

A. It is obvious that this report constitutes an implicit critique of and challenge to the role played by neoclassical economics in the study of development. But, as a died-in-the-wool economic theorist, I wish to emphasize that there is no necessary conflict here. For the fact is that economists face a causality conundrum that matters a lot for policy: **What really motivates people?** Consider some examples:

1. Ask a kid standing on some ghetto corner about going back to school. He doesn't say, "I've done my sums and concluded it won't pay." Rather, he's more likely to respond: "who, me?"
2. A potential thief could steal, but chooses not to. Why? By a Cost/Benefit calculus he'd say, "Because it's not worth it." By an Identity calculus he'd say, "Because I'm not a crook!" **So, punitive policies which in effect criminalize self-identifying populations (as employed here in the US) may promote crime by distorting that population's identity norm!**
3. A teenage mother elects to conceive and carry to term another child. Why? Cost/Benefit-calculus: incentive effects of transfer programs. Identity-calculus: motherhood a constituent aspect of her self-concept. **So, providing poor girls with a meaningful future can lower out-of-wedlock birth rates?**
4. **Is huge executive compensation really necessary to motivate CEOs?** Or, is this, at the end of the day, about identity not incentives ("Guys like us just have to make this much...")

B. Next, allow me to observe that the "Mind, Society, Behavior" approach adopted in this year's WDR invites a familiar conservative criticism – one which blames the poor for their irrational cognitive failings. (I'm not saying that the Report endorses this criticism, just that the authors need to be prepared to answer it.)

1. Thus, some conservative analysts hypothesize a causal connection between poor social performance of a group of people and their “culture.” That disadvantaged people harbor “dysfunctional” notions about identity has been offered as an explanation of a group’s welfare dependency, or its low academic proficiency. It has been said, for instance, that people fare poorly because they focus overly much on their own victimization, or because they disassociate themselves from their more successful fellows, or because their family lives are chaotic, or they are overly present-oriented, or they have too many children, ... etc.
2. At the root of such cultural criticism lies the presumption that the disadvantaged should “reform” themselves: If those people would only see themselves differently, the critics hint, they could be so much better off. (In a society like the US – which, though a rich country, has pockets of underdevelopment that would make your hair stand on end – this mode of social explanation easily accommodates racial overtones.) Refuting this argument motivated a paper I wrote some years ago with the economist Hanming Fang of the Univ. of Pennsylvania. In this paper, we show that the identities adopted by a group of people can be perfectly consistent with rational individual choices, even though feasible alternative configurations may exist under which everyone would be better off. Indeed, we argue that identity choice by interactive agents with ongoing economic relations can have a “tragedy of the commons” quality about it: the profile of dominant strategies for the agents can yield a Pareto inferior collective outcome. Preaching “identity reform” to such people is a bit like trying to counter an over-fishing problem by lecturing fishermen on their moral imperative to make smaller catches!
3. To summarize our argument briefly, we posited that identity deals with a person’s answer to the question: “Who am I?” Our proposed model takes it that, to answer this question, an agent must provide a “narrative” about her personal history. That is, she has to summarize her life experiences. Because a full personal history is (necessarily) a very complex object, and since our cognitive capacities are limited, answering the “Who Am I?” question requires agents to

project elaborate personal accounts onto cognitively manageable categories of self-description. We think of an agent's identity as the mechanism she uses to convert complex personal history into a more simplified account of herself. A group's "collective identity" is any self-representational mode of this sort which has been adopted in common by (most of) the agents in that group. We formalize the problem of selective self-representation, and use the resulting framework to study the efficiency implications of the identity "choices" people make. This, we believe, is one way that economic analysis can contribute to the study of identity-related issues. **My point here is to stress that there is no necessary conflict between taking behavioralism seriously and writing down rigorous mathematical models of social behavior.**

4. More specifically (what follows is just a bit technical – for which I make no apology), Fang and I considered a two-stage game in which identity choices are made in the first stage, and agents engage — more or less remuneratively — in an infinitely repeated income-risk-sharing game in the second stage. Given this framework, we say that a collective identity has been adopted when, in sub-game perfect equilibrium, individuals make the same first stage identity choices. We show under this set-up that a group of people may rationally elect to embrace a way of thinking about themselves that inhibits their economic functioning. We refer to such an inefficient collective identity choice as "dysfunctional."
5. The key intuition highlighted by our approach is that embracing an identity is a social event, not merely the expression of an individual's values or preferences. In particular, autonomous agents who interact frequently may end-up adopting similar categories of self-representation because they think this leaves them better placed to manage their collective action problems. When this is so, different contexts of social interaction can foster different equilibrium identity configurations, and agents interacting within relatively closed social networks may be inclined to embrace the same or similar identities. Moreover, our analysis makes clear why

there is no reason to expect the common categorical maps (collective identities) settled upon by rational agents to be socially efficient.

C. Next, I will make a few remarks about another theme taken up in this year's WDR: "Scarcity: Why Having Too Little Means So Much," (per the recent book by Mullainathan and Shafir).

1. Poor people don't have enough money; busy people wish they had more time; dieting people constantly want to consume more calories; lonely people lack companionship; etc. These very different settings of social behavior have in common the fact that the people in such situations acutely feel the lack of something that they value. Mullainathan and Shafir (in their recent book which is cited in the report) offer a theory of "scarcity" which identifies common behavioral tendencies or orientations which individuals exhibit across these different situations. In no way do they claim that these problems are otherwise similar, nor would they deny that there are factors at work in these diverse settings other than the psychological effects which they identify.
2. The book's argument – is supported by a wealth of experimental and observational data. In sum, it is that a core scarcity is implicated in all "not having enough" situations – namely, the fact that a person's cognitive capacities are limited. We can only attend to so many things, they say, and the condition of feeling a severe lack of something important to us influences how our minds allocate the limited cognitive resource that is our capacity to attend. We become obsessed; we tunnel in; we exhibit poor judgments, and these poor judgments can sometimes make our scarcity problem even worse.
3. This way of thinking has far-reaching implications for how we see the behavior of those subject to chronic scarcity – people who are mired in poverty. I will now offer a few comments about these implications. If we see in poor populations behaviors that differ systematically from behaviors observed among the better-off – their kids doing poorly in school; they being less effective, less attentive parents, breaking the law more often, or

maintaining less stable relationships –then, following Mullainathan and Shafir, we might say: “Well, to the extent that the data bear out such generalizations about differences between the poor and others in such patterns of behavior, an important source of difference is poverty itself. This overarching scarcity alters cognitive processes among poor folk and affects their decision-making in certain environments and at certain tasks in such a way that their capacity to function is fundamentally undermined. The poor, who may seem alien, are really just like the rest of us – except that what they lack is money.

4. This suggests an important alteration of the way we think about social policy: Don’t be so hard on the poor. Don’t yield to the temptation to blame them for self-limiting behaviors. This is a psychological version of the sociological arguments I mentioned previously. Self-defeating patterns of behavior among the poor are, at least in part, endogenous -- the result of processes triggered by a scourge of “scarcity.”
5. Another policy-related point that follows from this way of looking at the world is that the benefits from relieving someone’s scarcity are not limited to the point at which a resource constraint binds. If one gives more calories or more money to a family, the beneficial effects won’t be limited to achieving (say) better health outcomes. There will be a multiplier effect from relieving a scarcity constraint because doing so also increases cognitive capacity which allows the persons previously constrained to act more effectively in other areas of their lives.
6. A further point has to do with the potential merits of paternalism. If severe scarcity leaves some people cognitively impaired, they may take decisions that, on reflection and from their own considered point of view, are not in their best interest. If so, then perhaps they oughtn’t to be given a discretion which they are unable effectively to exercise under their condition of severe scarcity? Perhaps we ought to make some decisions for them? In-kind transfers may be better in some settings than giving people cash. This “nudging big brother” is the specter of paternalism which haunts their argument.

7. Yet another point is this: If the ill effects of scarcity are largely a matter of how people think, then can we talk people out of it? That is, can one envision a therapeutic intervention the point of which is to disabuse people of distorted practices into which they might otherwise lapse? Consider the scarcity of time. So I'm overcommitted and I'm sweating it, rather than taking one day at a time, making sure every 24 hours are spent productively... This thought seems silly – or worse – if we speak of people not having enough money. But, it does not seem quite so callow to talk in this way about harried type-A personalities.
8. I was also stimulated by the report to ponder its implications for the regulation of political communication. One crude idea has to do with the design of campaigns. Candidates may use advertising to appeal around election time for people to act a certain way in the voting booth. The art of persuasion here, as in other advertising arenas, is to quickly grab voters' attention, to move them, so as to influence their behavior viscerally – rather than to deal with the things that are of deep significance to the polity. To influence a person's vote, it may be easier to get their juices flowing by appealing to their basest motives, their worst fears, or their unrealistic longings. Characterizing one's opponent in demonic terms is one way to exploit the cognitive limitations of the electorate (due, e.g., to time/budget limitations inhibiting how voters attend to political speech). To illustrate, if the election takes place on a fixed date, with no capacity for people to choose their voting pattern over an extended period of electioneering, then there is a temporal structure to the campaign's communication framework which parties may exploit by back-loading their advertising expenditures for the last days prior to the election. I'm just thinking off the top of my head. I am not a political scientist. Nevertheless, it seems to me that there is a rich vein to mine here, in terms of our thinking about institutional design, in the light which this report has thrown on the behavioral implications of scarcity.

D. Finally, I wish to make a few remarks about Social Influences, Norms and Persistent Inequality

1. Once we begin to emphasize as crucial the role of social influences, as is done throughout this report, a fundamental conceptual issue has to do with the incentives people have to positively sort into all manner of social networks –residential neighborhoods, schools, peer groups, households (via assortative mating), “imagined communities,” etc. Roland Benabou laid this out in an important paper published in the QJE over 20 years ago: his basic point is that if the marginal willingness to pay for association with higher (potential) income types is positively correlated with income, then the better-off can and will outbid the less well-off for the opportunity of associating with its own kind -- leading to residential income segregation; restrictive zoning laws; uneven access to social and cultural capital... My point here is that, if the goal is to enhance social equality, then active policies will be needed to counteract this natural tendency toward income-segregated social networks.
2. And here is a fundamental philosophical issue: If one takes these behavioral effects seriously, then one may need to acknowledge that cherished liberal ideals like equality of opportunity, meritocracy and individual autonomy – may actually be in conflict with one another. Thus, the political theorist James Fishkin – in a book published some 30 years ago – defined what he called the “tri-lemma of Equal Opportunity”: namely, that one can’t have all three at the same time – equal opportunity, meritocracy, and family autonomy – because parents and close-knit communities inevitably will pass along some advantages to their children via non-market-mediated interactions that occur within their selective networks, and that place their children in a privileged position relative to the less fortunate in any meritocratic competition for status and income thus undermining attainment of anything approximating equality of opportunity, while raising deep questions about the ethics of social organization. Something will have to give: either meritocracy must be compromised, associational autonomy must be limited, or the goal of achieving genuine equality of life chances for all youngsters must be abandoned.

3. The popular opposition between equality of opportunity (good) and equality of results (bad) may not be coherent. Thus, equal educational opportunity is not well-measured by looking at school spending if communities differ dramatically in those home resources which complement school inputs. In such a situation, equality of effective opportunity would mean spending more on the schooling of youngsters who are disadvantaged at home. This, in turn, suggests that one needs to measure outcomes, not inputs, in order to assess the true extent of equality of opportunity – and the difference between unequal life outcomes and unequal life chances becomes, as a practical matter, difficult to sustain. (Anecdote: I can recall a fierce zero-sum search among middle class parents for the best 1st grade teacher out of a group of three evidently highly qualified alternatives in a public grammar school in Brookline!)
4. This way of thinking leads inevitably to a **political** conclusion: among other things, durable inequality in any society is a product of its impoverished ideas about autonomy, community, and solidarity—and not only a result of the structure of its economy. Thus, for example, if one truly laments disparities in lifetime opportunities in the US, then one may want to advocate for tearing down the barriers that suburban, middle-class communities have assiduously erected around their high-quality primary and secondary public schools, even as poor kids languish in big-city districts a stone's throw away; i.e., conventional education policy may fail to equalize life chances for all youngsters, to the extent that doing so requires neutralizing advantages accruing to the children of accomplished parents because of the development and socialization that takes place at home. (Believe me, it is a fundamental political fact that parents – in the US or anywhere else for that matter – won't surrender their children's privileges without a fight.)

Thank you. GL