Spotlight 6

Why should governments shape individual choices?

All people—rich and poor alike—sometimes make choices that do not promote their own well-being. Although mistakes can arise even after careful deliberation, people are especially prone to make choices that do not reflect their long-term interests when they think automatically. Automatic thinking means not bringing to bear full knowledge about the dimensions and consequences of choices. People may also get stuck in habits, succumb to inertia, and repeatedly procrastinate despite intentions to do otherwise. Mental models filter the information that people receive and pay attention to and shape their interpretations. Social pressures and social norms can function like taxes or subsidies on behavior, making some choices easier and others harder (Sunstein 1996); when internalized, social norms shape cognitions, emotions, and even physiological reactions.

Using psychological and social insights to promote freedom and well-being

This Report provides evidence that these phenomena are widespread and significantly affect choices, behaviors, well-being, and important development outcomes. What should development actors—whether development professionals, nongovernmental organizations, governments, or international agencies—do with this knowledge? There are three compelling reasons to use this knowledge to promote both freedom and well-being.

First, doing so helps people obtain their own goals. Reminders to save money or take medicine help people who are otherwise caught up in life achieve objectives that they themselves have set. Commitment contracts, which markets underprovide, can reinforce decisions to adopt beneficial behaviors. Matching the timing of social transfers to the timing of charges for school enrollment, or making it easier to buy fertilizer at harvest time when cash is at hand, helps overcome intention-to-action divides for people who may be forgetful or possess insufficient willpower (that is to say, all of us). Many development policies that operate at the boundary of economics and psychology can be understood in these terms. John Stuart Mill, the great champion of personal liberty, acknowledged a legitimate role for government in providing both protection and information. He put it this way:

> [It] is a proper office of public authority to guard against accidents. If either a public officer or anyone else saw a person attempting to cross a bridge which has been ascertained to be unsafe, and there were no time to warn him of his danger, they might seize him and turn him back, without any real infringement of his liberty; for liberty consists in doing what one desires, and he does not desire to fall into the river. (Mill 1859, 95)

Just as that man did not desire to fall into the river, most of us do not want to be forgetful, to procrastinate, or to miss out on important opportunities.

Second, because decision making is often based on only the most accessible and salient information and is also influenced by subtle social pressures and received mental models, individuals' preferences and immediate aims do not always advance their own interests. Individuals might choose differently, in ways more consistent with their highest aspirations, if they had more time and scope for reflection. The assumption that individuals always make choices that promote their own interests—often a fundamental benchmark for policy analysis—is misguided. But if decision makers do at times require assistance, what guidelines are to be used for the policy interventions aimed at shaping choice? Development actors should focus on the most important freedoms. In the development context, these include freedom from poverty, disease, and oppression.

Although older accounts described liberty, as Mill does above, as "doing what one desires," and argued that the only legitimate limitations on desire involve interpersonal harm, more contemporary accounts distinguish between desires of greater and lesser significance. The freedoms to express one's thoughts and feelings in speech and to live a long and healthy life are highly valued. By contrast, the "freedom" to forget to sign up for a savings plan is less important. Most of us do not prize the freedom to purchase a genuinely dangerous medicine from a pharmacy and prefer that government place at least some limits on the kinds of medicine we can buy.

The philosopher Charles Taylor (1985) compares two countries. One has limited freedom of conscience. The other ensures freedom of conscience but has many, many more traffic lights. The country with all the traffic lights, in sheer quantitative terms, restricts many more choices, but most would agree that people live more freely in it. The example demonstrates that it matters *which* choices are constrained and *which* are encouraged; and most people agree that when governments shape crucial choices, such as those involving the escape from poverty, they are casting development as a kind of freedom (Sen 1999) and making a trade-off that is appropriate.

Third, socially reinforced practices can block choices that enhance agency and promote well-being and prevent individuals from even conceiving of certain courses of action, as when discrimination and inequality sometimes lead people, understandably, to adopt low aspirations. This Report argues that social interdependence and shared mental models affect significant choices, sometimes creating traps for communities and individuals, such as low trust, ethnic prejudice, and gender discrimination. The social practice of female genital cutting is one example; tax compliance, corruption, road safety, outdoor defecation, and environmental conservation also hinge on interdependent choice. These are situations in which public action targeting shared mental models, social norms, and other collective goods, both physical and symbolic, may change outcomes in ways that make some better off but others worse off. In these situations, government action on behalf of agency can be justified, as well. Although development actors have legitimate differences concerning some of these issues and place different weights on individual freedoms and collective goals, widely shared and ratified human rights constitute a guiding principle for addressing these trade-offs.

An additional justification for government action

The standard justifications for government action in market economies are monopolies, externalities, public goods, asymmetric information, redistribution, and macroeconomic stabilization. This Report adds another. Governments should act when inadequate engagement, situational framing, and social practices undermine agency and create or perpetuate poverty. As noted, these efforts should themselves be guided by a healthy respect for individual dignity and welfare—for the freedom of individuals to articulate and implement their own vision of a good life and for a respect for human rights.

In this approach, the identification of market failures remains a useful criterion for public action in markets in which one can reasonably assume that behavior is indicative of individual preferences. However, one cannot assume that this is always or even mostly the case, particularly in nonmarket settings. Policy makers themselves, moreover, are subject to cognitive errors, including confirmation bias and the use of possibly inappropriate mental models (as discussed in chapter 10). As a consequence, they should search for and rely on sound evidence that their interventions have their intended effects and allow the public to review and scrutinize their policies and interventions, especially those that aim to shape individual choice. Moreover, some of the recent findings reviewed in this Report warrant less government intervention, not more—sometimes local social norms can resolve collective action problems more effectively than regulation and taxation can.

In most instances, governments are only one among many players who seek to influence the choices that people make. Moneylenders and banks frame the complexity of the loans they offer. Firms tempt individuals with tasty but unhealthy foods and easy money. Elites of all types enforce informal rules and shape public opinion in ways that benefit themselves as a group. Any number of interested parties exploit people's tendency to think automatically (Akerlof and Shiller, forthcoming).

Governments should act when inadequate engagement, situational framing, and social practices undermine agency and create or perpetuate poverty.

With these other forces at work, government should not play the role of a neutral referee. When it is widely understood that private actors can and should pursue their self-interest, private sector encroachment on agency is to be anticipated. It will be uncommon for the influences on decision making to be evenly balanced. In that context, governments that do not restrain or counterbalance concerted efforts to influence choice, such as deceptive framing and misleading advertising, may be seen not only to permit but even to encourage them. John Stuart Mill was also receptive to government intervention when third parties with vested interests, such as liquor houses, were the ones providing individuals with information because, as he put it, "sellers have a pecuniary interest in promoting excess." Governmental inaction does not necessarily leave space for individual freedom; rather, government inaction may amount to an indifference to the loss of freedom.

References

Akerlof, G. A., and R. Shiller. Forthcoming. "Phishing for Phools." Unpublished manuscript.
Mill, J. S. 1859. "On Liberty." Indianapolis: Hackett.
Sen, Amartya K. 1999. *Development as Freedom*. New York: Knopf.
Sunstein, C. R. 1996. "Social Norms and Social Roles." *Columbia Law Review* 96 (4): 903–68.
Taylor, C. 1985. *Philosophy and the Human Sciences*. Vol. 2 of *Philosophical Papers*. Cambridge, U.K.: Cambridge University Press.