

Paternalism versus Freedom?

Esther Duflo

Marshall Lectures 2012



We post a signpost: No deep thinking here. Things are bad enough already

John Rawls (unpublished). [courtesy of Cass Sunstein]

Paternalism vs Freedom?

- ▶ Paternalism:
 - ▶ Provision of “basic needs” to people, often without consulting them on what these needs are.
 - ▶ Often form taken by redistribution (e.g. food stamp vs cash).
- ▶ Seems in obvious conflict with freedom: takes away the right to choose.
 - ▶ Might still be desirable (ignorance, conflicting selves, etc.)
 - ▶ But generally viewed quite negatively: development should be about empowering people, not maintaining them in infancy

Paternalism vs Freedom?

- ▶ Object of this lecture is to revisit the notion that paternalism necessarily runs counter to freedom.
- ▶ Decisions are made in a specific environment that has tremendous impacts ; this environment is very different for the poor and the rich, leading to very different outcomes.
- ▶ Is there a way in which having some basic decisions made for us on a day to day basis is freedom-enhancing, not destroying?
- ▶ Does that imply paternalism can help increase freedom, rather than hinder it.

The origins of Paternalism

- ▶ Paternalism in its accomplished form originated in the company towns of 19th century France (Schneider, Japy, Menier), where industrialists provided support from cradle to grave (housing, schools, retirement fund, etc.)
- ▶ Religious ideology, patron as father to the workers (children who do not know what they need)
- ▶ Economic and social interest as well: prevent both government intervention and workers' organization.
- ▶ Clear restriction of freedom; tradeoff between freedom and comfort; rooted in a view of the poor that is openly demeaning.

The White Man's Burden

- ▶ Colonial expansion was more or less contemporaneous, and proceeded with its own version of paternalism, with the same mixed motives.
- ▶ Colonized to be both saved and exploited.
- ▶ Imposition of Western Culture as civilization.

Aid as paternalism

- ▶ Critics of Aid (on “right” –pro-freedom– or left) point to the same dual motives: supposed superiority of the aid worker (who claims to know better) coupled with economic interest (perpetuation of aid lobby or commercial interest or...).
- ▶ This extends to critics of government intervention: the fact that governments in developing countries are small is a window of opportunity to avoid creating nanny states.
- ▶ “empowerment” movement (microcredit, community decentralization) : anti-aid, anti-government, anti-charity.
- ▶ In principle, this does not mean less help for the poor, but a different kind of help (e.g. private school voucher rather than building public schools). In practice this is often stretched to make the argument that the best public policy is very little public policy (create opportunities and get out of the way).

“When we want to help the poor, we usually offer them charity. Most often we use charity to avoid recognizing the problem and finding the solution for it. Charity becomes a way to shrug off our responsibility. But charity is no solution to poverty. Charity only perpetuates poverty by taking the initiative away from the poor. Charity allows us to go ahead with our own lives without worrying about the lives of the poor. Charity appeases our consciences” (Yunus, 2010).

Default and choices

- ▶ Default: What option will be “chosen” if the individual exercises no choice at all.
- ▶ Considerable research shows the impact of default on final choices, even when it is very easy to over-ride them.
- ▶ Defaults are influenced by infrastructure, regulations, trust, social norms.
- ▶ All of these are vastly different for the poor and for the rich.

Examples

- ▶ Public infrastructure: e.g. clean water.
- ▶ Rules: e.g. mandatory vaccinations
- ▶ Administrative barriers: e.g. application procedures for services
- ▶ Information on services available.
- ▶ Complexity of choices: e.g. insurance
- ▶ Trust: e.g. the medical system; malaria tests.

Common threads

1. The defaults of the rich are much more likely to lead to outcomes where life's basic comfort are achieved (health, life)
2. The defaults of the rich are often more constraining

In both of these senses, the rich are subject to a more paternalistic policy than the poor. Does that make them less free?

Freedom

Following Sen, we define freedom as “freedom to achieve”, substantial freedom: the capacity to realize one’s potential as a human being.

- ▶ Workers in Bengal were not free when they were dying of starvation
- ▶ People in Haiti did not become more free after cholera was introduced. Freedom to lose is not freedom.

The notion is tied to that of capabilities: without basic capabilities: health, capacity to achieve good nutritional status, one is not free.

Agency and Default

- ▶ Agent: someone who is about to act according to his own values and objectives.
- ▶ Agency is constrained by the power of default and inertia: The status quo always orients in a particular direction
- ▶ Now compare the status quo for the rich and for the poor: the default for the rich makes them more likely to achieve basic capabilities.

- ▶ A status quo that steers in the direction of basic capabilities leads to more freedom (even if it more constraining), for two reasons:
 1. Because this default makes it less likely that an individual will make a mistake and end up without this capability.
 2. Because it frees time and mental energy to focus on issues on which there is legitimate differences of values and opinions.

Freedom to stumble?

- ▶ Chlorine in water: a cheap, easy solutions to avoid water contamination, largely available in Africa.
- ▶ Yet many people do not use it, and purchase is very sensitive to price.
- ▶ Making chlorine available for free, next to the source, increase usage (Kremer et al.): removing as many barriers to action as possible.
- ▶ Try to orient people away from the possibility to “forget” to add chlorine, even if they have the possibility.

Freedom not to choose

- ▶ Choosing is not costless: it takes time, effort, energy, stress (people don't like to choose between many options)
- ▶ Self control to take the patient choice, if the impatient option is also available.
- ▶ We have limited amount of those resources (both self control and cognitive)
 - ▶ White Bear experiments
 - ▶ Shafir-Mullainathan: "contagion" between stress and IQ.
- ▶ When we waste them on things that we largely agree we want, we don't have them to spend on other things that are more important, in other spheres of our lives.

A home-stress based model of poverty trap

- ▶ Banerjee-Mullainathan (2008)
- ▶ A person must devote her attention between home life and work life.
- ▶ If she does not devote enough attention at work, problems may not be caught early, leading to loss of income
- ▶ Problems at home lead to a loss of welfare; they can be mitigated by purchasing comfort goods (e.g. piped water)
- ▶ People differ in their productivity at work (human capital)

A home-stress based model of poverty trap

- ▶ With more human capital, people make more money.
- ▶ Can purchase more comfort goods, and need not worry so much at home.
- ▶ Become more productive at work.
- ▶ This creates a virtuous cycle.
- ▶ There is a threshold beyond which people can spend all their attention at work and at that threshold, their income will jump.
- ▶ Possibility of a poverty trap based on this mechanism (with no non-convexities in the production function)

Paternalism and the poverty trap

- ▶ Poverty traps are less likely if there are fewer problems at home or if the problems require less attention, or the welfare loss they cause is lower
- ▶ The lack of a publicly provided set of comfort goods makes it more likely that there is a poverty trap, and on the contrary, providing those would set people free.
- ▶ Here, defaults or mandate cannot easily be replaced by being forced to make a choice (Laibson's "active choice"): the problem is not that people make the wrong choices but that they spend too much time pondering their choices.



(Some) paternalism may be desirable

- ▶ Emphasis on self-reliance can go too far: creating the conditions where the basic constituents of a healthy life are more or less automatic can give freedom, not take it away.
- ▶ Paternalism of the French industrial house was meant to be traded against freedom: tie it to a particular employer and avoid both worker solidarity and government intervention—those could have left some space for thinking, and hence dissent.
- ▶ The paternalism we are advocating here is the opposite: objective is to create a space where choice can be exerted on issues on which people really differ, and where their choices are meaningful: politics, career, etc.
- ▶ Most of the choices we make are just noise: at best they waste our time; at worst they prevent us from attaining very important capabilities, which in turns prevent us from doing

Against mandated empowerment

- ▶ “Mandated empowerment” culture in aid: counter paternalism by requiring beneficiary participation. Some of this participation appears quite perfunctory (e.g. Village education committee in India): possibly because the poor have no space to worry about those issues. Participation would be easier if basic worries were taken care of.
- ▶ Poor would actually need help in home life *more* because they are more likely to have jobs that have scope for error: self employed instead of salaried job; residual claimants if anything goes wrong.

Against mandated empowerment

- ▶ Mistrust of government as purveyor of basic public goods usually goes hand in hand with promotion of entrepreneurship for the poor (as in Yunus's view for example).
- ▶ Underlying view of the world: poor are entrepreneurial in their home life *because* they are good at being entrepreneurs.
- ▶ Ergo they will be good entrepreneurs as well.
- ▶ But if this complicated home life is forced onto people that completely reverses the logic: insisting at the same time on entrepreneurship at work and no guidance at home is double punishment.



Concerns

1. Does this still work if we don't have the luxury of "libertarian paternalism"?
2. Who decides what belongs to the basic constituency of "healthy lives"?
3. Can developing country governments be trusted to be the stewards of this benevolent paternalism?

Beyond libertarian paternalism

- ▶ Sunstein-Thaler: you can set a paternalistic default and allow people to move away from it.
- ▶ What if it is not practical? Is it OK to set up a paternalistic “mandate”? (e.g.: chlorine and fluoride in water piped in our homes; iodine in salt)
- ▶ Does paternalism destroy freedom when you override people carefully weighed decisions?
- ▶ We lose the philosophical comfort of libertarian paternalism (we cannot have our cake and eat it too) , but my view is that the arguments above means the answer is some times yes.

Who decides what goes in the basic package?

- ▶ In a democratic version of paternalism, there may not be an expert who “knows better”. Who decides what to include?
- ▶ Is there a chicken and egg issue?
- ▶ Real issue, but not one that should prevent us from getting started. There are a number of goals that seems widely shared (e.g. infant mortality) and a number of solutions that seem to be recognized to “work”. These can go in the basic package.

Can we trust the government?

- ▶ Political economy problems: can government be trusted to deliver public goods, or will they divert resources for patronage?
- ▶ Not really the topic of this lecture, but obviously an important issue...
- ▶ In *Poor Economics*, we defend a more benign view of governments. Often failures both of delivery or even of political processes are not due to a conspiracy against poor but general incompetence.
- ▶ Moreover, the poor reward politicians who address issues (Wanchekon) and who spends on meaningful goods (Banerjee et al).
- ▶ Engaging citizens on what constitute the basic package and how to deliver it may both lead to a democratically approved “paternalistic” bundle and an improvement in politics.