Julian Le Grand, *Motivation, Agency and Public Policy: Of Knights and Knaves, Pawns and Queens*
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With twelve books to his name, Julian Le Grand is no stranger to debates over the welfare state. Now a professor at the London School of Economics, Le Grand's latest book reflects his flair for praxis; melding theory with practical recommendations. Two questions motivate this tightly argued work: Should government employees be assumed to be altruistic or self-interested? And how much choice should citizens have regarding the services that government provides to them?

To this reviewer, the former question turned out to be the less interesting. Le Grand asks whether government employees (such as teachers, public servants, and police) ought to be assumed to be *knights*, honourably committed to the public good, or *knaves*, interested only in personal gain. He maintains that in the immediate post-war decades, the knightly assumption prevailed, while during the Thatcher era, the knavish assumption prevailed. Quite reasonably, he argues that the pay and incentive systems that motivate government employees should be structured in such a way as to be robust to both types of behaviour; and that outsourcing of public sector work to non-profit bodies should not assume that these organisations are purely altruistic. All good, sensible stuff.

The more controversial part of the book is concerned with agency: how much control should be given to consumers of government services? Le Grand argues that citizens have traditionally been *pawns*, disempowered users of the education, health, pension and welfare systems; rather than *queens*, endowed with the freedom to choose between competing providers. In two areas – school choice and asset-based welfare – Le Grand's proposals are particularly apposite to Australia.

On school choice, Le Grand points out that Britain (like Australia, but unlike the United States) has a de-facto school voucher system, in which per-pupil funding follows students when they move from one school to another. Indeed, although Australian States vary in the extent of school choice available, all foster a healthy degree of competition between different public schools; and between public and private schools.

The problem, in both Australia and the UK, is that school choice currently operates with far too little information: due to a reluctance to publish relevant information about student performance across schools. Le Grand cites a raft of British studies on the introduction of testing and the publication of test scores during the 1990s, which find that greater competition and more information were associated with rising student performance over this period.

It is difficult to see how Australian educational authorities can justify withholding detailed information on school performance from parents. Indeed, this reviewer would go further than Le Grand, and argue that the information should include not only the mean test scores of students, but also the value-added – the gain from one test to the next. To see the importance of value-added measures, imagine one school in which the average child scores 80% on both the Year 3 and Year 5 tests; and another where the average child scores 50% on the Year 3 test, but 75% on the Year 5 test. The former probably has students from more privileged backgrounds, but the latter seems to be doing a better job of improving student performance. (Econometricians may like to imagine an even more accurate measure – the school and teacher fixed effects from a regression that controls for individual student effects.)

The other proposal to enhance agency is Le Grand's advocacy of a "demogrant" – a fixed sum of money to be given to young adults when they turn eighteen. Having first proposed such an idea fifteen years ago, he is well-aware of many of the questions surrounding it.

- Large or small? Le Grand notes that the UK Government has recently committed to a £1000 demogrant, but argues that such an amount may well "fall between stools", and favours a grant of £10,000 (A$24,000).
- Universal or means-tested? Le Grand argues that the demogrant should be universal, on the basis that this will ensure it has maximum popular support, and because means-testing based on poverty at birth will be an imperfect proxy for poverty at age eighteen.
- Restricted or unrestricted? Again, to maximise popular support, Le Grand argues that the demogrant should only be usable for four purposes – to pay for education, buy a house, start a business, or begin a retirement account. He does admit, however, that there is no easy way to prevent recipients from converting it into cash.
- Ought parents to be able to add to it? Though he does not say so explicitly, Le Grand seems to believe that they should not, pointing out that matched or tax-free savings accounts invariably benefit the rich more than the poor.
- How should it be funded? Le Grand favours funding the demogrant through an expansion of the inheritance tax, combined with modest reductions in higher education funding.

Should Australia too consider a demogrant? The past quarter-century has seen the abolition of the Australian inheritance tax, and a steady increase in income inequality. Moreover, it is likely that those born into poor households are themselves more likely to be poor (we do not yet have good Australian data, but work by Gary Solon at the University of Michigan suggests that the correlation of incomes across generations in the US is 0.4). In such an environment, a demogrant-style proposal, perhaps funded by the reintroduction of a small inheritance tax for millionaires, appeals as one of the few ways in which to expand the opportunities of the most underprivileged.

But a demogrant is not without its pitfalls, and there are at least three issues that should lead us to question whether the proposal is the right solution for Australia. First, much of the rhetoric around demogrants has suggested that their chief importance is in making higher education more accessible. Although most young Australians wishing to attend university today face fewer credit constraints than their parents did, the market for student loans remains less than perfect. But to the extent that borrowing is still a problem, the most sensible answer is for the government to provide credit directly to those who need it – for example, by reinstating the Student Financial Supplement Loans Scheme, or by allowing TAFE courses to be financed via HECS.

Second, to the extent that a demogrant replaces earned income, the proposal would be likely to lower employment rates among recipients, through what economists call the "wealth effect". By discouraging labour force participation, a demogrant could potentially reduce young adults' experience – and therefore their employabilility in the long term. Third, to the extent that a demogrant would merely be an expansion of the $7000 grant now available to everyone who buys their first home (and $14,000 to everyone who buys a newly-built home), it would probably have the same effect as that scheme – raising housing prices without making much of a difference to affordability.

Yet while a demogrant has its disadvantages, the same can be said for virtually every policy proposal to improve the well-being of the poorest. Raising the minimum wage, introducing an earned income tax credit, boosting job training, or cutting welfare, all have their own shortcomings. For its potential drawbacks, it may still be the case that an Australian demogrant remains an effective way to redistribute opportunities in an increasingly unequal society.

Motivation, Agency and Public Policy is one of the most appetizing books on welfare to come out in recent years – a neat blend of political philosophy and economic theory, seasoned with a dash of empirical evidence, and accompanied with a healthy serving of policy proposals. Anyone interested in how governments can use markets to provide the right incentives to their employees, and create more choices for citizens, would do well to read this provocative work.

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