

A Business Approach to Development

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Part I – Do people really want what is good for them?

There is a common misperception which was pointed out very starkly by Melinda French Gates during her TED talk “What non-profits can learn from Coca-Cola”. Namely, we assume that people always want what they need or what is good for them. Hence, we never question the fact that we might need to make people want what is good for them.

This is landmine territory for an economist. In economics, we believe that people are rational and want what is good for them. No other person, let alone the government, can ever tell them what they should want. Preferences are unchangeable and non-negotiable. Someone who dares to say that people may not want what is good for them immediately gets called “paternalistic”. It is as bad or worse as saying that markets are imperfect.

This issue of “paternalism” is especially delicate in a development context, where Western NGOs or Governments intervene in order to achieve and promote the ambitious agenda of the UN Millennium Development Goals (MDGs). So it raises the question if foreign intervention in domestic development policies and ‘young economies’ does or does not amount to intellectual colonialism.

In many cases, yes. Earlier strategies of Aid and Development programs seemed to hold the belief that western economic progress was proof of a successful single model approach to social and economic development. In other words: ‘we knew exactly what had to be done’.

The result was an approach to development which focused on Aid, ignoring local conditions, customs, human capital, knowledge and at times circumventing local traditional institutions which often worked very well or even better than the imported ones.

SDGI has witnessed numerous examples of wells, water treatment facilities or corn grinding machines in remote and at times rather

inaccessible rural areas which have utterly failed to meet the needs of the communities. The projects were great, but the problem was, that no one in the community had the knowledge of who was responsible for their implementation, practical use or how to access fuel or spare parts. Hence, at the first breakdown of the machine or facility they become abandoned and left idle forever after.

Indeed “Eurocentric” or “western” approaches to development have led to some major inefficiencies in poverty relief programs.

More recently, initiatives are arising organically, from the developing countries themselves, and have become thereby attentive to the local context and needs. SDGI has previously argued that local ownership of solutions and strategies is key to long term development. Yet the complexity of how development assistance and poverty relief is conducted requires development consultants and practitioners to assume an even greater responsibility in terms of the programmes they implement and not only meet short term needs.

Hence, we believe it is very counterproductive to immediately write-off as “paternalism” every attempt to point out that sometimes people do not really act in their own best interest.

Consider the following; programs destined to distribute condoms to people and encourage them to use them has often failed, even if those were distributed free of charge and placed in very convenient locations. One of the reasons is that people do not want to use them, even if they know they could save their lives. Anti-smoking programs and campaigns in developed countries are another example of the failure to understand that people may not always choose what is right and wish for what is good. Telling people what to do is at times not enough.

Let us immediately clarify that we are not arguing for a halt of multilateral or bilateral aid.

In some situations, the problem is so self-evident and urgent, that no one would ever disagree about what has to be done. This is the case for emergency interventions such as providing food in a famine or drugs during an epidemic. But here we are talking about more subtle interventions, like preventive treatments, savings programs, education efforts, and local economic development projects which are all destined to improve outcomes over the longer term, but require some short-term sacrifice or investments.

In economic research, a small but growing group of people is pointing out that people have some behavioral biases which can lead to suboptimal judgment making.

One of those is hyperbolic discounting. People discount the future in a special way, namely by marking a stark difference between today and tomorrow. For example, if asked whether you would prefer ten chocolates today or eleven chocolates tomorrow, you are likely to prefer ten chocolates today. But if asked whether you prefer ten chocolates in 1000 days, versus eleven chocolates in 1001 days, you will most likely invert your preferences.

This type of peculiar impatience has led to the failure of numerous efforts, ranging from dieting and making healthy lifestyle choices (“I will do it tomorrow”), to saving more money, using condoms or quitting smoking. In the best case, people are aware of this bias and demand commitment devices, which force them to act today with their future interest in mind. In the worst case, people do not recognize this bias and keep on fooling themselves that tomorrow, they will change their behavior.

An example of a successful intervention which takes into account this psychological fact are the “compulsory” saving schemes, implemented in the Philippines by Dean Karlan from Yale University. Those schemes make you contribute at the time when you have a money inflow (for example, right after harvest) and then literally lock the money away to prevent you from using it before the time for the investment you really want to make has come. This takes away peoples' day-to-day temptations to spend money on pleasurable consumption at the detriment of their future well-being. The same logic can be applied to the relationship between donor programmes

and local organizations and their ability to balance short term needs, long term investments and make adequate choices when developing programmes and strategies.

Another bias is the idea that one is always different from others. My own body will not break down from smoking like others'. We always believe to be the exception to the rule and that whatever happens to others will not happen to us. This over-confidence can lead to risky behaviors.

Yet another psychological bias, often pointed out by marketing experts, is that a price influences someone's perception of the service or good being bought. True, a higher price leads to a lower demand in general (but not always, as people sometimes perceive high prices as a signal for quality). But at the same time, having paid a higher price for something can make people use it more, for the sake of amortizing their expense.

In a development context, an experiment by Ashraf, Berry and Shapiro titled '[Can Higher Prices Stimulate Product Use?](#)' shows that higher prices for a chlorine product to treat dirty water was associated with less demand, but with a higher usage once people bought it. There is not really a rational explanation for this, that is, one which fits into our standard economic behavioral model.

A final psychological bias is that people often go with the “default option”. An experiment by Madrian and Shea called '[The Power of Suggestion: Inertia in 401\(k\) Participation and Savings Behavior](#)' showed that people dramatically change their behavior when the default option they are faced with changes. In this setup, employees of a firm participating in a 401(k) retirement savings program were given two different forms to fill out. In the first form, it was written: “Please check this box if you want to participate in the 401(k) program of your company”. In the second form, the phrasing was: “Please check this box if you do NOT want to participate in the savings program.” (emphasis added). In the first case, the participation in the savings program was significantly higher. The same sort of bias can be seen by comparing European countries who have a lot of organ donors to those who do not. In this case as well, the difference stems mostly from how the form that a donor needs to fill out is phrased! Now add to those biases

a lack of information and exposure. Then, people may not even *know*, what is good for them.

Does everyone know perfectly how the body works and what is good for it? There is a lot of scope for help by experts and for informational campaigns. This is especially true for health.

As an example, mothers in India routinely stop giving their child water when it has diarrhea, believing that more liquids will worsen the condition. Unfortunately, often the children die from that dehydration, rather than from the initial disease itself. This is why before assuming that people “want what they need”, information diffusion is crucial and can have huge returns.

Given those biases and lack of information, it seems strange to act as if everyone was perfectly rational, knows what is good for them and acts accordingly. There can be hurdles at every step of this process, which need to be addressed. This is not paternalistic, this is realistic. Paternalistic would be to say to people: “You have to want good health.” Or: “You have to want to live an American lifestyle.” But it is not paternalistic to say to someone: “You want good health but it seems your day to day actions are not getting you there. I can help you to get there, but I will not try to manipulate your goal, since we agree on it already.”

A more productive approach to development and poverty relief would take psychological biases and lack of information into account and work around those problems or towards solving them.

Part II: Making people want what is good for them (to be continued).

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