The sense of us and the agenda for development

Ricardo Hausmann
A specter is haunting the world
YASCHA MOUNK
THE PEOPLE VS. DEMOCRACY
WHY OUR FREEDOM IS IN DANGER & HOW TO SAVE IT
Brexit was fueled by irrational xenophobia, not real economic grievances

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The UK voted to leave the EU. What happens next?
Homo Economicus
Irrationality is a difficult word for economists

- Homo economicus
- What does it mean to be rational?
- We have preferences
  - De gustibus non est disputandum
  - Mostly, we have no theory of preferences
- We face constraints
- We use our brains to figure our what we prefer among the things that are feasible
- We can figure out what happens when you change the constraints
  - Shift out (income effects)
  - Tilt (substitution effects)
- Voting for Brexit is not irrational
  - I can choose to be poorer and purer
- But we have had little to say about “preferences”
The first psychology-led revolution against homo economicus
The first psychology-led revolution

• Based on cognitive psychology
• Take the axioms of homo economicus
• Test them in the lab
• Find them wanting
• Implication: We are bad at making decisions
• Many pitfalls in our decision-making
  • Loss aversion, recency, framing, anchoring
• Policy implication: nudge people into better decisions
But they also found interesting things in the lab

• The ultimatum game
  • People harm themselves because of a sense of justice

• The Haifa day care center
  • People seem to have at least two very different ways of thinking about what is appropriate behavior

• What does this say about our preferences?
Moral psychology: will it lead a second revolution in economics?
Jonathan Haidt’s dimensions of our moral sentiments

- Care/Harm
- Fairness/Cheating
- Loyalty/Betrayal
- Authority/Subversion
- Liberty/Oppression
- Sanctity/Degradation
How did these sentiments evolve?
The secret of our success?

• Culture
• Culture is the knowhow, beliefs and practices that were evolved over the eons and that we use to survive and prosper
• What makes us human is our capacity to develop, accumulate, absorb and use culture
• Culture exists in the social brain
• It is transmitted culturally
• We are genetically cultural. Culture has shaped our genes
  • Digestive system assumes we cook
  • Our larynx assumes we talk
  • Our muscle systems assume we use arms
We evolved many mental processes to make us a cultural being

• We are very good at imitation, learning from others
  • Key for cultural transmission
  • Imitation beats individual innovation as a source of growth
• We need to decide whom to imitate
• We have developed a sense of prestige
  • We imitate people with prestige
• But prestige also gives us satisfaction by affecting our social standing
• A principle very different from dominance
  • That we share with other primates
• Prestige requires altruism
How do we sustain cooperation?

How do we contain the free-rider problem?
Guilt
Shame
Outrage
Pleasure when gossiping
Social pain
Who do we cooperate with?

- Us
- The sense of us
- Different from cooperation in homo economicus
- The principal-agent problem
- Aligning incentives: incentive contracts
  - Stock options
- How did we do it before stock options?
- Identity as an evolved solution to the problem of cooperation
The different senses of us
Why is all this important for development?
Endodontic therapy

Endodontic therapy is a sequence of treatment for the pulp of a tooth which results in the elimination of infection and protection of the decontaminated tooth from future microbial invasion. This set of procedures is commonly referred to as a "root canal." Root canals and their associated pulp chamber are the physical hollows within a tooth that are naturally inhabited by nerve tissue, blood vessels and other cellular entities. Endodontic therapy involves the removal of these structures, the subsequent cleaning, shaping, and decontamination of the hollows with tiny files and irrigating solutions, and the obturation (filling) of the decontaminated canals with an inert filling such as gutta percha and typically eugenol-based cement.

After endodontic surgery the tooth will be "dead," and if an infection is spread at apex, root end surgery is required.

Although the procedure is relatively painless when done properly[citation needed], the root canal remains a stereotypically fearsome dental operation, and, in the United States, a common response to an unpleasant proposal is, "I'd rather have a root canal."
or look for a dentist
Division of labor between family firms

Butcher

Baker

Candlestick maker
Modern technology involves diverse teams
Technology and the scale of cooperation
All of this requires cooperation
The remnants of a history of little interaction

- In Alaska, 19 languages
- In Mexico, over 130 languages
- In Cameroon, over 230 languages
- In Indonesia, over 700 languages
- In India, over 1600 languages
Central Europe in the XIII Century
The Industrial Revolution

An Assembly Line of the Ford Motor Company
What did the Industrial Revolution need?

• A larger accessible market
  • Larger political entities

• A larger set of public goods
  • Education, health, pensions, unemployment insurance, infrastructure

• The first requires a broader “sense of us”

• The second requires a deeper “sense of us”
The Unification of Germany and Italy circa 1871
The acquis communautaire

What do we need to agree on?
How intrusive must the state be?
• Free movement of goods
• Freedom of movement for workers
• Right of establishment and freedom to provide services
• Free movement of capital
• Public procurement
• Company law
• Intellectual property law
• Competition policy
• Financial services
• Information society and media
• Agriculture and rural development
• Food safety, veterinary and phytosanitary policy
• Fisheries
• Transport policy
• Energy
• Taxation
• Economic and monetary policy

• Statistics
• Social policy and employment
• Enterprise and industrial policy
• Trans-European networks
• Regional policy and coordination of structural instruments
• Judiciary and fundamental rights
• Justice, freedom and security
• Science and research
• Education and culture
• Environment
• Consumer and health protection
• Customs union
• External relations
• Foreign, security and defence policy
• Financial control
• Financial and budgetary provisions
• Institutions
European identity
The foundations of national identity

- Ethno-cultural
  - Language
  - Religion
  - Race
- Civic
- What does it take to be perceived as a true member of our community?
  - Who is part of us?
- Answers to this question have enormous effect on opinions on many other political questions
State formation in the developing world

Very heterogeneous paths
Radically different experience in state formation

- Latin American states were created circa 1820, with 18 countries that speak 1 dominant language and have 1 dominant religion
  - No trend towards unification as in Europe
- Arab world has 19 states (created circa 1950) that speak 1 dominant language and 1 dominant religion
- Africa has 53 states and over 2500 languages
  - Enormous internal diversity
- India has a state that was created in 1949, with over 1600 languages, many religions
- Pakistan and Indonesia also have many languages but they created a sense of us based on a dominant religion
Hypotheses

• A sense of us, to be successful, needs to emphasize the areas where there is least heterogeneity between “us” but greater heterogeneity vis a vis “them”
  • Pakistan vs. Albania

• A deeper shared sense of us implies an easier time at agreeing on public goods
  • Scandinavian solidarity and homogeneity

• But there are gains from broadening the sense of us
CAN THE SENSE OF US BE SHAPED BY THE BETTER ANGELS OF OUR NATURE?
THANK YOU