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## Book review

*Motivation, Agency, and Public Policy: Of Knights & Knaves, Pawns & Queens*  
by Julian Le Grand

### **Main assertion**

Julian Le Grand asserts that the amount of agency policy recipients have as well as the motivations of public service professionals both make a difference in policy implementation and outcomes. Julian Le Grand first posits that public service professionals' have different motivations for involvement in public service provision. Second, he asserts that their different motivations as well as the context of incentive structures impact the implementation and outcomes of public policies. Third, Le Grand suggests that having public service professionals dominate decision-making on behalf of recipients<sup>1</sup> is a disservice both to the recipients and society as a whole, even if providers are acting altruistically. Therefore he lastly presents the need to design policy that empowers users to be active rather than passive recipients. The main method he proposes for achieving high quality, efficient, responsive, and equitable public services is through quasi-market mechanisms that create user empowerment and incentive structures that align public service professionals differing motivations for service provision.

### **Author's background**

Theodoulou and Kofinis (2004) in *The Art of the Game* emphasize the subjectivity of defining public policy problems. They assert that each individual's social reality is a "social

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<sup>1</sup> The terms 'recipients' and 'users' are used interchangeably throughout the paper.

construct, derived from perceptions and beliefs” (Theodoulou and Kofinis 2004, 101). Therefore, to understand the frame of reference Le Grand is coming from necessitates a quick presentation of his background. Julian Le Grand is currently a Professor of Social Policy at the London School of Economics. As an economist, he presents arguments that methodically weigh the costs and benefits of different actions. The majority of his arguments evaluate actions based on principles of social welfare economics, such as externalities, substitution effect, and effects of asymmetric information (adverse selection, moral hazard, etc.). Interestingly, his perspective on social welfare policy counters that of his predecessor, Professor Richard Titmuss. In addition, Le Grand was a senior policy advisor for the British Prime Minister, Tony Blair, from 2003 to 2005. His background in economics and social policy frame the perspective with which he presents his policy recommendations.

### **Different types of motivation**

Le Grand presents two main categories of professional public servants: self-interested knaves and altruistic knights. Knaves, he describes as “self-interested individuals who are motivated to help others only if by so doing they will serve their private interests”. Conversely, knights are “individuals who are motivated to help others for no private reward; indeed who may undertake such activities to the detriment of their own private interest” (Le Grand 2003, 27). Although knights and knaves differ in their motivations, Le Grand presents concise arguments that both are equally capable of making rational or irrational choices, valuing cooperation or competition, and being trustworthy or

not. The juxtaposition of the capabilities of both knights and knaves is important because it neutralizes their motives.

While knavish self-interest is somewhat straightforward, Le Grand provides further development of knightly altruism. He references multiple research studies to provide evidence of different types of altruistic motivations. One such example is a study that surveyed private and public sector workers. The survey results suggested that worker motivation between the two groups differed sharply. The first goal of workers in the public sector was to “serve the community” whereas the primary goal of private sector workers was the “financial performance of the organization” and meeting organizational targets (Le Grand 2003, 34). The primary goal for each group was far down the list for the other group. Although this study, like many other, demonstrates differing priorities between the two work groups these results may have been caused by the “halo effect” whereby individuals felt compelled to respond in a certain way because of social norms. Altruism, Le Grand explains, is difficult to often assess because it “exists along-side more self-interested motivations” (Le Grand 2003, 35). Despite difficulty in drawing precise conclusions, Le Grand asserts that altruism exists and that in the public sector it is prevalent. In addition, he distinguishes two main varieties of altruism. For the first altruist, the act of providing the service is important (Le Grand labels them “act-relevant”). The second type of altruist is motivated by wanting to ensure the service is provided, however, he/she does not have to provide the service personally (“act-irrelevant” altruists). Le Grand suggests that a significant amount of altruism is act-relevant, which has big implications for policy design.

## **Impact of context on motivation**

The next step of Le Grand's argument dissects the importance of context on the motivations of knaves and knights. He discusses the different types of incentives structures that the market and government create and how they influence individuals' motivation. He analyzes whether market mechanisms drive people to be self-interested and in effect disallow altruistic behavior. Here Le Grand strongly diverges from his predecessor. Professor Titmuss suggested that the market did not allow individuals to make "moral choices and to behave altruistically if they so will" and therefore this market failure meant that the government needed to intervene to allow for altruism (Le Grand 2003, 41). However, Le Grand contends that the market system has a "threshold effect" whereby individuals exhibit some need for compensation or recognition when the sacrifice is too great, but if the compensation fully accounts for the sacrifice then altruistic behavior will be crowded out. If the "threshold effect" is taken into account by providing for limited compensation that allows for some feeling of sacrifice, Le Grand states that the market system can allow for altruism.

Government service provision is then evaluated to determine the capacity for altruism. Le Grand discusses the possibility of moral atrophy in government whereby individuals become less inclined to altruistic behavior because of government intervention. He presents evidence that discounts the impact of the 'substitution effect' (since government is providing services, individuals are less motivated to do so), 'income effect' (since government is taxing, people have less income to act), or effects of unintended consequences (since government is redistributing money people become more focused on their own self-interest). Although Le Grand states that altruistic behavior is not necessarily

impacted by the above economic principles, he does argue that government can negatively impact altruistic acts through program design. He states that government programs using hierarchical decision-making practices (termed “command and control” programs) reduce altruism because workers are disempowered and become de-motivated or attempt to avoid the system. Interestingly, he suggests that even decentralized government programs (termed ‘network’ or ‘trust’ programs) can reduce altruism. These programs that provide greater autonomy to public service professionals often involve monitoring to ensure that policy goals are being met, but monitoring often reduces trust which negatively impacts worker motivation.

As a result of the potential for purely market systems to crowd-out altruistic behavior and the disincentives to maintain quality, quantity, and efficiency associated with purely government-structured programs, Le Grand proposes the social policies use a quasi-market system of rewards. Incorporating and accounting for some personal sacrifice is of utmost importance to allow for altruistic behavior and safeguard social programs from pure self-interest. He suggests that act-relevant altruism is related not only to what help the knight can offer, how much their help benefits others, and society’s approval of the helping activity, but also “the degree of personal sacrifice associated with the act” (Le Grand 2003, 51). Therefore incentives or compensation must provide enough of a reward to encourage both knaves and knights to provide the service because if the sacrifice is too great even altruistic knights will be dissuaded. However, a significant personal sacrifice is necessary to encourage altruistic behavior.

Lastly, Le Grand draws on principles of supply and demand to establish the right amount of an activity with regard to different compensation levels. If the need for a specific

amount of an activity is the highest priority and supply is not meeting demand, then the benefit of increasing supply through greater compensation can outweigh the cost of potential altruistic crowd-out. However, if it is highly important that the activity provided has altruistic motivations, then designing a significant degree of sacrifice into providing the activity should take precedence over the goal of achieving the correct amount.

### **Distributing decision-making power**

Agency involves the power individuals have to make their own choices. Le Grand asserts that individuals should be treated as “queens” with agency to make decisions rather than “pawns” where public service professionals make decisions on behalf of recipients. He divides this decision-making power in regards to “the nature of the type of service offered, the quantity of the service used, and the provider of the service” (Le Grand 2003, 74). He presents three approaches for how much power users should have to make decisions. One approach is labeled the “liberal approach”, which asserts that the most important element of policy design is to allow for individuals’ freedom of action. This approach advocates for recipients to be actively engaged in decisions and therefore always treated as “queens” rather than passive pawns.

A second approach is the “welfarist”, which recognizes that, in general, individuals know best what will contribute most to their welfare. However, the welfarist approach suggests that there are multiple instances when public service professionals should have decision-making power on behalf of recipients. Although removing decision-making power from users diminishes their agency, the welfarist approach justifies this action when (a) users want to delegate authority to others (they choose to be pawns); (b) users have

low expertise in relation to professionals; (c) individual failures such as weakness of will or emotional decision-making; or (d) when users could make self-interested decisions on behalf of others (parents for children). Le Grand contends that for the above situations policies should be created to empower users with the knowledge and choice to make their own decision. Here he connects the issue of individual agency with public service motivation. He states that if agency is removed from users and given to professionals, there are not guarantees that professionals can make the best choice for the recipient. If the professional is a knave and acts out of self-interest, then the recipient's interests are secondary and therefore may not be served. If the professional is a knight acting with altruism, the best decision for the recipient is still not guaranteed mostly because of differences in scale. The recipient is only concerned with their own decision and the information related to it and therefore has a strong incentive to understand the intricacies of their case. However, even an altruistic professional has time and energy constraints to specialize for each case.

The last approach is "communitarian", which is most concerned with the impact of individual decision-making on society as a whole. The communitarian approach is wary of treating users as queens to make their own decisions because of the potential for negative externalities from users' self-interested decisions, such as overuse of services. Supposedly if public service professionals make these decisions, negative externalities could be reduced because professionals could ensure the greater good for society. Le Grand counters this approach with equal skepticism for government's ability to reduce negative externalities. Le Grand suggests that decisions by public service professionals may account

for other individuals; however, their scope will have limits that inhibit a cost-benefit analysis for society as a whole.

### **Incorporating agency into program design**

Despite his advocacy for user involvement as active “queens” to make their own decisions, Le Grand does consent to some government decision-making. He affirms that context is a major factor in determining appropriate distribution of decision-making power. Situations of individual or system failures can necessitate decision-making by public service professionals.

Achieving the correct balance of user and professional decision-making power requires carefully designed social policies. Le Grand references Albert Hirschman’s philosophy that emphasizes market choices of exit, voice, and loyalty. Le Grand encourages policy design to allow for both user voice and exit as means of empowerment. Although encouraging users to voice their interests for decision-making, Le Grand states that there are multiple obstacles to achieving adequate outcomes as a result of users’ voices. One of the biggest obstacles is that individual voices are often not given a lot of weight. For a user’s voice to be effectively heard it needs to join with other voices, which requires energy, commitment, and organization that is not easy or quick.

Therefore, drawing on Hirschman’s idea of the power of market exits, Le Grand asserts that providing recipients a choice of providers is a key empowerment tool. In addition, for user’s exit to have impact and power, structures must support users’ choices. Thus, the choices that users make must have direct consequences on providers. If they

don't, providers will have not incentive to change or respond and therefore user's power will be diminished.

After establishing users power as an integral piece of policy design, Le Grand lastly provides two reasons to justify the need for government involvement. The first is for situations of market failure, such as the case of externalities where self-interest does not provide adequately for society as a whole. The second reason involves what he terms 'myopia' of individual decision-making whereby individuals are prone to give priority to their short-term needs, which can have major repercussions for their future. This line of reasoning suggests that government plays a vital role in representing our future selves on behalf of our current selves. Le Grand affirms that this argument is somewhat paternalistic, but he supports the idea because of the extent to which individuals change over the course of their lives. He states, "A 65-year-old may be poor because of myopic decisions taken by her 25-year-old self. Hence the 25-year-old is imposing costs on the 65-year-old through her decisions; but the 65-year-old has no say in those decisions." (Le Grand 2003, 90). Market failures and individual myopia thus support a role for government to ensure equitable services.

### **The use of theory for specific policy design**

Although theory is important to provide a framework for shaping and evaluating policy design, Le Grand affirms the need to present concrete cases to demonstrate how his theories can be applied to policy. He discusses five types of public policy: health care, school education, demogrant, partnership savings, and hypothecation. I will provide a brief synopsis of his key points.

*Health care.* Incentive structures in the health care sector have been proven to impact service provision. One example given was when health care providers were rewarded by solely based on the number of patients they had. However, they maintained complete control over how money was spent and therefore had an incentive to limit the services they provided to their patients. Using his theoretical models, Le Grand suggests a health care structure that allows patients to choose between, what he terms, 'fund-holders' so that recipients are empowered with choice and exit capabilities. This structure also creates a competitive environment to align the motivations of both knaves and knights; however, altruism is encouraged because the 'fund-holding' general practitioners must allocate funds appropriately within their system.

*School education.* Le Grand documents empirical evidence that demonstrates a causal link between the efficiency of public schools and the amount of competition they face. Therefore he suggests a voucher system that would provide users (parents and children) with options for where they wanted to allocate their school funds—the key to empowerment. Through the use of vouchers, schools are incentivized to provide high-quality, efficient, and responsive education. With regard to equitability he suggests the use of a positively discriminating voucher whereby children in poorer areas received a larger voucher.

*Demogrant.* This policy proposal focuses on changing the distribution of power, opportunity, and wealth in society. Le Grand (2003, 120) notes, "ownership of financial assets or wealth confers power" and therefore to allow for individual agency, everyone needs the opportunity to have financial assets. The demogrant concept suggests that each individual is given a significant fix amount (such as \$10,000) upon reaching a specific age.

Le Grand (2003, 124) asserts, “Asset-ownership gives people stake in society”. He suggests that it be financed by inheritance tax and that there could be conditions to receipt of the funds, such as a high school diploma, no criminal record, and classes on financial management.

*Partnership savings.* Individuals have limited incentive to save money because of current market failures and minimal government involvement. Le Grand suggests that government intervention to create incentives for personal savings can enhance an individuals’ agency. He suggests a form of a government match to foster individual savings.

*Hypothecation.* One of the most significant ways in which individuals are treated as passive pawns is through taxation. Le Grand provides evidence that citizens feel disconnected from the taxes they pay and how tax revenue is spent. He suggests that this disconnect fosters resentment and tax evasion. To address this disconnect Le Grand offers hypothecation, which would allow citizens to indicate how they want their tax dollars spent. Although this model would reduce government flexibility, he proposes that the benefits of empowering and engaging citizens outweigh the costs.

Le Grand asserts that successful policy design should (a) align the interests of both self-interested knaves and altruistic knights (making sure to allow for sacrifice); and (b) utilize quasi-market competition to empower policy recipients with options and choice. In this manner social policies can provide high-quality, efficient, responsive, and equitable public services.

## References

- Le Grand, Julian (2003). *Motivation, Agency, and Public Policy: Of Knight & Knaves, Pawns & Queens*. New York: Oxford University Press, Inc.
- Theodoulou, S., Kofinis, C. (2004). *The Art of the Game: Understanding American Public Policy Making*. Canada: Wadsworth.