

“Incentives Matter Less: Standing at the Crossroads of the Coercive State and Transforming Preferences”

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I. Introduction

Since the ascent of neoclassical economics, economists have sought to effect social change by altering incentives either through changes in government policy or changes in the nature of markets. In general, economists ignore the preferences of individuals as an instrument of social change. The danger of such an exclusive focus on incentives and assumptions of unchanging preferences is that the combination often promotes social engineering and/or offers an incomplete explanation for human behavior. According to Adam Smith any legitimate discussion of social change must consider a two-pronged approach that takes into account incentives and the people interacting with those incentives. Smith writes,

“When [the man whose public spirit is prompted by humanity and benevolence] cannot establish the best system of laws, he will endeavor to establish the best that the people can bear. The man of system, on the contrary, is apt to be very wise in his own conceit . . . he seems to imagine that he can arrange the members of a great society with as much ease as the hand arranges the different pieces on a chess-board.” (Adam Smith, [1759])

Smith asserted that behavior constrains our choice of laws from the “best laws” to the “best [laws] that people can bear”. Through the lens of public choice, Caplan and Stringham assert that public opinion is the instrument that shapes political outcomes (Caplan and Stringham, [2005]). Similarly, laboratory public goods experiments have shown that the tension between the subjects’ choice to contribute voluntarily or vote for a tax level can be influenced by their experiences with other group members. Groups who experience high levels of free-riding for the provision of the public good often turn to the forced commitment of an inefficient tax as a solution. For groups with higher contributions or common expectations to contribute to the public good, taxes may become unnecessary (Norton and Isaac, [2008]).

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History reveals a similar tension through Washington Gladden, the first national figure in the Social Gospel movement. Initially Gladden, “viewed state interference in the economy and the actions of trade unions with suspicion.” Later, however, Gladden wrote, “We are not hopelessly drifting in the current of social progress; we may shape our own course and choose our own port.” (Bateman and Kapstein, [1999]) The persistence of poverty and a seeming lack of collective effort to improve the conditions of the poor working class led Gladden to preach a new message of attaining justice through governmental action.

Nearly forty years later the poverty of the Great Depression created the perfect storm for the trade of voluntary associations for the coercive power of government. Despite increased church spending on welfare activities throughout the Great Depression, New Deal programs and expenditures were able to pass through the various branches of government. Economists now estimate that the introduction of these programs resulted in a 30% level of crowd-out in church spending on welfare activities (Gruber and Hungerman, [2007]). Even through the current political climate, organized Christian denominations frequently lobby the government for coercive action to cure various social ailments.

Some have argued that there will always be incentive for individuals or collective action groups to use the coercive power of government for their benefit (Cowan and Sutter, [2005]; Holcombe, [2004]). More recent research however challenges those claims. Stringham and Hummel assert that major social changes (such as the abolitionist movement) are primarily motivated by shifts in ideology. Because subjective preferences against coercion can change, Stringham and Hummel argue that economists should not concede the possibility of a libertarian society simply because the incentive for coercion is strong (Stringham and Hummel, [forthcoming]).

While there is always the possibility that coercive policies are produced from selfish motives the desire for a just society where social safety nets abound is foundational to the Judeo-Christian ethic. But, the future of whether those social safety nets will be private or governmental remains open. Stringham and Hummel initiate the discussion of preferences as an important feature of the economy that is often overlooked; but, they do not explain the genesis of those shifts in preference. My study

stands at the crossroads of a transforming heart, more inclined to justice-seeking behavior and the coercive state. First, I will introduce the model of the coercive state's interaction with transformation. Second, I will examine each of the four schools of thought that emerge from my model. Third, I will elaborate beyond the description of each model interaction to a more comprehensive explanation of "Just-Preference Libertarianism" that professes that people transforming towards more just-preferences creates an environment in which libertarianism can succeed.

II. Model: Coercive Government and Transformation

To model the interaction of the coercive government and transformation of preferences towards justice-seeking behavior I employ a simple 2x2 matrix.

The columns represent whether the social leader or economist has considered the importance of transformation towards a more just society. If preference transformation is a central theme of that particular school of thought they will receive a "yes" in the model. If, however, preference transformation is either not considered or is considered unimportant, the school of thought receives a "no" in the model. These considerations form the difference between the static realm and the realm of possibility. The static realm claims preferences are stable over time and therefore limits any change that will occur to manipulation of institutional incentives. The realm of possibility however considers transformation. Preferences may be viewed as stable in the short run but with a real possibility those preferences can be altered in the long run. Of the realm of social change Stringham and Hummell write, "social change without changes in preferences is rare."

The horizontal rows represent whether the social leader or economist believes in using the state's ability to compel obedience towards a more just society. If the school of thought emphasizes the use of the government's power (taxation, regulation) as a means for social change they receive a "yes" in the model for the coercive state. If the school of thought does not anticipate the use of the state's coercive power to bring about social change I have labeled them a "no" in the model. The desire for the utilizing the coercive state varies from belief that the system of capitalism is wrought with greed, to the conceit that economists are capable of designing utopian tax systems, and finally, to the

recognition of collective action problems. The hallmark of not utilizing the coercive state for redistributive purposes is that the population possesses freedom. With that freedom they have three choices: spend, save, or give¹.

The model is shown below as Figure 1. Within each matrix cell the interaction between transforming as a central theme and the coercive state as a vehicle for change is marked by the school of thought that coincides with that interaction.

		TRANSFORMING	
		YES	NO
COERCIVE STATE	YES	<p style="text-align: center;">The Social Gospel</p> <p>This message of personal transformation to more generous, compassionate and justice-seeking hearts is coupled with the use of the coercive state as the vehicle for the establishment of social safety nets and other institutional change. Not everyone maintained the same reason for the coercive state. Some cited the evils of capitalism and others recognized the problem of collective action.</p>	<p style="text-align: center;">Social Engineer</p> <p>Social Engineers imagine that they can arrange entire masses of men in the correct positions to achieve efficient economic outcomes for the provision of public goods. These efficient outcomes are obtained through the coercive state's implementation of some kind of tax or regulatory scheme. The Social Engineer admits that generosity and justice can exist but coercion is required since preferences for low levels are stable.</p>
	NO	<p style="text-align: center;">Just-Preferences</p> <p>Like the other non-coercive state counterpart "just-preferences" allows for the personal freedom of the economic actor to spend, save, and give with autonomy. The economic actor however has transforming preferences towards generosity and justice for disadvantaged populations. This interaction between these transforming preferences and the non-coercive state is the foundation for "Just-Preference Libertarianism".</p>	<p style="text-align: center;">Market Engineer</p> <p>Market engineers are a different type of Smith's "man of system". Despite their disdain for the coercive state or love of personal freedom their view of stable preferences positions them with no other option than to be market engineers. That is because the only way to attain change is by constructing the correct market with the correct incentives.</p>

Figure 1

III. Model Interactions

A. The Social Gospel

The simultaneous preaching of a renewed mind and changed heart with the promotion of the coercive state as the vehicle for change is most closely identified with

¹For a more elaborate explanation about channels for money see Essays in Applied Economics, "The Private Use of Money" (Pigou, [1965]).

the Social Gospel movement. Theologians and pastoral leaders employed parables like the Good Samaritan to exhort Christians to create a society that did not neglect the injured or disadvantaged populations. From the prophet Isaiah Jewish and Christian traditions are admonished to, “Seek justice, encourage the oppressed. Defend the cause of the Fatherless, plead the case of the widow” (Isaiah 1:17). The New Testament shows a more intimate and individual justice in Jesus’ response to his disciples regarding their love towards him saying, “I tell you, whatever you did for the least of these brothers of mine, you did for me” (Matthew 25:40). Even with this seemingly personal charge to transform and care for the down trodden later Social Gospel leaders such as Walter Rauschenbach spoke with authority on the use of government to impose change.

While the imperative for justice on behalf of the disadvantaged in society is drawn from the teachings of Jesus, proponents of the Social Gospel viewed the coercive state as necessary for at least two different reasons: the problem of collective action and the “Greed is good” characterization of capitalism. The first viewed government compelling behavior as making up for deficits in personal preferences while preaching for the advancement of love and kindness towards others. Others viewed the coercive government as possessing the power to intervene and transform people.

Social Gospel activist Dorothy Day who often called for better stewardship of resources and more compassion for the poor also recognized the tension between needed immediate change and the fickle stream of voluntary contributions that arose from well meaning Christians that wanted to give but did not give automatically. She said, “[We need to create] a system that makes it easier for people to be good” (McCarragher, [2007])². To adopt a socialist system that coerced funds from the population was not a statement that the socialist system produced better citizens but rather that the tax binds those people to pay towards a public good.

Another reason for the use of the coercive power of government put forward by leaders of the Social Gospel movement (an argument that is more philosophical than economic in nature) is a belief that capitalism is inherently evil. The 1880s and 1890s

² Notice that Dorothy Day said, “easier for people to *be* good.” Norton and Isaac demonstrate using laboratory economics that taxes are not used as a signaling device for greater cooperation (once some base level public good provision is achieved). Instead, the taxes act as a device to ensure obedience with contributions to the public good. Despite some ambiguity in using the word ‘be’ I assume that Dorothy Day did not believe that taxes or a socialist system actually made people more virtuous.

that birthed the Social Gospel movement were times of tremendous change in the landscape of American labor. The dingy slums of industrialized cities with low wages and long hours were viewed as the fruits of competition. The honest day's work on a farm was not similarly viewed as competition but rather as the enchanted yester year. This dissonance provided the backdrop for such early Social Gospel leaders such as George Herron who "argued that Cain had been the first political economist and that the whole system of capitalism was based on the sinfulness of human greed and self interest" (Bateman and Kapstein 1999). This is a thought that persists today. Deidre McCloskey responds to "economics as greed" by writing, "Smith did not say, ever, that Greed is Good. And the Christians and other opponents of the sin of avarice need to stop conceding that point to the men of Westport" (McCloskey, [2008]).

B. Social Engineers

The interaction of the coercive state without transforming preferences yields the static realm of Smith's "man of system" who imagines that he can arrange taxes, regulations, and market incentives in recipe for the perfect society. The question of what constitutes a perfect or just society does not seem to surface with this "man of system". The only criterion on which a system is measured is by some standard of efficiency (for example, Pareto efficiency). Little concern is shown for judging one efficient outcome against another by some theory of justice.

Environmental policy theory provides fertile ground for illustration of the social engineer's prescription for some social ailments. Drawing on the work of Aruthur Pigou and Paul Samuelson, Baumol and Oates [1988] consider lakes with fish as the limited resource. One fisherman seeks to maximize the profit from his own catch but because the fish are scarce he reduces the expected catch of another fisherman causing a 'depletable externality' which can be corrected, ". . . Simply by charging an ordinary price equal to the marginal social cost (benefit)." People do not need to reform their preferences about fishing or devise a moral construct about the depletable resource problem. Rather, "Any socially efficient net output vector can be sustained by a profit-maximizing production with externality off-setting taxes" (Baumol and Oates, [1988]).

C. Market Engineers

The school of thought that emerges from the interaction of “no coercive state” and the absence of transforming preferences is the typical view of the market minded economist. Within the framework of neoclassical economics stable preferences are assumed for mathematical purposes and generalized calculus is utilized to predict future human behavior and therefore to construct markets that solve social ills (McKenzie, [1980]). As Stigler and Becker have famously argued, “the traditional approach of the economist offers guidance in tackling problems –and that no other approach of remotely comparable generality and power is available.” (Stigler and Becker, [1977]). Though this interaction between “no transforming” and “no coercive state” would seem to bear no resemblance to the socially engineered outcomes of Pigou and Samuelson their common ground rests in what Smith called the “man of system” (Smith).

With gratitude to experimental economics research, economists can demonstrate that not all markets are created equal (Hong and Plott, [1982]). Therefore, many market minded economists seek to establish the “correct markets”. After the correct markets are established people interact within the structural framework and efficient social outcomes will happen. For the most part this school of thought does not address the concept of justice. There may be two reasons for the lacking explanation for the justice concerns of the Judeo-Christian tradition: practicality and/or an alternative view of justice.

The tradition of Hayek and Friedman may be most closely associated with a lacking explanation for justice within their model due to practicality. Hayek and Friedman both critiqued the social engineers on practical grounds because they viewed the central planning based system as faulty on grounds that it could not know the necessary information to carry out such an ideal. Their cure for social ills is still for markets that lead to efficient outcomes. Furthermore, their “free to choose” does not take into account the human desire for justice and the fear of not having justice.

The second reason for a lacking explanation of justice is due to the stark differences in another view of justice from the objectivists. While objectivism constructs a formal model of justice, identifying a good world as one of unadulterated individual liberty it is not capable of having a comprehensive dialogue with those who have a view of justice that is based on Biblical principles.

D. Just-Preferences

When the Social Gospel movement began to take root, division occurred between those churches who desired government as the agent to attain social change and those who believed that social change and justice were the responsibility of the church (Ruotsilla, [2008]). Though humorous, Harry Browne's comment that, "Government breaks your legs, hands you a crutch, and then says, 'See? You couldn't be walking if not for us,'" is legitimate in the sense that there are significant barriers to believing that government is not required to meet the needs of the oppressed and disadvantaged people groups. But, it is not the government that is a requirement for justice. Private social safety nets, families, churches, or otherwise existed prior to the implementation of works programs. For example, the Home of Redeeming Love (now known as Deaconess Hospital) was erected in 1900 to service Oklahoma City, Oklahoma as an obstetrics facility for unwed mothers. A small number of women in the Free Methodist Church founded the facility and farmed 40 acres of land to sell the food in order to finance their ministry. Deaconess Hospital explains their heritage in the following words,

"Decades before the advent of welfare, Medicaid, food stamps and other government programs, a few dedicated Free Methodist women evangelists responded with Christian concern to the plight of unwed pregnant women and girls who had been betrayed and abandoned by society." (Deaconess Hospital –Our Heritage, [2008])

Nevertheless, an existence proof for the private or independent sector as a social safety net does not quell the fear of not having justice. If the state ceased to use coercion, would the generosity of the population be greater than the money guaranteed by taxation? Therein lies the difficulty for many that possess preferences towards a more just society, there is no guarantee. With changing preferences towards justice there is hope for a more compassionate and just society without the need for the coercive state. Deidre McCloskey, in a presentation at the Association of Christian Economists said, "Involving the economic actor in the world of faith, hope, and love will change the way the economic actor depends on the Samuelsonian world" (McCloskey, [2008]).

In order to see those preferences not completely motivated by incentives consider charitable giving and the reduction of the marginal tax rate. When President Bush cut taxes and effectively reduced the marginal tax rate some American philanthropic leader lamented their oncoming poverty because the standard economic model predicted that

people had a lower incentive to give to charity. Numerically, $(1 - \text{Marginal Tax})$ is the price of a charitable contribution and neo-classical price theory predicts that less money will be contributed. But it doesn't account for the income effect or quite simply that people give for reasons that aren't captured in our models.

Stuart M. Butler of the Heritage Foundation noted that, "Despite large variations in federal tax rates over the past quarter century, charitable donations as a percentage of personal income have remained remarkably constant," (Butler, [2001]). And, it is suggested that people are giving for reasons other than what the standard model predicts. He also offers empirical evidence from the 1986 tax reform as an example to state that those tax reforms may have had some minor short run effect but that their long term consequences were, if any at all, to increase total giving due to increases in income. More recently however, Jon Gruber evaluated religious and non-religious charitable giving and finds that both are sensitive to price. Gruber alternatively concludes, "[the findings] suggest that further expansions in the subsidy to charitable giving would increase the level of giving" (Gruber, [2004]).

Despite the conflicting evidence regarding the marginal tax rate and charitable giving, many people can deduce from their own lives that they do not always give money with tax deductions in mind. Sometimes people act in generosity towards one another without the provocation of economic or other types of incentives. C.S. Lewis would call this agape love which is, "All giving, no getting." If people begin to act with increased selflessness the possibility for a state that does not use coercion seems far more probable. The next section will elaborate on libertarianism that emerges from these transforming preferences I will call "Just-Preference Libertarianism".

IV. Just-Preference Libertarianism

When human behavior is assumed to be constant economists operate from the static realm. Economists that operate from the static realm posit that coercion will persist because some people will always have the incentive and ability to coerce behavior for their personal utility (Cowan and Sutter 2005, Holcombe 2004). Stringham and Hummel regard these as the "pessimistic admirers of libertarianism" and imagine they are thinking, "Libertarian ideals might be nice, but they are not possible." Earlier I stated

that if market minded people have accepted this view of libertarianism that they have confined their actions merely to the construction of the “correct market”.

From a social perspective the establishment of those markets is often deemed to be of importance because the market promotes peaceful exchange (transactions occur in mutually beneficial circumstances and trade is based upon cooperation). For instance, the unfettered market would have had an integrated street car system throughout the American South. The street cars required government coercion to become segregated (Roback, [1986]). Even though the absence of coercion would have required integration for the profit maximizing business owner the activity of the market would have done little to change the heart of a bigot. Peaceful societies are not the motivation behind the desire for government coercion. Justice, or some masquerading version of justice, supersedes the libertarian anarchy that Ropke would argue is a more humane society.

This Judeo-Christian desire for justice and social safety nets however is not an opponent of libertarianism but a possible catalyst for the libertarian state. Common expectations in community about care for the poor and justice for the oppressed may be highly correlated with less taxation and regulation. This claim admits the need for future study³. But, as noted earlier, many of the institutions for redistributive justice are founded to bridge the deficit between personal preferences and the seeming evidence of inactivity. Those institutions of tax and regulation are founded then, at least in part, because of a lack of common expectations. The emergence of these Just-Preferences allows for these common expectations to form and in the process of that formation the libertarian state is more attractive to more people.

V. Conclusion

Adam Smith writes in *The Theory of Moral Sentiments*, “What system of government could tend so much to promote the happiness of mankind as the general prevalence of wisdom and virtue? All government is but an imperfect remedy for these.” Justice and the desire for social safety nets are foundational to the Judeo-Christian ethic and so long as the practices of Christianity and Judaism persist these preferences for

³ There is a need for more field and empirical studies, but, the power of common expectations in shedding taxes in favor of voluntary contributions was shown by Norton and Isaac using experimental techniques in the laboratory.

justice will continue. The question of whether these social safety nets will be governmental or private remains open because the preferences for governmental or private social safety nets are not static but are dependent on the behavior of other people. The Christian paradox to die in order to live and the call to seek justice provides the moral construct to better enable a libertarian state to emerge as an option.

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