

Sen on Markets and Democracy

1 Chapter 5: Markets, State, and Social Opportunity

1.1 Why free markets?

1. Freedom (pp. 112–6).
 - a. ex-slaves preferred free labor despite being materially worse off.
 - b. ditto for formerly communist states.
 - c. child slave labor (unlike the first two).
 - d. restrictions on women's work outside the home (ditto).
2. Pareto efficiency (pp. 116–9). Can substitute freedom for utility and get the Arrow-Debreu result. Pareto efficiency doesn't settle distributive questions (pp. 119–20).
3. Markets often favor the general good rather than special interests (pp. 120–3).

1.2 Why restrict markets?

1. Equity (see criticism of efficiency above).
2. Unproductive use of resources, Smith on usury (pp. 123–6).
3. Public goods: education, anti-malaria (pp. 127–9).

1.3 Incentives and Welfare

Advantages of targeting welfare programs to functionings and capabilities rather than incomes (pp. 129–38).

1.4 Finances

Unemployment worse than inflation: effects on capabilities (pp. 138–42).

2 Chapter 6: The Importance of Democracy

- (1) Direct importance; (2) Instrumental importance: famines, e.g. (p. 152);
- (3) Constructive importance: fertility declines, e.g. (p. 153).

Sen: policies, not political systems are what matter for development. Compare Zakaria (below) with Sen, p. 150.

Sen is much too dismissive of the interesting case of East Asia's "tigers." They are, after all, the only third world countries to move from poverty to near plenty — and in one generation! It might be worth considering, for instance, that these countries adopted more free-market-oriented policies than other third world countries did, policies that were wildly unpopular until very recently. The easiest way to win an election in South Asia or Africa during the 1960's and 1970's was to brand your opponent a capitalist.

Sen lauds the East Asians for investing in human capital through health care and education because these policies not only produced growth but also improved people's quality of life. But again, in most third world countries organized political and labor groups insisted on a very different course. They demanded large-scale employment projects, often through nationalization; huge subsidies; and tariff protection for local industries. Politically powerful farmers prevented land reform and other interest groups still block cuts in subsidies and deregulation. In Chile, for example, it was Pinochet's military government that pushed through the land reform policies of the socialist Salvador Allende. Today central planning is in disfavor and capitalism seems irresistible, so perhaps good economics also makes for good politics. But this has not always been so and may not be so in the future.¹

¹ Fareed Zakaria, "Beyond Money," *New York Times*, November 28, 1999.