

# **INCLUSION, CHANGING PREFERENCES AND PUBLIC POLICY**

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For most people in poor countries development is a process of fundamental change along many of the dimensions of human existence. In the process attitudes, practices and drivers of behaviour - in short, preferences - are likely to be transformed. Indeed, central parts of policy to promote development, for example persuading parents to send their daughters to school, are likely to be focused directly on changing preferences. This puts the standard welfare economics analysis of policy in a real quandary since it is founded on the assumption that preferences are fixed, and improvements of welfare for an individual are given by improvements relative to the fixed preference ranking. The lecture sets out this argument and related evidence and then examines the challenge of analysing public policy in the face of changing preferences.

That development is about fundamental changes in ways of life, and not simply growth through the expansion of capital and other inputs, together with experience of development policy has motivated me to suggest elsewhere<sup>1</sup> a strategy for development based on two pillars: an investment climate for growth; and empowering and investing in poor people so that they can participate. This is not the place to spell out and justify the strategy. Rather the lecture focuses

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<sup>1</sup> Stern, N., Dethier, J. and Rogers, H. Growth and Empowerment: Making Development Happen, MIT Press (forthcoming, 2005).

on a particular challenge for public policy which appears strongly when we try to take forward the second of the pillars.

### *Development as a process of fundamental changes*

The transformation of society in the process of development is illustrated by dramatic changes in education, health and fertility rates in the developing world over the last few decades. For example, school enrolment in sub-Saharan Africa rose from just about 51% in 1970 to 79% in 2000. Under-five mortality rates fell from 196 per 1000 live births in Middle East and North Africa in 1970 to 62 in 2000. Fertility rates declined strongly around the world, with dramatic declines in East Asia and the Pacific, from 5.72 births per woman to 2.12 births between 1970 and 2000. And these transformations constitute profound changes in the way people perceive and go about their lives.

So too are the transformations embodied in urbanisation and the movement out of agriculture, as Richard Tawney wrote in his remarkable book *Land and Labour in China* written after visiting China in 1930: "The movement to industrialisation is a growing force. Where it directly affects for better or worse the likelihood of one, it indirectly modifies the habits of ten. Its effects on the mind are ultimately more important than its visible embodiment in mills and mines."

When we turn to income, while there have also been very strong changes, they have been patchier and sub-Saharan Africa is essentially left out. Over the last fifty years, there have been striking periods of growth first for rich countries and more recently for Asia (excluding Japan), in particular China. Africa, by contrast, did not do too badly in the earlier part of the last half-century but has hardly moved in terms of income per capita in the last twenty-five years. When looking at income poverty, this comes out strongly in terms of the share of people living on one dollar a day across the developing world falling dramatically over the last 20 years except in Africa, where it has actually been rising.

This snapshot of experiences shows that you cannot see development as just an expansion of income from capital accumulation and that the dramatic changes in the structures of economies, populations and societies cannot be described very effectively by the standard tools that we use in simple aggregate models of growth. Instead, we need to deal with institutional change, demographic change, role of women in society and other cultural transformations.

### *Empowering poor people and the role of changing preferences*

Changing preferences lie at the centre of the second pillar of the strategy of empowering poor people: this is not simply a problem for economic theorists. Empowerment is about the capacity of people to shape their own lives and is prominent in most answers to questions about what their own poverty means to

poor people. So while, for example, it would be fairly standard in analyses of development policy to consider individual endowments, whether physical or human capital, empowerment would go beyond this to consider other external constraints, such as the family, social and cultural political context that can place powerful constraints on what an individual believes to be the kind of things that she or he can shape or control. It would also include the internal constraints associated with, in the language of Arjun Appadurai, the lack of a capacity to aspire.

Having struggled with the concept, we then need to consider how to measure it. In fact, there are lots of rich data sources which are relevant. For example, there are the usual sort of household surveys that can reveal issues around social status, gender and so on. We also have many more surveys of governance from the World Bank. And there are also surveys measuring shocks and disasters, crime and victimisation, and how public service delivery functions and what it is that makes it function well or badly.

What happens when we try to analyse and implement policy to change preferences? There are essentially two routes both for analysis and for action. The first route is to seek to overrule people's preferences by insisting from a public policy point of view on the superiority of one set of preferences over another. We do that already to some extent, for example through our policy on tobacco, alcohol and drugs. The second route is to try to identify expansions of

ability to shape one's own life and argue that those expansions are a good thing. Neither route will give the clarity of answer of our standard public economics. But the problem of changing preferences is absolutely unavoidable for a serious analysis of development policy. We must therefore address the issues directly.

Action that consciously tries to change preferences must face the challenge of where the moral authority to act in this way may come from. At this point, we have to seek the help of political philosophers. For example, if you read John Stuart Mill on representative government, he was talking about voting and the political process in terms of changing ideas, through the interactions that you have in the political process. In our language here this changes your set of preferences in the sense that it changes your thoughts about what is good and bad for you and others. John Elster, more recently, wrote about the democratic process as having at its core the transformation of preferences by public discussion rather than the isolated act of voting according to private fixed preferences.

And if you ask yourself what kinds of ideas have I drawn on today, they have included economics, history, anthropology, political philosophy and social administration, and also law, geography and sociology. So I hope, through pointing to the way in which these sets of ideas come from different strands of social sciences, this is a very STICERD way to end, and perhaps emphasises

why Michio Morishima in his wisdom insisted that it was the International Centre for Economics and, I stress here, Related Disciplines.