

Chapter 9

Objectives for a Social Policy Bond regime

Social Policy Bonds may have advantages when targeting of large, complex problems. We look briefly at such examples in the first part of the chapter: including poverty Africa, nuclear proliferation, war and environmental catastrophe, and other public goods and services. But the bonds are not the best way of solving all society's problems. The current system - largely one of top-down implementation of specific projects – can work well for problems whose the causes are easy to identify, for which the solutions easy to deduce, and that will respond predictably to regulation or legislation. The second part of this chapter looks at the limitations of a bond regime.

Poverty in Africa

When a government or global body nowadays targets a policy goal as broad as 'poverty in Africa', we are probably right to see it hopelessly idealistic. That's partly because we know from experience that under the current system such good intentions, even if backed up by millions of dollars, rarely translate into meaningful improvements in well-being. So, after 43 years and \$568 billion (in 2003 dollars) in foreign aid to the continent, Africa seems doomed to economic and political stagnation. There are still many deaths from malaria, including those of children, that could be prevented for tiny sums of money. Medicine that would prevent half of all malaria deaths, for example, costs just 12 cents a dose. A bed net that would protect a child from getting malaria costs \$4.¹ William Easterly asks 'why then do comprehensive packages almost always fail to accomplish much good...?' It seems that biggest problem is 'that the rich people paying the bills do not share the same goals as the poor people they are trying to help. The wealthy have weak incentives to get the right amount of the right thing to those who need it; the poor are in no position to complain if they don't.'² The problem is compounded by poor governance: essentially greedy and corrupt politicians and officials. To their credit, givers of aid to Africa have recognised this:

The latest aid-givers' consensus is to identify "good" countries, still quite a small bunch, and let them spend the cash as they see fit. Yet time and again, good guys—most recently, Ethiopia's Meles Zenawi and Uganda's Yoweri Museveni—slip back into old despotic ways, putting aid-givers into a quandary.³

The top-down approach to aid continues to be, with some exceptions, a disaster. It's uncoordinated and unaccountable and channels billions to corrupt leaders who steal or squander the money. If it does try to measure its success it does so by monitoring adherence to questionable ideological criteria (see chapter 1 'Ideology') or the volume of aid dollars pledged or spent. Not, in short, by meaningful results. From the pragmatic point of view, it doesn't matter whether this human tragedy is a result of tribalism, colonial history, genes, kleptocratic or psychopathic leaders, or whatever. It is most practical to see it, as does Easterly, as a problem of perverse incentives. And the fact is that there are few incentives for those with the cash and capability to spend money where it will yield the largest improvement in welfare per dollar, and there are big financial rewards to those who would deny the poor the small sums that could dramatically improve their welfare.

Some African governments are quite cynical: they are quite happy to bargain away their

citizens' lives and well-being for a few more years in power. A Social Policy Bond regime targeting poverty in Africa could change all that. It could mobilize people to eliminate government corruption, or to bypass or undermine recalcitrant governments, in order to achieve basic human needs for their people. The bonds, whether backed by concerned governments outside Africa, or by wealthy individuals or non-governmental organizations anywhere, could generate incentives for such a mobilization. They would rejig the incentives in accordance with the wishes of those who put up the funds to redeem the bonds.

And Africa's problems are so desperate that the continent's well-being can be accurately targeted by quantifiable indicators, such as morbidity, literacy, infant mortality, longevity and caloric intake – which is not always true in the rich world. Work on applying the bond principle to the poorest countries in the developing world is made easier by such pre-existing metrics as Human Development Index, which is a broadly-based measure of development as measured by literacy, school enrolment, life expectancy and income.⁴ As well, the World Bank⁵ and United Nations⁶ publish tables of social indicators of development. These metrics could be readily adapted for targeting by Social Policy Bonds. In chapter 3, we looked at the criteria that those social problems favouring the bonds over conventional solutions. They are, in brief: that the problems are complex, with few obvious causes; that existing policies are vague and ineffectual; and that rewards to problem-solvers are not currently linked to their efficiency. Poverty in Africa fits all these criteria, and with the ready availability of indicators of human well-being would seem to be suited to a Social Policy Bond approach.

Environmental disaster and war

There are potential problems even more compelling than poverty. Two important ones are identified by Noam Chomsky.

The selection of issues that should rank high on the agenda of concern for human welfare and rights is, naturally, a subjective matter. But there are a few choices that seem unavoidable, because they bear so directly on the prospects for decent survival. Among them are at least these three: nuclear war, environmental disaster and the fact that the government of the world's leading power is acting in ways that increase the likelihood of these catastrophes. It is important to stress the "government," because the population, not surprisingly, does not agree. That brings up a fourth issue that should deeply concern Americans, and the world: the sharp divide between public opinion and public policy....⁷

This sums up humanity's predicament accurately, though this author would not ascribe particular blame to the US Government but rather to political systems everywhere, which vary a lot, but are probably most concerned with perpetuating themselves. In an increasingly complex world it's too easy to escape or deflect censure for corrupt or incompetent policies: relationships between cause and effect are too obscure; blame can always be shifted. Political debate mirrors the system's obsession with irrelevance. But clear away the fog of strident commentary and party politics and you will find a high degree of consensus over what people actually want. Chomsky's probably right: most of us would see nuclear war and environmental disaster as humanity's most serious challenges. But our political systems don't allow us to express our concern directly. At best we can choose people who say - amongst many other things - they care about these issues but who, when in power, cannot or will not focus on them. It's not necessarily the politician's fault: they are part of a system whose main

motivating principle is basically to keep things going as they are. Hence the chasm between public opinion and public policy.

Chomsky blames the US Government, but we believe that blaming this or that faction is to get dragged into the very system whose failure he so well describes. As with poverty in Africa, pragmatism dictates that we move on from blame and ideology and instead investigate ordinary people's actual priorities. Under a Social Policy Bond regime, these priorities would take the form of outcomes to be targeted. We believe, with Chomsky, that we should then have a clear instructions to deal with the possibility of nuclear war and other major threats to human life, including global environmental challenges, or war in general. Would that be too idealistic?

If an apparently convincing general solution to the problem of war were achievable, it is probable that someone would have discovered it by now. The fact that none such has yet been promoted suggests that the scholarly campaign against war may have been thoroughly misconceived. ... [War] is simply too rich a subject to be captured, let alone prospectively controlled, by the conclusions of general theory.⁸

In this, writes Professor Gray, war is similar to disease: individual maladies can be treated and even cured but 'disease per se does not lend itself to direct scientific assault'.

To a point, perhaps. In the early days, dramatic victories against disease in general were won by the provision of basic sanitation and clean water, and the direct assault continues with basic health education, food safety legislation and many other activities. True, drug companies benefit by developing new therapies for specific diseases, but there are many basic health precautions that, in effect, do prevent or mitigate all disease. All this is only to say that a combination of specific and general measures have worked dramatically to reduce the incidence of disease in the west. And if with disease, why not with war?

A Social Policy Bond regime would target *all* violent political conflict, including wars within and between states. It would not directly generate solutions to the problem of war, but it would give incentives to those who are currently engaged in conflict reduction and conflict resolution. It would also enlarge the numbers of people willing and able to work toward those ends, whether they aim to defuse specific conflicts or participate in a more general war-reducing effort. We don't need to know in advance which combination of concepts or methods will yield the best result. What we do need are adaptive, diverse solutions to the problems of potential or actual armed conflict in all its myriad manifestations.

Insurance against catastrophe

Cataclysmic war or environmental catastrophe are only a subset of a range of actual and potential problems bedeviling humankind. Others (see chapter 3) are the risks arising from new biological advances or scientific experiments that concentrate energy, or natural disasters such as asteroid impacts or volcanic supereruptions.⁹

Unfortunately the number and likely impact of potential catastrophes is rising. Technology is changing rapidly, and as the world becomes more densely populated and interlinked more and more processes or events that could be conveniently ignored in the past or handled informally now pose a risk to millions of human beings. But it is near-impossible for anyone, including

conventional policymakers to identify the most likely future catastrophes and their causes. One lesson from our climate change experience (apart from how little we are doing even now to avoid it) is that we seem to be close to a catastrophe that few could have anticipated when fossil fuels first started to be burned. But climate change actually has had a long lead time and there were people, decades ago, who suspected it might happen.¹⁰ There are now so many potential catastrophes without even those portents that the organizations we hope will help us anticipate and avoid them - government agencies, mainly – cannot realistically be expected to do so.

Government policymaking can succeed when it's well meaning, has sufficient resources and the problems it has to solve are easily identified and do not conflict too much with powerful interests. Unfortunately, many of the new problems arising from denser, more linked, populations and higher technology are difficult even for a well-resourced government, or indeed any single big organization, to anticipate, let alone do much to forestall. These newer threats are in addition to the 'known unknowns' of climate change and other possible environmental disasters. How should we deal with such threats?

One way forward might be to issue Social Policy Bonds as insurance against large-scale disasters. A national government could issue Social Policy Bonds that would reward investors if an *unspecified* event killing more than, say 10 000 of its citizens in any one 48-hour period, does not occur before a specified date, several years hence. The bonds would encourage investors to investigate all sources of potential disaster, *impartially*; that is, without favouring those that have a high media profile, for example, or those that are the remit of existing public or private sector bodies.

Globally, the concept could be scaled up: a collection of governments under the auspices of the United Nations or non-governmental organizations could issue similar bonds, aimed at preventing even larger-scale disasters. Again, the nature or cause of the disaster need not be specified: the bonds would function in a similar way to catastrophe bonds (see chapter 6), except that they would have the explicit purpose of making it worthwhile for investors to prevent disasters happening or mitigate their effects – and sufficient backing to motivate such investors. At both the national and global level, the particular merit of the Social Policy Bond approach is that there is no need for a handful of experts to try to anticipate the causes of future disasters and to allocate funds according to their views with only today's knowledge at their disposal. Investors in Social Policy Bonds would do this work themselves, without bias, and would be motivated to *adapt to new information continuously, during the entire lifetime of their bonds*.

Digression: doing what governments cannot do

Gone are the days when a government could, for instance, recognise that Ms A receiving unemployment benefit (say) does in fact benefit from such a payment, while Mr B's long-term interests would be best served by putting some pressure on him to find a job. Perhaps big, government is necessarily out-of-touch despite its expanding role in our lives. It certainly finds it difficult to adapt and diversify its approach. Under a Social Policy Bond regime, however, it could supply the incentives for investors to adopt the sort of finely-tuned initiatives that it cannot itself practise.

Government finds it difficult to intervene in other areas where its behaviour will be construed as favouritism. Take ethnic or religious conflict, which is often deemed intractable. Existing efforts at inter-communal peace often empower the very people whose authority depends on maintaining and widening the divisions between the communities; which can be a disastrously self-reinforcing process. One way forward might be to encourage intermarriage between the antagonistic communities. For most governments, advocating or even discussing such an idea would be political suicide. But for holders of Social Policy Bonds targeting conflict, it would merely be another tool that can choose to use or not, depending on their view of how effective it will be. If intermarriage is likely to work, it should be tried; and if it does work, it should be rewarded. Under a bond regime targeting the end of violence between communities in conflict, no official programme of sponsored intermarriage need be contemplated. Bondholders, though, could do, or cause to be done, things that governments cannot do. There would be no sinister motives underlying their actions; their motive, clear and comprehensible to all, would be explicitly mercenary with no sinister overtones: to raise the value of their bond holdings.

As human beings, most of us agree that anything that resolves conflict peacefully and at a bearable cost should be encouraged. Apart from fanatics, even the devout on both sides of most conflicts, away from public fora and in their cooler moments, would put human survival above ethnic purity or identity politics. Even a little intermarriage between two warring factions could go a long way. Most likely, under an enlightened Social Policy Bond regime, rather than being directly encouraged, intermarriage would be the happy outcome of a range of projects aimed at increasing informal contacts between the two sides, including such trust-building measures as lower barriers to trade, school exchange visits, or mixed sports teams. One of the benefits of a Social Policy Bond regime is that it can stimulate actions like these including, if necessary, the direct sponsoring of intermarriage, or the birth of mixed-ethnicity children which, if governments were to undertake them directly, would be met by near-universal disdain and opposition.

Eradicating poverty in the rich countries

Richard Layard finds that there appears to be no link between the generosity of a welfare state and the level of well-being within it.¹¹ It does appear that beyond certain levels of income and wealth, more money does not make us much happier.¹² But the literature is not conclusive and some studies show a correlation between wealth and happiness *within* nations.¹³

If we accept these findings there would seem to be a clear policy implication, which is that government intervention should focus on the eradication of poverty. This is partly because the implicit dogma that faster economic growth as (badly) measured by GDP per capita means more well-being seems to be mistaken, and partly because it is the poor who are most in need of government intervention and who would most benefit from it by any objective criteria. It is at lower levels of income, nutrition, wealth, or environmental status, where well-chosen numerical variables correlate most strongly with what most of us would consider improvements. We have seen that too much government spending is channelled into the provision of subsidies and infrastructure to corporations, the wealthy and the middle class. Eradication of poverty should be a priority of the governments of the rich countries, whether or not they introduce Social Policy Bonds.

Provision of public goods

National governments should, of course arrange the provision of the public goods such as defence, and law and order. There is no particular reason why a Social Policy Bond regime cannot be deployed to supply these goods and services, though it's more likely that the bonds will have proved themselves in other areas before they can replace current policies. Other services with a strong public service element, such as health, education and housing, especially at the more basic levels, would make good candidates for targeting by a bond regime.

Social Policy Bonds could moreover play an important role where public goods are now only implicitly targeted. Here, explicit targeting would serve to channel resources into maintaining valuable goals that are currently present only by default. These include the avoidance of catastrophic social and environmental collapse (see 'Insurance against catastrophe', above).

Mental health

A Social Policy Bond regime should probably target mental health explicitly, but so too should our current political system. According to the UK's Mental Health Policy Group 'one in six of all people [in the UK] suffer from depression or chronic anxiety, which affects one in three of all families'.¹⁴ Mental health is of course difficult to quantify - to put it mildly. We can readily measure and increase *spending* on treatments like psychological therapy, as the Group advocates. But how are we to know whether such spending is cost-effective, or even effective? One approach could be to take small randomised samples of a population, and measure their behaviour and responses to specific questions or psychological tests. This is similar to the approach taken by crime surveys, which are thought to be more reliable indicators of the level of criminal activity than numbers of crimes reported to the police. These surveys simply poll a sample of people and ask whether and how they have been affected by crime.

In any case, there is no case for ignoring mental health just because, with our current tools, it is difficult to measure. That is more of an argument for developing better metrics. The alternative looks far worse: as with the physical and social environment, with both of which it's inextricably bound up, mental health is in danger of being allowed to deteriorate by default, because nobody got round to quantifying it until the effects of its degradation were too catastrophic to ignore.

In this context, work by Richard Louv is important. Referring to the communities in which 75 million Americans live, he says:

Try to put up a basketball hoop in some of these communities, let alone build a tree house. The message to kids and parents is very clear: nature's in the past. It doesn't count anymore. The future's in electronics. The bogeyman lives in the woods. Playing outdoors is illicit and maybe even illegal.¹⁵

As the introduction to Louv's interview says, 'after tens of thousands of years of children playing and working primarily outdoors, the last few generations have seen such interaction with nature vanish almost entirely.' Louv argues that this has incalculable implications for

children's physical and mental health, and for the future of environmentalism. At last research linking nature to healthy child development is starting to be investigated, and studies already show that 'prisoners in prisons, people in the infirmary - those who have a view of a natural landscape heal faster.'¹⁶

What does this have to do with Social Policy Bonds? Conventional ways of trying to solve health problems such as Attention Deficit Disorder or vaguer feelings of anxiety and depression involve specific, targeted, treatments, which can be biochemical, psychological or psychiatric. There's very little interest in trying to *prevent* such problems because there are no institutions that can benefit from doing so. The massed ranks of drug company employees, psychologists and psychiatrists, while they individually may suspect that 'nature therapy' can invigorate communities, do not belong to organizations that can act on that suspicion. There are plenty of incentives in place to sacrifice nature on the altar of economic growth. Against that imperative, the well-being that comes from preserving nature counts for very little. Government-run health services are largely influenced by narrowly-based interest groups. Something as diffuse, unprofitable and poorly researched as nature therapy stands little chance of influencing the direction society takes under the current array of policy drivers.

A Social Policy Bond regime targeting long-term mental health would be different. Bondholders would have powerful incentives to seek out whichever ways of raising mental health are most cost-efficient. There would be no prejudices in favour of existing ways of doing things or existing institutions and lobby groups. They would stimulate, consider and, quite possibly act on research like Louv's, rather than be sidetracked into safeguarding vested interests.

A single quality of life target?

Why not then target a single 'quality of life' indicator for the whole of society, taking into account all quantifiable social and environmental objectives: quality of life, physical and mental health, education level, environmental pollution, crime, homelessness unemployment, leisure time and any others? Surely targeting one single aggregated 'social welfare' indicator would be the optimal approach?

The more obvious objection to doing this is the daunting practical problem of defining a meaningful and measurable indicator of social welfare. The second is even more fundamental. Aiming for an increase in a single social welfare indicator carries with it an assumption that society's needs can be traded off against each other. But for many of the needs for which government usually assumes responsibility such trade-offs cannot be made. For the neediest beneficiaries of government's welfare programmes, a massive increase in priority for, say, health care would be unlikely to compensate for a total withdrawal of government funds from, say, basic education. 'Safety net' programmes in particular are scarcely amenable to trade-offs. In the same way a lowering of the crime rate, say, however welcome it might be, could hardly compensate for the total collapse of a country's physical environment.

Limitations

The discussion above points to the two main limitations of Social Policy Bonds. They don't tell us which targets to choose, and they rely on quantitative indicators, which have their limitations.

How to choose targets

Social Policy Bonds may well minimise the cost of achieving specified social and environmental goals but they don't tell us *which* goals to target. Not directly. Currently the prioritising of social and environmental goals seems to be driven by concerns other than maximising returns on spending. Policies have their proponents and interest groups, and their relative bargaining power often dictates society's policy direction. One organization that does, though, look at 'political triage' is the Copenhagen Consensus. It questions existing political priorities, on the basis that though we should like to solve all the world's problems, resources are limited and we have to prioritise. For instance, it estimates the existing cost of the Kyoto Protocol \$180 billion a year and says it will make a minuscule difference to the world's climate, 'delaying temperature rises by just seven days [sic] by 2100'. But it calculates that:

A tenth of the annual cost of the Kyoto Protocol – or a tenth of the US budget this year for the wars in Iraq and Afghanistan – would prevent nearly 30 million new infections of HIV/AIDS. The same sum could similarly be used to help the four million people who will die from malnutrition this year, the 2.5 million killed by indoor and outdoor air pollution, the two million who will die because they lack micronutrients (iron, zinc, and vitamin A), or the two million whose deaths will be caused by a lack of clean drinking water.¹⁷

Assuming the figures are correct, it would seem clear that we ought to divert funds away from Kyoto towards AIDS and malnutrition prevention but that is to some extent a subjective view, because we are comparing the seven days delay with human lives saved. Taking the same figures, though, assume that the decision lies between saving the lives of the four million who would otherwise die of malnutrition this year or the 2.5 million killed by air pollution. Then, we are comparing like with like, and the choice should be to save the four million. We can, and should, question the assumptions underlying these figures, but the exercise indicates how, in principle, we can come up with an impartial prioritizing of scarce global resources.

The problem is that, even with all the caveats, such easily compared, objective criteria are rarely to hand. How much, for instance, is biodiversity worth? How is the avoidance of lost biodiversity to be weighed against people's wish for cheaper fuel?

Social Policy Bonds cannot answer these questions, but they can help in two ways. We saw in chapter 5 ('Efficient costing of objectives') how the market prices of the bonds at flotation and thereafter generate estimates of the total and marginal costs of achieving targeted goals. The total cost estimates would be continuously refined and updated by a large pool of motivated observers. They would probably be better estimates than those calculated from the sort of estimates made nowadays: typically one-off calculations performed by a relatively small number of academics or government employees. The marginal costs derived from bond prices would also represent a big improvement over the information currently available to

decision-makers, once they have decided which projects to support. Ultimately, these decisions will have to be made on a political basis. But here again, a Social Policy Bond regime could help: a bond regime, because of its transparent targeting of meaningful outcomes would make it easier for more people to participate in policymaking generating, as we have discussed (chapter 5) more buy-in than current politics affords.

Numbers have limitations

Anything that exists, exists in some quantity, and can therefore be measured. Lord Kelvin

Specifying targets for a Social Policy Bond regime won't always be easy. Take something that seems readily quantifiable, such as climate change. Critical questions immediately arise: do we want to mitigate or prevent climate change? Climate change is likely to increase flooding, drought, storms and (in some countries) food shortages - would we be better off targeting these detrimental human outcomes, rather than climatic variables? But what about the entire global ecology - is it to be valued solely in terms of the services it provides to humans? Important and difficult questions to be sure, but *exactly the same questions arise however we attempt to address climate change*. At the high level of aggregation at which governments operate, policymaking relies heavily on quantifiable indicators.

In households or families where people live closer one another, people probably know a lot more about each other's general state of happiness. They know when the people that matter most to them are happy, and they have a fairly good idea of the events and circumstances that will make them happy. They probably could not quantify or even articulate these matters, but neither do they have to. This probably holds too for extended families and close communities. And for most of us, happiness cannot be readily expressed as a list of numerical indicators. We should probably all feel temporarily happier with *incremental* increases in bank balances, salaries, or years of healthy life but, for most of us most of the time, our overall level of happiness or well-being is more a state of mind than the result of a set of numerically defined circumstances.

Decision-making become more complicated for larger societies. Even so, when benign national governments first began intervening to solve social and environmental problems, the problems themselves were more obvious, the causes of problems could be more readily identified, and so could the solutions. Governments were largely successful in their policy interventions on behalf of the disadvantaged: they instituted basic health and education for their own populations. They provided other public goods, such as law and order, and sanitation. And they did so with great success. Even so, support was not unanimous. Thus, *The Times*, editorialising against measures to provide basic sanitation in London:

[W]e prefer to take our chance of cholera and the rest than be bullied into health¹⁸

In our industrial societies, with their large, complex economies, government bodies and non-governmental organizations have far more complicated tasks. They have enlarged their role and largely supplanted families, extended families, and communities in supplying a range of welfare services to a large proportion of their populations. Increasingly, and of necessity, government relies numerical indicators to manage its resource allocation.

But this use of indicators is relatively recent, unsystematic and unsophisticated. Few indicators are targeted explicitly for a sustained period: the targeted range of inflation is a rare exception, as is the coherent range of indicators presented in the UK Government's attempt to tackle poverty.¹⁹ Other indicators, such as the size of hospital waiting lists, don't measure what matters to people or are prone to manipulation. Even when numerical goals are clear and meaningful they are rarely costed, they are almost always too narrow, and they are largely chosen to mesh in with the goals and capabilities of existing institutional structures. Those broad targets that are targeted with some degree of consistency tend to be economic aggregates, such as the inflation rate, or the rate of growth of Gross Domestic Product — which appears to be *de facto* indicator par excellence of rich and poor countries alike. But GDP's shortcomings as a single indicator of the health of an economy are well known (see chapter 1). Under a Social Policy Bond regime it is unlikely that statistics like GDP would assume the authority they appear to have nowadays.²⁰ Government would instead target ends rather than means: social and environmental outcomes that are meaningful to natural persons, as against government agencies and corporate bodies, rather than growth rates or other abstract economic indicators.

Accepting that goals for society will continue to apply on a large scale, they will increasingly have to be represented by numerical indicators. It would appear that the choice will increasingly be between (a) the current *de facto* targeting of per capita GDP along with an almost random array of narrow, easily manipulated indicators that have no necessary relationship to societal goals, and (b) the targeting of consistent, transparent, mutually supportive indicators that represent meaningful social outcomes.

Obviously this author would prefer the latter, but it should be recognised that even when following that approach policymakers will need to be guided by the limitations inherent in quantifiable indicators. The policy implication would be that *government could usefully concentrate on those policy areas where numbers are helpful*. It is generally at low levels of health, educational level, housing, income, caloric intake etc, that increases are strongly correlated with an individual's welfare. Beyond basic levels, individuals' ultimate objectives are for the most part inescapably subjective. They cannot be measured, nor can the societal counterpart of social welfare, and government should recognise this limitation. It can never know as much about people's well-being as other people: Lord Kelvin's remark is, of course, nonsense. A better guiding principle is that attributed to Albert Einstein: 'Not everything that counts can be counted, and not everything that counts can be counted.'

Financial incentives may be counterproductive

If numerical indicators are limited, so too is self-interest as a motivating force. People perform valuable social or environmental services not only for monetary gain, but also because they enjoy doing them for their own sake, because they believe them to be the morally right things to do, or because they believe that their actions will advance some cause to which they are committed. These 'intrinsic' motives are qualitatively different from external, monetary incentives, and offering monetary rewards might 'crowd out' or undermine these less mercenary and more civic-minded motivations. Bruno Frey, a Swiss economist, has researched and written about this effect.²¹ Crowding out internal motivation can occur, he writes, because, monetary incentives can undermine people's feelings of self-determination and self-esteem. Also, when external incentives are supplied, the 'person acting on the basis of his or her intrinsic motivation is deprived of the chance to exhibit this intrinsic

motivation to other persons.’ Not mentioned by Frey, but also plausible is that financial incentives can undermine the cognitive outlook that sees socially and environmentally beneficial services as worthwhile in their own right, rather than as a cost for which compensation and payments must be paid by taxpayers.²²

While these considerations would have implications for a bond regime, they apply to some degree to existing policy methods. But as Frey says, crowding-out effects are not always significant. In markets, based on relations amongst essentially self-interested strangers, financial incentives as exhibited through the price effect do work as classical economics predicts. That is, they work to increase supply. And when (as they would be under a bond regime) external rewards are seen as recognition of the importance of, say, civic duty rather than an attempt to ‘buy’ one’s civic performance, they may well support, rather than undermine, moral and other intrinsic motivations.²³ A bond regime could give bondholders incentives to further Frey’s research, exploring the relationships between financial incentives and civic performance. They could use this knowledge to minimise the costs of achieving targeted objectives by, for example, finding out when monetary incentives are least likely to supplant the intrinsic motivations of people who help achieve objectives, and concentrating their use in those circumstances.

Money as a reward could be less efficient than respect

In general, large financial compensation packages have been a feature of the private sector, and we have been unhappy about paying people large sums of money directly to achieve social and environmental goals. This author shares that feeling to a degree. But people do respond positively to financial incentives, and it’s not always a question of appealing to people’s greed. People crave respect and nowadays, and however we might feel about it, that respect nowadays comes largely through being wealthy. But not invariably. Consider Japan:

The Japanese have understood that what people are largely pursuing in the workplace is not so much money as the respect of the people around them, and therefore maintain a sophisticated - indeed, bizarrely over-elaborate to the Western eye - economy of respect in addition to the economy of money. They have understood that a large part of what money-seeking individuals really want is just to spend that money on purchasing social respect, through status display or whatever, so it is far more efficient to allocate respect directly.²⁴

Rather than offer financial incentives could we perhaps reward people who help achieve societal goals with higher social status? An honours system could go some way toward rewarding people who forgo financial fortune for the good of society. Indeed, many countries have honours systems that are - or were - intended to do this. People also gain status merely by being admitted to exclusive societies, by working for reputable organizations; or they are pleased simply to be recognised in their role by cognoscenti. And many social reformers are quite happy to toil away without needing their efforts validated by any external body. They might be happier for knowing that they are helping to improve the society in which they live but, for a very large number, their reward lies simply in knowing that they are making a contribution.

Sadly though, the role that respect detached from financial wealth plays in Japanese society is exceptional in today’s world, and we cannot rely on it or the altruism of social reformers

everywhere to meet the serious social and environmental challenges we face. Whether for good or ill, the context within which social status functions independently of financial status is rapidly disappearing from many developed countries: and an individual's social status is becoming more and more synonymous with his or her level of wealth and income. Re-instatement of a popular culture that confers high status on those who achieve social and environmental goals would be a difficult task in our highly mobile world. It would have to be an evolutionary process. It could conceivably happen under a Social Policy Bond regime where, if rewarding people with wealth became too inefficient, bondholders could devise ways of rewarding people with respect instead.

The current, government-backed trend though, is in the opposite direction. The British government's honours system is an example. It used to honour dedicated people for the financial sacrifices they made for the public good, but more and more it now pays homage to entertainers and sportspeople who, whatever their other troubles, are not financially impoverished.

So in the meantime, facing severe and urgent social and environmental challenges, what are we to do?

The world is being destroyed - no doubt about it - by the greed of the rich and powerful. It is also being destroyed by popular demand. There are not enough rich and powerful people to consume the whole world; for that, the rich and powerful need the help of countless ordinary people.²⁵

We ordinary people are reacting perfectly rationally to the incentives on offer. A Social Policy Bond regime could radically reorientate the incentives so that we should be rewarded less for destroying the world and more for helping save it.

The future

With their limitations described above, Social Policy Bonds are hardly perfect. They don't tell us which objectives to choose, they rely on aggregated numerical targets, and they can crowd out, or function less efficiently than, people's more altruistic motivations. But the true comparison, it bears repeating, should not be with some utopian regime under which people always do the right thing, but with the current regime, within which potentially catastrophic social and environmental problems loom large and, when failed policies are backed by government or other vested interests, there are few systemic ways of stopping them.

Social Policy Bonds would change that. If governments issued them, their focus on outcomes would blur the distinction between the public and policymakers. People would take more of an interest in politics encouraged by the centrality of explicit, meaningful outcomes in a bond regime. There would be less ambiguity, and less ideology. No longer would politicians be able to claim that simply by increasing expenditure or restructuring government departments they were addressing society's health care concerns.

People would have higher expectations of what their taxes can achieve and the necessary trade-offs. They would be more aware that extra expenditure on, for example, keeping street crime down, might mean a worsening of local air quality. Single-issue campaigners might find themselves engaging more realistically with political realities.

Intra-country comparisons, already compiled in many countries, would take on new significance. People in one city or region seeing, for example, that the level of basic educational achievement of their children was lower than in other cities, might vote for more of their local taxes to reduce that disparity. They would not be discouraged by their not being educational experts; nor would they look to central government or educational professionals for the answer. Their focus would be on the priority they give to the educational goal as against other social goals.

At the national level, the most obscene wastes of taxpayers' money would disappear. Transfers and subsidies would be channelled to those who evidently need it. People would be given income support because they satisfied some objective criteria saying they were poor; not because they had deceived the public or played on its emotions. Industrialists and farmers who benefit from the wide array of disguised and perverse subsidies, transfers, and import barriers, would lose out, at least in the short term. Instead funds would be devoted to redeeming Social Policy Bonds that generate meaningful social goals at least cost.

Eventually a wide range of social and environmental priorities would be achieved through Social Policy Bonds though some would probably continue to be supplied by government employees for many decades.

A coherent, explicit range of meaningful social and environmental goals is but one of the two essential elements underpinning the Social Policy Bond concept. The other is market forces. The combination of two elements should generate better social outcomes more cost-effectively. Governments or people would have more money to spend or more leisure time, or both, which could benefit society in many ways.

Resources are always going to be limited and Social Policy Bonds would not change that. Priorities and choices will always have to be made. Private issuers of Social Policy Bonds would have their own priorities, for which they would contribute their own funds. Governments though would, as they do now, have to decide on which problems to solve, and on the sums allocated to their solution. But democratic governments are good at representing and articulating their people's wishes and raising revenue for satisfying them. Where they are not so successful is in working out the most efficient ways of achieving these goals. This achievement is really a matter of allocating scarce resources. In economic theory, and on all the evidence, markets are the best way of allocating scarce resources to achieve prescribed ends. Social Policy Bonds would allow both government and the market to do what each is best at: respectively: prescribing ends, and allocating resources to meet these ends.

In the long run the widespread acceptance that self-interest can be channelled into solving social problems could have more far-reaching implications. International transfers of taxpayer funds appear to be at least as prone to misallocation as their domestic equivalents. International or global social or environmental problems such as malnutrition or climate change could be made the targets of future Social Policy Bonds, whether issued by governments, international bodies, non-governmental organizations or private sector philanthropists. Corrupt governments could be major purchasers of such bonds. Or they could be induced by major bondholders to alter their destructive policies. Either way, they would have incentives to modify their behaviour to help achieve targeted goals, whether these include ensuring that food supplies reach their own starving citizens, or doing what they can to achieve trans-boundary objectives such as global environmental goals. Social Policy Bonds

would be more likely to be effective than current aid programmes, because bondholders would benefit only by actually solving targeted social and environmental problems – as distinct from running agencies only peripherally engaged in achieving their stated purpose.

Internationally backed Social Policy Bonds targeting poverty, malnutrition or deadly conflicts are most probably a long way into the future. Before then, Social Policy Bonds will probably have to be issued on a smaller scale, and the concept will have to be gradually refined and deployed more widely and successfully at the local, regional and national levels.

For government to relinquish most of its discretion as to how to achieve social and environmental goals would require some courage as well as humility. Yet in doing so, it could bear in mind that it would not be renouncing its existing sanctions against illegal acts. It would still be defining society's goals, and it would still be the ultimate source of finance for achieving them. In fact, the current system, when viewed impartially, would appear to be far more irrational. Under it, large proportions of national income are spent in pursuit of nebulous goals, few of which are costed, many of which conflict with each other, and many of which primarily benefit the better off — some of them already very wealthy indeed. Administering this expenditure is a burgeoning bureaucracy, which, on the rare occasions its performance is even measured, is almost invariably shown to be woefully inefficient.

The acceptance of a Social Policy Bond regime, even with the aim of achieving national goals as uncontroversial as lower crime rates, or better health and education outcomes, may be politically difficult, and must be a gradual process. But the potential benefits should not be ignored. By injecting market forces into the achievement of social and environmental goals, Social Policy Bonds could achieve these goals more transparently, cost-effectively and with much more buy-in from people of every background.

¹ *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, William Easterly. Penguin Press HC, 2006; ISBN 1594200378.

² *The Utopian Nightmare*, William Easterly, Foreign Policy, Sept/Oct 2005.

³ *Will Africa ever get it right?*, 'The Economist', 26 April 2007.

⁴ See Wikipedia for an introduction to the Human Development Index: http://en.wikipedia.org/wiki/Human_Development_Index.

⁵ *Social Indicators of Development*, World Bank; <http://www.ciesin.org/IC/wbank/sid-home.html>, sighted 19 July 2008.

⁶ Ibid.

⁷ *Failed States: The Abuse of Power and the Assault on Democracy*, Noam Chomsky, Metropolitan Books, April 2006, ISBN 0-8050-7912-2.

⁸ From chapter 1 of *Another Blood Century: Future Warfare*, Colin Gray, Orion Books, October 2006, ISBN 0304367346.

⁹ *Our Final Century?: Will the Human Race Survive the Twenty-first Century?* Sir Martin Rees, William Heinemann, 2004, ISBN 0-434-00809-5.

¹⁰ Swedish chemist Svante Arrhenius 'recognized that industrialization and climate change were intimately related and that the consumption of fossil fuels must, over time, lead to global warming.' He spoke about it to the Swedish Academy in 1895. From *Field notes from a Catastrophe: Man, Nature, and Climate Change*, Bloomsbury, 2006, ISBN 978-1596911253.

¹¹ *Happiness: lessons from a new science*, Richard Layard, Penguin Press, 2005.

¹² This is known as the Easterlin Paradox. See http://en.wikipedia.org/wiki/Easterlin_paradox.

¹³ See for instance, *Happiness Is Increasing in Many Countries - But Why?*, Bruce Stokes, Pew Global Attitudes Project, 24 July 2007. Available online at <http://tinyurl.com/5jte6y>, sighted 20 July 2008.

¹⁴ *Therapy could 'cut benefits bill'*, BBC News Channel, 19 June 2006; available online at <http://news.bbc.co.uk/1/hi/5093694.stm?ls>. Original research available from the UK's, LSE, Centre for Economic Performance, Mental Health Group: <http://cep.lse.ac.uk/research/mentalhealth/default.asp>.

¹⁵ *Louv Story, An interview with Richard Louv about the need to get kids out into nature*, by David Roberts, 'Grist', 30 Mar 2006; <http://www.grist.org/news/maindish/2006/03/30/louv/index.html>, sighted 20 July 2008.

¹⁶ Ibid.

¹⁷ *A time for clarity*, Bjørn Lomborg, Project syndicate 2008. Available online at <http://www.project-syndicate.org/commentary/lomborg25/English>, sighted 20 July 2008.

¹⁸ Leading article from 'The Times', 1 August 1854.

¹⁹ *Opportunity for All - Tackling Poverty and Social Exclusion*, Department of Social Security, Poverty and Social Exclusion Team, 1-11 John Adam Street, London WC2N 6HT, September 1999.

²⁰ See *The costs of economic growth*, E J Mishan, Staples Press, 1967, ISBN 0140210903 for a discussion of 'index economics'.

²¹ *Not just for the money: an economic theory of personal motivation*, Bruno S Frey, Edward Elgar, 1998, ISBN 9781858988450.

²² *Crowding out virtue*, Gerald F Gaus, 'Agenda', 5 (4), Australian National University, 1998. This is a short review of Bruno Frey's book, cited above (note 21).

²³ Ibid.

²⁴ *Japan, a refutation of neo-liberalism*, Robert Locke, 'post-autistic economics review', 21 March 2005. Available online at <http://www.paecon.net/PAERreview/issue23/Locke23.htm>, sighted 20 July 2008.

²⁵ *Conservation is good work*, Wendell Berry, 'The Amicus Journal', Winter 1992.

Epilogue: beyond ideology

If Social Policy Bonds are so marvellous.....why doesn't anyone issue them? The Social Policy Bond idea has been in the public domain for about 20 years, and it has not been so far been adopted anywhere, to my knowledge. But neither has it been dismissed outright. It tends to provoke initial enthusiasm amongst economists and decision makers, but then to be forgotten as other more pressing issues arise. Robert Shiller, Professor of Economics at Yale University, wrote to me at the end of 1996, praising the Social Policy Bond idea, saying that it creates “a large interest group for the solution of important problems. The political and other effects of creating such an interest group could be incalculable.” The draft of an earlier book on the bonds elicited extreme comments at both ends of the range from the two referees: one dismissed the text as an irrelevance. The other called the idea “original and ingenious” and “a substantial contribution to debate about public policy”.

Initially I thought governments would be most interested in the bonds. They spend vast sums of money - around 40 percent of national incomes - on social and environmental activities, so you might imagine, as I did, that they would be keen to try out any idea that could make their spending more cost-effective. I was probably naive. Governments, I now believe, are quite happy to pursue failed policies as long as these policies have been done before. Supporting a failed but conventional policy is less risky to the aspiring politician or bureaucrat than supporting a new policy, even one that is far more likely to succeed. This is what happens when the people in government, invariably (in my experience) well-meaning and hard-working, are rewarded for carrying out activities rather than for achieving outcomes. Provided their programmes have been tried before, their careers are unlikely to suffer.

What about the private sector? I have tried to interest various philanthropic organizations, but not a single one has had the courtesy even to respond to my initial approach. Think-tanks and non-governmental organizations have been more forthcoming, and I have spoken to some of them and they have published my work. None, though, has taken the idea further. I suspect this is because Social Policy Bonds are a 'right wing' (market) way of achieving 'left wing' (social) goals. The right wing doesn't like any sort of intervention, while left wingers see the word 'markets' and run a mile. That is pure speculation on my part.

In April 2002, I presented a paper on the bond concept to joint meeting of the Agriculture and Environment Committees at the Organisation for Economic Cooperation and Development (OECD) in Paris. At the meeting, delegations from most of the OECD's member countries made comments on the paper. These were mostly along the lines of “this is very interesting — but unworkable in practice.” But one of the delegates perhaps articulated the deeper feelings of those present, who were overwhelmingly government employees: “if this gets adopted we'll all be out of jobs!”

Over the years, certain private individuals have engaged with the idea and considered issuing their own Social Policy Bonds for projects as diverse as boosting voter registration, raising literacy in developing countries and developing open-source software. Though none of their projects has yet reached fruition, I am heartened and encouraged by such efforts.