything and not admonishing anyone. This reputational motivator, it was reported, greatly improved the workers' performance (Wolff, 2003).

However, it is surprising that the consideration of reputation specifically, and reciprocity generally, as motivations for improving the design of public policy has, until recently, been quite limited. Disseminating reputational indicators, as an alternative (or perhaps complement) to the promise of additional resources in the pay-for-performance mechanism, can be a powerful reciprocity-related method by which to drive improvements in public sector services. The intention when making the relative performance of the suppliers in a particular sector explicit in the form of, for example, a ranked league table, is that this will drive them to improve their position in order to gain and maintain the trust of their clientele. The notion is that even without the threat of losing clientele, suppliers will want to try to demonstrate that they are providing an admirable service. The health and education sectors in the United Kingdom and parts of the United States and Italy are just some of the examples where the use of reputation as a motivational force has been met with some success (e.g. see Bevan and Fasolo, 2013; Bevan *et al.*, 2019; Hibbard *et al.*, 2003).

The operational researcher Gwyn Bevan and the behavioural scientist Barbara Fasolo (2013, p. 56) wrote that reputation 'could work out of fear of having betrayed the public's trust and provides an urgent reason for acting before the public reacts and 'punishes' this betrayal ... shocks of this kind are an integral part of generating the high powered incentives necessary for improvement' (Bevan and Fasolo, 2013, p.56). However, caution is needed around the notions of fear, betrayal and punishment when using reputation as a motivational driver, principally because poor relative performance may not be poor in any absolute sense. In circumstances where providers are perhaps not doing as well as other similar organisations but are nonetheless performing acceptably, the looming threat of punishment could be demotivating and may encourage attempts at gaming the reputational indicators. It may therefore be wise to articulate clearly that the threat of punishment – i.e. the threat of negative reciprocity – will be restricted to those cases where clear incompetence has been identified.

Finally for here, and although only tangentially related to the public sector, indirect reciprocity can also be used to inform policies that steer citizens towards actions that may produce benefits for people other than themselves, a possibility recognised by Arrow (1972, p. 349) in relation to blood donation, when he wrote that '… perhaps, one gives good things, such as blood, in exchange for a generalized obligation on the part of fellow men to help in other circumstances if needed'. Whether this sentiment can be manipulated to good effect was later implicitly tested by the Behavioural Insights Team (2013) in relation to organ donation in the United Kingdom. The Behavioural Insights Team conducted a randomised-controlled trial on the use of different messages to encourage people to register as organ donors. Over one million people were randomly assigned to receive one of eight messages when renewing their driving licences, with each message framed according to a particular behavioural influence. The authors reported that the most effective message, which they estimated would lead to an additional 96,000 organ donor registrations each year compared to the control message of 'Please join the NHS [National Health Service] Organ Donor Register', was that which read 'If you needed an organ transplant, would you have one? If so please help others'. This message, the authors argued, was informed by and emphasised indirect reciprocity as a motivational force.

Conclusion

My contention in this article is that everyone is driven by the same basic motivations of egoism and conditional cooperation (among others), admittedly to different degrees across people, and that if economic and social contexts were structured identically to each other, there is no reason to believe that people would be differentially motivated across these types of exchange. However, the different drivers of human action and behaviour are susceptible to the instrument used and to the design of the environment (i.e. the context), and since economic and social policies have often tended to use divergent policy instruments and structures, varying motivations can come to the fore.[xiii]

Followers of the liberal economic tradition assume that the competitive market is the best means by which to foster social cooperation, and over simple goods, and indeed sometimes over complex goods, this may occasionally be true. Some suppliers will work towards being trusted in order to attract and sustain custom, and cooperation between the various actors who produce a good or service helps to minimise its costs of production. However, embedded in the competitive market – in its emphasis on a dog eat dog, winner takes all mentality – are significant incentives for egoistical actions, particularly in the provision of goods and services that are associated with information and power asymmetries.

In the realm of private decision-making, where, it is argued here, people pursue – and ought to be free to pursue – their own goals in life (so long as they are not harming others), the need to protect autonomy outweighs, to my mind, the argument to regulate entirely against a competitive market. There, people ought to be free to enter competition with others if they so wish, and the market offers a means to protect people from poor goods and services by there being alternative suppliers.[xiv] The worst cases of negative externality caused by people succumbing to market-induced egoism can, after all, be regulated against if needs be.[xv]

However, public sector services were established in part in order to achieve broadly agreed-upon goals (e.g. health, literacy) that are thought foundational if people in general are to flourish. Consequently, it is legitimate for governments to forbid a demand-led market in the public sector if there is reason to do so. The contention of this article is that it is not worth risking the pursuit of public sector goals by using an incentive mechanism that, in the minds of not a few public sector service professionals, may make acting upon egoism a necessary component for institutional survival. As alluded to in the previous section, there are alternative incentive mechanisms that, if structured correctly, are more likely to lead to reciprocal, cooperative actions that ultimately benefit almost all of us.

Thus, to sum up, the overall objective of the liberal economic tradition – to increase social cooperation – is heartily embraced in this article, but the principal means of achieving that end postulated by those within the tradition is associated with incentivising dangers that they underplayed. On balance, subject to regulation against its most harmful effects, it is concluded here that economic liberalism ought to be given full reign in the domain of private decision-making, but for public sectors to best achieve the objectives for which they were in large part established, the means advocated by those who follow economic liberalism ought to be substantively curtailed and replaced with more direct incentives to cooperate.

Endnotes

[i] Although this history is relayed with reference to Britain specifically, a similar story could be told with respect to other countries.

[ii] Many of those who have advocated for the policy measures that Le Grand proposed have been less nuanced in their view of human nature.

[iii] Some interpret the label, Machiavellian, as a pejorative term, but to me, in relation to public policy decision-making, it is simply a method by which to encourage actions and behaviours to better meet the goals that are desired by he or she who is influencing the environment.

[iv] Titmuss sometimes appears to confuse reciprocity with pure altruism.

[v] Private does not equate to economic and public does not equate to social. For example, exchanges within the family tend to be private and social.

[vi] Von Mises's fellow Austrian School member Friedrich Hayek (1944, 2001, pp.62-63) wrote in *The Road to Serfdom* that '…individualism…does not assume, as is often asserted, that man is egoistic or selfish, or ought to be.'

[vii] The members of the Austrian School generally saw a competitive free market over even complex goods and services as the best way, or at least the least worst way, of securing social cooperation. It is often lost in the debate that their aim was admirable (i.e. they were opposed to capitalist, or indeed anyone's, avarice), but their belief in the means (i.e. the free market) in achieving this end is perhaps overly optimistic.

[viii] Another modern economist, the Nobel Laureate Kenneth Arrow (1972, p. 357), wrote that 'Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence.'

[ix] If Le Grand had justified the use of the demand-led competitive market in public sector services by appealing to its potential to forge cooperation rather than as a means to channel egoism, then he would have sat squarely within the liberal economic tradition in this regard. It is of course possible that Le Grand considers enlightened self-interest to be a form of egoism, but this is not clear in his writings.

[x] Despite these dangers lurking within economic exchange, further contemporary support for the liberal economic tradition is provided by the economist Guido Tabellini (2008), who suggests that liberal market institutions serve to foster trust. Similarly, another economist, Samuel Bowles (2016), acknowledges that market-based societies nurture vibrant civic cultures via the geographic and social mobility and the rule of law that they engender. In short, these scholars imply that liberal market economies allow people to do things, and many of the things that they choose to do they do for the mutual benefit of themselves and others. But Bowles (2016, p. 185) also implicitly warns that encouraging egoism in an attempt to improve the market is likely to cause harm when he writes that 'it is safe to conclude that efforts to perfect the workings of markets may have collateral cultural effects that make people less likely to learn or retain the exchange-supporting norms and other values essential to good governance.'

[xi] Work undertaken by the economist Ernst Fehr and his colleagues is also at least partly consistent with Akerlof's argument – in an experiment setting, Fehr *et al*. (1997) reported that only 10% of their respondents shirked fully when given the opportunity to do so after wage levels had been agreed. However, 83% of them did partially shirk, demonstrating that, when the opportunity to be egoistic is there, unhealthy amounts of egoism remain intact.

[xii] The philosopher Pyotr Kropotkin (1902/2014, p. 116) noted that in medieval times prices generally were often set by trusted third persons: 'The merchants and the sailors … were to state on oath the first cost of the goods and the expenses of transportation. Then the mayor of the town and two discreet men were to name the price at which the wares were to be sold.'

[xiii] The neuroendocrinologist Robert Sapolsky (2017, p. 672) contests that 'we haven't evolved to be "selfish" or "altruistic" or anything else – we've just evolved to be particular ways in particular settings. Context, context, context.' In group settings absent extreme scarcity, it is better for almost all of us to act reciprocally.

[xiv] In the words of Milton and Rose Friedman (1980/1990, p. 226), 'The consumer is protected from being exploited by one seller by the existence of another seller from whom he can buy and who is eager to sell to him.'

[xv] For the good of groups and of the individuals they comprise, this is not to argue that policy makers should not try to shape the general structure of society such that conditional cooperation is more likely to be crowded in (e.g. tackle unacceptable levels of inequality).

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Table 1:
The trust game

Player A			
Holds →	($0, $0)		
Sends →	→ →	*Player B*	
		Keeps →	(-$1, $5)
		Returns→	($2, $2)