

Module 7

Lecture 42

Topics

6.5 Some important heterodox thinkers:

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- AmartyaSen holds a unique position in the scholarly community in economics – he is deeply respected even though he has been thoroughly critical of neo-classical welfare economics.
- Sen enjoys equally high status among social philosophers and students of other social sciences.
- After doing his first BA from Presidency College in 1953, he moved to Trinity College in Cambridge University where he got his B.A., M.A. and Ph.D degrees. After getting his Ph.D he served as a fellow of Trinity College from 1957 to 1963. And then he came back to join Delhi School of Economics where he stayed till 1971 after which he went back to England to teach in London School of Economics and then in Oxford.
- During this period he published work on the problem of labor surplus, mechanization and the farm size-productivity relationship in agriculture and economic behavior of peasant household.
- During the middle of 1960s he started publishing his seminal work on the field of social choice which culminated in his book *Collective Choice and Social Welfare*.
- Sen's work during this period touched a variety of issues ranging from modes of production in agriculture to highly esoteric and philosophical themes such as the

conflict between individual and collective rationality, utility interdependencies and theoretical possibility of making collective choice.

- In these writings Sen provided a critique of self-seeking individual paradigm of neo-classical economics. For example, in his “Isolation, Assurance and the Social Rate of Discount”, Sen investigated saving decisions of individuals as collective action problem.
- Suppose a is the value an individual places on a unit increment in income to his heirs, b is the corresponding value for an increment to other members of the future generation and c the value of an increment to a contemporary. Under this set up, Sen shows that, whenever $b/a > c$, the individual would be better off agreeing with others to save more than that without such collective agreement.
- The game depicted here the properties of standard Prisoner’s Dilemma under which individuals benefit from defecting. Hence, Sen maintains that forced collective savings mechanism such as state taxation may be needed.
- However, he also devised games with a slightly different pay off structure where cooperation emerges as the equilibrium as long as they believe that everyone else is cooperating. He dubbed this game as assurance game. Sen subsequently pointed out that prisoner’s dilemma games sometimes can be transformed into assurance games. Such changes need not be in objective conditions of the pay-off but in the subjective valuation of those pay-offs. In such game players want not to be cheated but attach valuation to their reputation (cooperator/cheater). Hence, they prefer to be honest as long as they are not cheated.
- One of Sen’s major work in the field of social choice is about Kenneth Arrow’s impossibility theorem (1951). The theorem tells that it might be impossible to use individual’s rankings of individual social states to construct a social choice function obeying four seemingly reasonable assumptions: unrestricted domain (U), Independence of irrelevant alternatives (I), Pareto principle (P), and Non-dictatorship (D).
- Sen examined Arrow’s result by seeking to understand which assumption is the most critical for this result. He made a few comments on the nature and applicability of Arrow’s result:

- Sen notes that even though each of these assumptions seems plausible, it is hard to judge the plausibility of an axiom unless we also consider with what other axioms they are bound together.
- The combination of U,I and P rules out information about the nature of alternatives involved in the choice i.e. it does not matter what are the alternatives people are choosing from.
- The individual preferences are just the orderings of individuals considered separately without any interpersonal comparisons. Sen notes that that Arrow's theorem focuses in a wrong place by focusing only on individual ranking ignoring the problem of interpersonal comparison completely. Sen in his LSE lecture on this topic gives the example of a proposal to tax some of the poorest persons and divide it among several others. This will be a majority improvement in a economy full of selfish people. But abstracting from the issue of interpersonal comparison is a wrong step for many welfare issues.
- Sen's critique of welfare economics went beyond the criticism that the interpersonal comparison of utility is absent in welfare economics. He criticized the neo-classical paradigm which only looks at the consumption bundle and leisure as the basis for measuring welfare. During this phase of his research Sen, in "The Impossibility of a Paretian Liberal (1970)" showed that Pareto optimality is inconsistent with liberalism. Liberalism is a philosophical value that that says that people should be permitted to do what they please provided that it does not prevent others from doing likewise).
- In an extension to this critique of the standard neo-classical treatment of welfare economics, Sen proposed his capability approach that transcends the premise of consumption bundle based welfare. His argument was that welfare of an individual does not depend on the consumption bundle given to her, but her capability to use them. He argues that the utility derived from the possession of a commodity does not depend on the characteristics of the commodities, but also on the characteristics of the commodities.
- Moreover, Sen argues that well-being cannot be judged only by end states -- the options and the freedom to choose are also pertinent to well-being. This means consumption of a bundle X will yield more satisfaction when it is chosen from a large number of alternatives than it is chosen from a few number of alternatives.

The standard of living should be judged based on her capability to lead the life according to what she values.

- Besides his path breaking work on welfare which builds upon both economics and philosophy, Sen also authored a number of papers looking at the causes of famine. His work brought a new insight into the fundamental causes of famine. Before his work, the conventional wisdom was that famine happens because of supply side factors such as shortage in food grain production. Sen's work emphasized the importance of distribution in preventing famine. Using evidence from Bengal famine of 1943, Bangladesh famine of 1974 and famines in Ethiopia and the Sahel countries in 1970s, Sen showed that famines did occur without any change in the availability of food grains to an economy. In some cases it resulted from remote factors such as increase in purchasing power in other regions diverting the food supply to those regions.
- In a very insightful comparison of India and China in terms of fighting hunger, Sen showed that while Communist China had succeeded in reducing chronic hunger through policies that significantly increased the minimum food consumption levels of most of its people resulting in an increase in life expectancy to 69 years, it could not reduce the number of famines by a large proportion. India by the 1960s on the other hand was experiencing chronic hunger and low life expectancy but was able to reduce the number of famines to a large extent. Sen argued that India could achieve this because of its free press and electoral democracy.
- Sen's contribution is spread across different sub disciplines of Economics. He is one of the most influential thinkers of our time. In this course we present his work as a counter point of the neo-classical orthodoxy. Hence, we mostly emphasize on the body of his scholarly work where brings out the philosophical allegiance of seemingly objective and neutral neo-classical doctrines. This helps us understand any theory as a product of certain philosophical standing and challenges the myth of neo-classical economics as a historical, objective science.