

## **Machiavelli's Mistake: Good incentives are no substitute for good citizens.**

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### **I. Moral Sentiments and Material Interests (Tuesday 19<sup>th</sup> January)**

The classical thinkers from Aristotle to Aquinas, Rousseau, and Burke recognized the cultivation of civic virtue not only as the test of good governance, but also as its essential foundation. Machiavelli and Hobbes broke with this Aristotelian tradition. Readers of Machiavelli's *Discourses* learned that “all men are wicked ... hunger makes them industrious, laws make them good.” Adam Smith's invisible hand provided a decentralized model for how this constitutional alchemy might be accomplished. Good institutions thus came to displace good citizens as the *sine qua non* of good government. Prices would do the work of morals.

This classical economists approach – now the canonical model of policy-making in economics-- now does not ignore moral behavior, but instead assumes it to be unaffected by incentive-based policies designed to harness self-interest. Along with civic virtue, explicit incentives and constraints could thus contribute additively to good government. The classical writers did not worry that laws designed to induce “wicked” citizens to act as if they were good might induce even the good to act as if they were wicked.

They should have worried. Experimental and other evidence show that while most individuals are far from wicked, treating people as if they were often crowds out the common generous, ethical, and reciprocal behaviors upon which the functioning of modern liberal democratic societies depend.

### **II. Is liberalism a parasite on tradition? (Thursday 21<sup>st</sup> January)**

The parasitic liberalism thesis holds that markets and other institutions endorsed by liberals depend on family-based, religious and other traditional social norms that are endangered by these very institutions. Liberal society thus fails Rawls' test of “stability:” it does not “generate its own supportive moral attitudes.” Experimental evidence presented in Lecture I, provides support for the idea. I represent the thesis in a model of the dynamics of institutional and cultural change, indicating the conditions under which the cultural dynamic of liberal society leads to economic dysfunction, instability and eventually collapse. I then provide surprising cross-cultural evidence that is inconsistent with the implications of the model. Liberal societies are distinctive in their civic cultures, exhibiting levels of generosity, fairmindedness, and civic involvement that distinguish them from non-liberal societies. The parasitic liberalism thesis fails not because it misunderstands the cultural consequences of markets, but rather because it overrates the benign contribution of tradition to the moral underpinnings of liberal institutions, and underrates the contribution of the liberal state and other non-market aspects of the liberal social order to the flourishing of these civic virtues.

### **III. Machiavelli 's Mistake: Do good fences make good (enough) neighbors? (Monday 25<sup>th</sup> January)**

Two empirical puzzles show that some incentives work almost exactly as conventional economic theory predicts while others backfire. Under what conditions, then, can prices do the work of morals (as Bentham, Smith and others proposed)? Unraveling these puzzles and answering this question requires an understanding of the causal mechanisms by which material incentives crowd out moral motives. Experimental and other evidence suggests that explicit incentives and social motivations may be less than additive due to individual desires for autonomy, self esteem and fairness, which may be compromised by incentives. The material incentives favored by economists can also crowd out institutions that provide at least second best governance of social dilemmas.

How should a sophisticated hypothetical social engineer – that is, one who is aware of the motivational and institutional crowding out problem – design policies and institutions? Three results are demonstrated. First the optimal use of incentives may be either greater or less in the presence of motivational crowding out compared to a case where it is absent. Second, cultural market failures are pervasive, and result in overuse of markets even under ideal conditions for (Coasean) bargaining in the design of property rights and other institutions. Finally, a new second best theorem is proposed: the better definition of property rights and other policies considered by economists to improve incentives may degrade economic performance when they crowd out ethical motivations and alternative governance institutions. A closing coda reflects on the value of a more intimate engagement between the political theory and philosophy of good governance on the one hand and the sciences of human cognition and behavior on the other.