The Amartya Sen interviews
Amartya Sen on the economic crisis

On the role and limits of markets

In his time, in the mid 18th century it was Adam Smith who first established in a definitive way what is it that the market economy does and why it is important to have market in order to achieve efficiency, particularly economies of large scale, but also exchange in general and why we can't produce every good that we need. You know, when I've got in the morning and shaved myself I wouldn't think of making a razor for myself. And similarly I want to go and harvest coffee which I like to use and so on. So I think the fact of the matter is that there is, people understood, that there was something going on with the market but they didn't quite know how it worked. And indeed the insights were deep and, and profound in a way that, well even now, er, is coming true.

At the same time there's a second lesson which again splits into two. One is to say that the market is not a free-standing institution. You need many things. Markets couldn't survive until you had stability, of the ownership of rights, of contracts, and the importance about the legality of contracts is that you have to rely on contracts for the market economy. But if every time you have to sue someone to get things done it wouldn't work. There has to be a culture which is parasitic on the legal system. And that requires institutions, legal institution, media, public knowledge, schooling, all kinds of things. Similarly when the market economy operates you need trust in each other, you have to have some kind of experience, with, er, dealing with each other. And that also requires a different kind of institutional relationship. On top of that, and that's the other side, and that is two point two if you like, is that the, that the market economy not only is not a free-standing institution in the sense that it leans on other institutions, but also it never is complete in terms of what it can achieve. The other institutions are not only supporting the market economy but they have to supplement it. There will be unemployment from time to time, people will be without income, there will be huge supply problem in public education on which Smith talk, talked extensively, or in public healthcare. These the market economy will not provide and in America which is perhaps the most successful market economy, still it spends more than any other country in world, overall as well as per capita, but has healthcare achievement that puts it, you know not at the top of the league but, like, you know, I don't know, 15, 20 or something like that in terms of health achievement. You do need to supplement the market economy with healthcare, you need it for public education, you need it for income support, unemployment benefit. You need a pension arrangement; you need it all kinds of social security provision. And that requires other institutions to be developed to support the market economy and go to beyond it and sometimes to negate the market economy and indeed very importantly to discipline the market economy. Smith discussed extensively how people whom he called prodigals and projectors can, because of their great love of making quick money, could, er, lead the economy astray, and lead to a crisis of the kind that we are seeing today. Prodigals and projectors fit very nicely the description of people who started the sub prime mortgage crisis and, er, it fits for Enron very well too.

On the post-war market economies

The world that emerged out of the Second World War was full of problem but it was full of understanding of how things go wrong. There was the depression of the 1930s, there were the lack of provisions for healthcare for all. That was well understood. There was the war time experience for countries like Britain was very important. For example, just to give one example, which, when the days when I used to work on, on foods and famine it was an important example for me to understand, that during the Second World War, Britain had the lower per capita availability of food than ever in recorded history and yet cases of undernourishment dramatically fell, the cases of severe undernourishment totally disappeared. Because that reduced amount of food was reaching people because of rationing system, people had entitlement to food. And that really meant that people who wouldn't even in the time when food was quite plentiful around in the market, couldn't afford to buy it, for the first time were entitled to buy it.

So the beginning of the recovery after the war, late in the middles forties came the National Health Service. There came various other aspects of welfare state including pension arrangement, unemployment benefit and so on. Now the market economy was therefore being supported by all these institutions in a big way. And huge educational expansion in which the Government played a part. And we have to still remember that it's an expansion which will in many ways cut across the political divisions.

So there was a kind of liberation in using market economy at the same time supporting the market economy with other institution and supplementing it. That was, in some ways, if one, if Smith had reason to rub his hands with pleasure he would have certainly done that in the fifties and sixties and the seventies. But then things started moving beyond and suddenly people got quite mad with the, er, with the success.

Somehow the lesson learnt was that for the people who were taking decision that the market could do fine, thank you very much, we don't need any other support.

On the rise of the free market ideology

It was increasingly the regulations were not needed. Reagan started that very much, it was continued in the Clinton era, some of the major deregulations, of particularly insurance industry occurred in the modification that the Clinton era legislation provided, often by economic adviser, very wise economic advisers. But they too were reading it in terms of old market economy success. Now, for example, in 2000 they abolished any regulation on what it called credit default swap. Now despite the fancy name it's just a kind of insurance. It was huge pressure from Wall Street. The White House responded and the Congress responded. Now that trillions of bad credit defaults for insurance money going around because these people suddenly, you know, you needed capital for capitalism, suddenly you could do capitalism without capital. Lot of people got into this insurance field without anyone checking whether you had the money to do it and what kind of arrangements you had. And then on top of that financial progressor, innovation had allowed people to get rid of your assets that, you know, you lend people or insure someone and you get either assets in the form of against their houses or something else and you could sell them on to derivatives and other markets. And soon people who originally did the foul deed are nowhere in the market because they've got rid of the thing. All these became deregulated. There was no need for that. You know, the economies with the mixture of Government regulation and the market were doing much better than they're doing now. So I think the crisis was generated by a, a kind of confusion about what is it that provides the stable progress using the market but at the same time relying on many other institutions. It was a very costly mistake.

On China: a case study

The total copybook case of that, of what not to do, is China. Up to 79 they ignored markets all together, their industries were in a bit of a mess, agriculture was in a total mess, and the communes - there has been never a system devised which had less productive on agriculture than communal agriculture. Now they abandoned that all in 79. And that worked brilliantly well for agriculture, pretty well for industry, slightly mixed record, but pretty well generally. But in healthcare disaster. You see the Chinese thought seeing the market is so good it works very well in healthcare too. So they abolished universal social insurance provided either by the communes in agriculture within the rural economy or by the state in other parts of the country. Communes did, communal agriculture did very little for agriculture but did a hell of a good job for health because it gave lot of money to healthcare and everyone was automatically covered. The Chinese abolished that and, and suddenly from, say, after 79 you had to buy your own insurance with your own earned money and excepting for a small group of people for whom, high civil servants and some business firm, everybody else had to do it.

And the result was a, a precipitous slowing down of China's progress in healthcare. I mean just to give an example, it is often instructive to look at a part of India; India's such a diverse country. One part of India, Kerala was very similar to China in having healthcare as a right provided by the State. The right to get basic state-based healthcare was available to all and Kerala never abolished that. And you can see the difference coming up. In 79, Kerala had a life expectancy of 67, China had 68. Now China had moved from, in 20, more than 25 years now, well 30 years now, had moved to about 72. And Kerala is about 75, 76. Infant mortality in China and Kerala at that time was 32. Now Kerela, er, China has come down to about 25, 26. Kerala is down to about 12. And it indicates what China could have got if their unprecedented economic growth was combined with the supported non-market based healthcare. But they didn't, because the idea was that just earlier on they would have none of the market and after that they will have nothing other than the market. And I think what was missed out, the basic Smithian notion, that you need a mixture. It placed market in a complexity of institutions. It gave market its due, and it's very important because a lot of people didn't, and it actually at the same time established why it needs the help others, why markets are as good as the company it keeps.