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**Behavioral Development Economics in  
the Light of Normative Economics**

A critical look at its philosophical pillars

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## **Abstract**

Behavioral development economics is on the rise. Its popularity in modern economics is increasing as it provides a cost-efficient alternative to development aid on a macro-economic level. But the literature lacks a discussion about the underlying values and world views.

In this thesis, I analyze the philosophical pillars that economic models are built upon. I find that they do not get the attention they require. Moreover, there is a misconception of elementary terms in modern economics, leading to an incorrect perception of economics as value-free and positive. This issue is omnipresent in modern economics, but behavioral development economics illustrates the urgency of the debate the most. Different cultures with various conceptions and values across the globe do not share Western philosophy. The thesis highlights the potential risks and conflicts that consequently emerge from this insufficient confrontation with the philosophical foundations of behavioral development economics.

Furthermore, I studied economics students' views and values, which shows that even though a deeper confrontation with philosophical economics does not take place in the doctrine of economics, students have a basic understanding of key issues in the field. Interestingly, behavioral economics students and students of other economics-related disciplines share similar opinions in this regard.

**Keywords:** Behavioral economics, development, normative, economic philosophy

# Contents

<b>1</b>	<b>Introduction .....</b>	<b>1</b>
<b>2</b>	<b>Normative Behavioral Economics.....</b>	<b>3</b>
	<b>2.1 Positive or normative economics? .....</b>	<b>3</b>
	<b>2.2 Freedom, Individualism and Ideals.....</b>	<b>10</b>
<b>3</b>	<b>Normative Behavioral Development Economics .....</b>	<b>16</b>
	<b>3.1 Imposing Western Ideas on non-Western Countries.....</b>	<b>17</b>
	<b>3.2 Democratic Individualism in Behavioral Development Economics.....</b>	<b>26</b>
	<b>3.3 Intermediate Summary .....</b>	<b>31</b>
<b>4</b>	<b>Experiment: Economic Students &amp; Normative Views .....</b>	<b>32</b>
	<b>4.1 Methodology .....</b>	<b>32</b>
	<b>4.2 Evaluation.....</b>	<b>35</b>
	<b>4.3 Limitations &amp; Discussion .....</b>	<b>43</b>
<b>5</b>	<b>Conclusion .....</b>	<b>46</b>
<b>6</b>	<b>References.....</b>	<b>47</b>
<b>7</b>	<b>Appendix .....</b>	<b>51</b>

# 1 Introduction

Behavioral economics has arguably become one of the most aspiring disciplines in modern economics. Its main idea to enrich the homo economicus framework with insights from psychology to sharpen the accuracy of neoclassical models gained momentum in the past decades. The awarding of the Nobel Prize in Economics to famous behavioral economists like Kahneman in 2002 and Thaler in 2017 illustrates its recent influence. Consequently, the idea spread and inspired change in many other fields in economics.

The interplay of psychology and economics also found its way into development economics. From this, the new field of behavioral development economics emerged. It utilizes psychological extensions for more efficient policies and purposive development aid. And the success story continued as behavioral development economists Banerjee, Duflo, and Kremer received the Nobel Prize in Economics in 2019. Behavioral development economics too made its way into the mainstream of modern economic theory.

But just like in neoclassical and behavioral economics before, one essential topic remains mostly untouched. Since the neoclassical paradigm change, economists have strived for objectivism and general validity (Putnam 2004). Concurrently, economics began to avoid philosophical discussions about its values and world views. As a positive and objective science, it would not require such debates as it is free of values and ethics. This misconception fundamentally prevailed in the new behavioral branches (Davis 2017).

As a result, there is a major deficit in the literature about the philosophical pillars of behavioral development economics. Whereas there is rare but important work about the philosophy of neoclassical and behavioral economics, the young field lacks a comprehensive critical assessment. This thesis aims to make a first step to fill this gap.

For that, I will first give an overview of the existing philosophical literature on neoclassical and behavioral economics. Indeed, the literature is not short of economists that claim to strictly follow value-free positivism in their studies. From Friedman in 1953 to Mankiw in 2020, the idea prevailed. However, it is revealing to look at their definition of positivism and check for completeness and correctness. The following analysis will show that even presumed positive methods rely on normative concepts about individualism and freedom. Thus, chapter two puts critical assessments of different philosophical economists into context to draw a picture of

## Introduction

normative behavioral economics. Further, it presents the concepts and their origins of individualism, freedom and other ideals that are predominant in modern economics.

Thereupon, chapter three transfers the critical assessment of behavioral economics in chapter two to behavioral development economics. I discuss similarities and differences and analyze how value-laden policies affect societies with different world views and societal conceptions. Both by way of example and in general, I highlight the far-reaching consequences of neglect of own normative foundations.

The philosophical discussion describes the status quo in behavioral development economics. However, it is also essential to understand the current zeitgeist of students in the field of economics to evaluate the potential for change in the future.

Thus, I conducted a study about the normative views of economics students. Chapter four presents the findings. A particular focus here lies on the differences between behavioral economics students and students of other economics-related disciplines. Thereon, I compare the results to the theoretical discussion in the previous chapters.

Three research questions guide this thesis, with each chapter addressing one of them:

1. What are the normative elements of behavioral economics?
2. How do Western conceptions and values impact behavioral development economics?
3. What are the philosophical views and values of (behavioral) economics students?

Thus, the thesis examines existing works, adds a new philosophical discussion, and contributes a study about economics students to the literature. It highlights the importance of philosophical analyses and demonstrates the need for further discussions about the normative pillars of behavioral development economics.

## 2 Normative Behavioral Economics

To understand the importance of a normative discussion about behavioral development economics, it is critical to first look at the attributes *normative* and *positive* and how they relate to neoclassical and behavioral economics. Inconsistencies in the definitions of this influential part of the discipline in the literature motivate a closer inspection of the debate. Furthermore, both the similarities and the differences between the rational choice theory of neoclassic economics and the psychological approach of behavioral economics are insightful about the dominant conceptions in modern economics.

As behavioral development economics applies behavioral economics concepts to developing countries and resembles it in its idea, an analysis of the core elements of the latter corresponds to that of the former. Therefore, I will focus on behavioral and neoclassical economics in chapter two and apply the insights on behavioral development economics in chapter 3.

### 2.1 Positive or Normative Economics?

Even though both neoclassical and behavioral economics have existed for decades, the literature on their positive and normative characteristics remains ambiguous. This subchapter discusses two different points of view and compares the conceptions of normative and positive economics.

A famous distinction between positive and normative economics is the absence of values. In an influential essay, Milton Friedman writes that positive economics is value-free and can test theories like natural sciences (Friedman 1953). Furthermore, he argues that

“Positive economics is in principle independent of any particular ethical position or normative judgements”.

Like physics, positive economics has theories for which it makes assumptions and hypotheses that can be accepted or rejected. Instead of saying how things ought to be, its goal is to accurately describe how they are. Therefore, the main task is to develop and improve empirical tools to be as precise as possible, even though assumptions do not always seem realistic. The sole purpose of positive economics is to make objectively accurate predictions.

In the center of the models that make the predictions is the rational agent. The closer an agent comes to complete rationality, the higher her utility and, thus, the more optimal her decision-making.

That already leads us to the first argument against Friedman's claim. To be value-free and purely positive, neoclassical economics implicitly assumes a general validity of this definition of optimality. Similar to basic principles in physics, the rationality that neoclassical economics defines always has to be the most desired behavior. But this claim does not hold.

Economics is a social science that cannot provide generally valid concepts as natural sciences do. There are many subjective decisions about various topics that neoclassical economics makes. For example, there are multiple definitions of utility which all lead to different decision-making ideals (Bromme 1991). Moreover, I will show in this chapter that the concept of rationality also follows a value-laden view on freedom and individualism. Therefore, choosing rationality as the ideal is already a normative decision.

Friedman was no behavioral economist. However, Berg and Gigerenzer (2010) argue that behavioral economics adopted Friedman's understanding of positive economics. They describe prospect theory, a key concept in behavioral economics, as the successor of expected value maximization and expected utility theory. Even though mathematical parts were changed, added, or removed, the underlying character remains. Models still describe decision-making from an as-if perspective. Thus, the understanding of positivism is no different from Friedman's.

Berg and Gigerenzer elaborate that utility optimization remains at the heart of economic analysis, and rational choice axioms are predominantly accepted. Behavioral economics serves as a descriptive analysis of deviations from rational behavior in this context. Indeed, in its early stage, behavioral economists emphasized the purely descriptive task (Tversky and Kahneman 1989; Berg 2003). But even with the rise of policy advice by behavioral economics, the underlying neoclassical principles remained (Berg and Gigerenzer 2010). Hence, such policies aim to nudge people to presumed ideal choices.

Therefore, the common conception of the human in behavioral economics is still a homo economicus, but whose decision-making is biased by a "psychological shell". Infante et al. (2016) present this dualistic model and elaborate on its problematic implications. To justify paternalistic nudges, economists need to know not only the choice agents made but also what they would have chosen if not distorted by biases. Hence, there are not only the visible preferences that are affected by psychological mechanisms and external influences but also latent preferences of the inner rational agent. In this context, the job of behavioral economists

is to transfer the latent preferences into the actual choices of the agent. The authors note that this model lacks a solid psychological foundation. The concept of an inner rational agent with latent preferences remains an assumption.

Both Berg and Gigerenzer and Infante et al. analyze that behavioral and neoclassical economics share the concept of a rational utility-maximizing human. The main difference lies in whether people have the capability to act rationally or if help is needed. The homo economicus remains at the center of both approaches.

A second important point Infante et al. raise is the assumption that the decision of this so-called inner rational agent is the correct one. The authors highlight economists can study inconsistent behavior, but they cannot determine which decision would be better. An agent that plans to save for the long run but fails to carry out this plan and consumes in the short term shows inconsistency. However, it comes down to the interpretation of whether saving or spending would have been better. Indeed, often patience and self-restraint appear to be the better choice. But the conclusion that the decision a homo economicus would have made is optimal is per se a value-laden assumption that cannot claim complete objectiveness. Berg and Gigerenzer (2010) even go one step further and argue that there is no evidence that agents whose behavior violates axioms of rational choice are actually worse off. That adds another fundamental point of criticism as there is no rationale in influencing behavior if the outcome, in the end, gets worse.

Returning to objectiveness, different authors show that behavioral economics resembles neoclassical economics. Like Friedman, behavioral economists perceived their discipline as purely descriptive and value-free in the early stage. Hence, behavioral economics only gets normative when suggesting policy interventions and paternalism.

But the discussion of whether the paternalistic approach is justified does not cover the total normative bandwidth of economics. Nudging people to decisions that models predict as optimal is an evident normative approach. But there are less apparent implications too. Even in the early stage, when it perceived itself as positive, behavioral economics always stood on philosophical pillars. The rest of the subchapter argues why an absence of direct policy suggestions would not make it purely positive.

Putnam (2004) describes how neoclassical economics adopted a dualistic view of facts and values in the 1930s. Influenced by Robbins (1932), economists tried to remove ethics from their



discipline. In that context, Pareto optimality arose as a value-free welfare criterion, which, however, fails to fulfill this claim of neutrality (p.56). The reason for that, Putnam argues, is that there cannot be a value-free criterion of optimality since the weighting of different utilities already violates neutrality. The Pareto criterion does that by stating that the weight of each utility is equal. For her, it is a misconception to interpret the choice of equal importance as neutral because the concept of equality is value-laden too.

Furthermore, the author labels the idea of a general ordering and comparison of utilities for different people as 'absurd' (p.55).

A similar thought takes place in the work of Berg and Gigerenzer (2010), who even argue that utility functions on an individual level can be problematic. They give the example of a utility function which implies, as soon as commensurability is assumed, that the time spent with one's grandmother can be almost completely exchanged for a certain amount of ice cream at a constant level of utility. That, too, is a value-laden assumption that requires ethical reasoning. Putnam further argues that facts and values are often entangled (p.62). The vocabulary used to describe science usually cannot be detached from values. Therefore, language per se is value-laden. Hence, an effort to separate facts and values, driven by a dualistic view, is bound to fail. One particular case is the mathematical language adopted by economists, which avoids this discussion. I will come back to this point later in this subchapter.

Davis (2017) implements his ideas in his analysis of behavioral economics and its positive-normative distinction. As already mentioned, behavioral economists like Kahneman interpreted the purpose of behavioral insights as a way to improve descriptive accuracy. And further, the reason for this adequacy is due to the positive character of behavioral economics and vice versa neoclassical economics is inaccurate because it is normative.

Sugden's critique of rational choice theory (1991) includes a similar thought. He argues that this theory is normative since it does not describe how people act but how they ought to act. We have to be precise here. If the rational choice theory is seen as a descriptive approach, inaccuracy alone is not a sufficient argument for normative elements beyond philosophical pillars. I.e., just because the theory predicts certain behaviors that do not align with reality, this alone is not normative yet.

A theory that is not used for policy suggestions but solely for modeling behavior can simply be inadequate. The assumption that people are entirely rational might be wrong and lead to false

predictions, but that alone is not what Sugden calls normative.

The normative character comes into play as soon as rational choice theory is interpreted as a suggestion for people on how to behave. In that logic, economics as a social science can influence and alter subjects' behavior. That becomes problematic from a welfare perspective as soon as irrational behavior would have resulted in better outcomes overall (Berg and Gigerenzer 2010).

The distinction between describing how people behave and how they should behave is one out of two ideas for the positive-normative distinctions Davis presents based on (Robbins 1932). The idea comes down to language, as positive models describe how the world *'is'* and normative ones how the world *'ought'* to be. Hence, such a distinction uses a language criterion.

Alternatively, the second approach distinguishes between the intentions of theories. Either a theory aims to be value-free and therefore is positive or integrates ethics and becomes normative.

Davis argues that behavioral economists like Kahneman use the first idea to label prospect theory as positive and attest rational choice theory normative elements (Kahneman 2003; Tversky and Kahneman 1989; Thaler 1994). Therefore, these economists base their argumentation on the language criterion rather than focusing on intentions. I.e., behavioral economics is positive because it describes how people behave rather than how they ought to behave. Vice versa, neoclassical economics then is normative because it presents an ideal rational behavior that does not resemble actual behavior.

Simultaneously, those behavioral economists also agree with the second idea as an ethical free science corresponds to their understanding of a positive discipline. For them, neither behavioral nor neoclassical economics has value-laden intentions. In this regard, the rational choice theory is also positive. Only the language criterion sets the two schools of thought apart in this aspect. It follows that the level of normativity goes hand in hand with the accuracy of predictions. The less accurate a theory, the more normative it gets.

As already touched upon, this distinction is not truly convincing as a normative criterion. It rather is an argument about what theory fits the data best.

Davis (2017) concludes that there is quite some confusion among those addressed behavioral economists regarding the positive-normative distinction, leading to doubtful claims. Based on the idea of Putnam (2004) that values and facts, and hence science, cannot be separated but are

entangled, he argues that the actual differentiation between behavioral economics and rational choice theory comes down to a different ethical value basis. Therefore, the essential deficiency of mainstream neoclassical economics would be its ethical foundation. Davis further elaborates on this alternative interpretation and the difference between the two schools of thought. In short, behavioral economics, and nudging, in particular, have to make value-laden assumptions about subjects' behavior to construct effective policies. Behavioral economists add biases to this process instead of seeing choices as a pure materialization of preferences. Hence, preferences have to be assumed to design effective nudges. I.e., as soon as optimal choices are calculated and nudges implemented, preferences are no longer a black box but priorly described to make the process work. Nudging implies a second difference. To justify nudges, economists use a counterfactual analysis. They predict what choices would have been in the absence of biases and then try to realize those choices. While the ideal of the rational agent is common ground, it is behavioral economics that entails how subjects should behave. This is contrary to the argumentation by behavioral economists discussed earlier.

Furthermore, this implies a different conception of individual freedom. While rational choice theory advocates as undisturbed choices as possible, behavioral economics sees freedom of choice reduced by biases, similarly to the concept of the inner rational agent limited by a psychological shell. Therefore, the debate between the disciplines is also a debate about the understanding of freedom. It is apparent that neither explanation is value-free.

It follows that, first, the claim of descriptive superiority is actually a claim of normative superiority and, secondly, that because both disciplines are normative the distinction by Robbins is incorrect.

Especially default rules show this different conception of freedom. Davis analyzes that advocates of governmental intervention like Sunstein see a freedom increase through this. The option to rely on the expertise of experts or social planners, and hence to *choose not to choose* (Sunstein 2015), following this logic, leads to more freedom for the individual. That is a fundamentally different conception compared to the standard neoclassical one. Here, if they do not alter the choice set, default choices and nudges have no impact on freedom.

Again, it becomes apparent that the debate about rationality and hence empirical accuracy is a mere symptom of the underlying question about the conception of freedom.

Consequently, the question arises why the perception of a purely positive nature of modern economics still prevails. In another paper, Davis (2021) gives several explanations. First, the positive conception remains the status quo in students' academic education in economics. Indeed, popular textbooks for undergraduates closely follow the distinction of Robbins. E.g., Mankiw writes in his *Principles of Economics* (2020) that

*“by contrast, evaluating normative statements involves values as well as facts. [...] It also involves our views on ethics, religion, and political philosophy”,*

stating vice versa that economics without policy advice can be purely positive and value-free. Secondly, economists usually want to avoid the introduction of normative factors into their discipline, leading to less quantifiable analyses and, by that making them less scientific<sup>1</sup>. A debate about ethics often does not provide answers as clear as those of purely empirical or mathematical approaches.

That also builds the bridge to the criterion of value-laden language by Putnam. It explains why, to avoid this criterion, modern economics chose to express itself preferably in value-free mathematical expressions. Similar reasoning applies to the enhanced focus on empiricism. Davis, however, argues that all effort to isolate economics from all normative characteristics is a Sisyphean task. Therefore, the usage of mathematical language is more of an escape from the discussion about value-entanglement than a convincing solution.

One aspect that needs a closer look is how economists define freedom. Davis (2021) identifies three critical elements of the neoclassical economics concept of freedom. First, people only care about utility maximization and preference satisfaction. Secondly, a failure to reach this goal always comes down to external factors. And lastly, those external factors are structures and the organization of economies.

For behavioral economics, however, the last two points are incomplete. As already discussed, Davis sees the main difference in the intake of the counterfactual analysis. Hence, following

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<sup>1</sup> There are some exceptions. For example, some social choice theory models use normative factors directly expressed by the individuals to reach optimal collective decision-making (Sen 1986). However, other approaches of this discipline use pre-defined welfare criteria which then again requires a discussion about their normative foundations. Both share a normative decision about the ranking of individual preferences.

the terminology of Infante et al. (2016), the inner homo economicus is also hindered by his psychological shell and not only by external imperfections.

In short, freedom in mainstream economics means satisfying the own preferences. Davis calls this “individual realisation”. As only the obstacles for preference satisfaction differ but not the concept of utility-maximizing, this applies equally to behavioral economics.

At this point, it is sensible to draw an interim conclusion. It became apparent that there is a popular but inaccurate belief in economics about the positive-normative distinction. Neither behavioral nor neoclassical economics can be completely value-free. In the center of both beliefs stands the rational agent that maximizes her utility. Individual realisation is the philosophical pillar of modern Western economics.

Nevertheless, there is a distinct difference in their conception of freedom. Behavioral economists’ approach not only has a value-laden ideal of individual freedom but also implies that paternalistic interventions increase people’s freedom. Hence, such interventions aim to get people’s behavior and choices closer to this ideal. The analysis of what follows from this takes place in the third chapter of this thesis. However, to fully understand the relevance of this issue, it’s necessary first to get an overview of concepts of freedom, individualism, and ideals.

## **2.2 Freedom, Individualism, and Ideals**

### **Lockean and Reidian Freedom**

Even though Western cultures often share an individualistic worldview, many different concepts of freedom still exist in their philosophical history. A complete overview of all important philosophers is far beyond the scope of this thesis. For example, Beck (1987) finds five different concepts of freedom in the works of Emmanuel Kant alone. Instead, the ideas of two influential philosophers, John Locke and Thomas Reid, serve as examples of deviating concepts.

The British philosophers Locke and Reid both played an essential role in the philosophy of the Age of Enlightenment and hence in the foundation of modern Western societies. At the same time, their concepts of freedom vary in essential ways, giving insight into the unsettled debate about freedom.

Following the analysis of Rowe (2013), Locke differentiates between free and voluntary action. For him, the decision to do something alone is not a sufficient criterion of freedom but only

describes voluntary action. It turns into a free action at the moment when the alternative could have been done too. A subject has to have the possibility to act out the opposite of what she wills to be free in the Lockean understanding. Hence, his main criterion of freedom is whether “you are free to do what you will.” Furthermore, Locke takes a deterministic stand. For him, Rowe argues, acts are purely the result of the circumstances. Whatever people decide to do is determined by their affections, emotions, or beliefs, which result from the past. That leads to an interesting thought: It does not matter for freedom that all acts are entirely determined, as long as it is hypothetically possible to do the opposite. I.e., not being restricted to act in whatever way by anything but oneself is the Lockean criterion for free acts.

Reid, on the other side, has a different conception. He, too, believes in determinism as far as everything has a cause. However, a free act requires a particular form of a determinant. For him, the ante-cedent of a free act is not another event but the will of the agent herself. In contrast to her acts, an agent’s will is not determined, either by internal factors like emotions or desires or external factors like prior events. Therefore, the key difference comes down to what Rowe describes as the third condition of agent causation which is the power of not doing something. This power requires that another agent or event cannot determine an act by an agent fully. Only if this criterion holds can an act be free.

The difference with Locke is subtle but can be narrowed down to the role of free will. While Locke solely focuses on counterfactuals to classify acts as free, only Reid adds free will as a criterion. For Reid, a subject has to freely will an act so that this one is considered free as well. Rowe identifies another aspect of Reidian freedom as the power to determine the own will. Desires, pain, or emotions limit this power. As soon as those overtake and dictate the act, the latter is no longer free. Further, the space between having complete power and being powerless defines the degree of Reidian freedom.

With the interplay of free will and psychological factors limiting it, this concept is similar to the idea of freedom in behavioral economics, as described in the last subchapter. It is not surprising to find thoughts of the Age of Enlightenment in modern economics but rather shows how strongly the discipline is rooted in Western philosophy.

The author further discusses weak points in both concepts and goes into more detail. Both are not relevant for this thesis and therefore skipped. Nevertheless, Rowe makes one final important remark. He writes that there are philosophical questions whose discussion is not about a

definitive agreement but about a “deeper understanding and clarity concerning the questions and their possible answers.” He argues that this is what freedom is about. It is essential to be aware of its various definitions. Therefore, the underlying concepts of freedom of both neoclassical and behavioral economics have no objective claim to general validity.

### **Democratic Individualism**

Along with freedom, individualism is the key principle in the philosophy of modern economics. Kateb (2003) defines it as a normative doctrine that tells people how to interact as social beings and promotes a way of living. Furthermore, every individual has an undefinable value outside of their social role. The value is not definable because the identity of each individual is not either. Moreover, subjects cannot be conclusively described, and everyone is unrestrictedly unique. Because of this, Kateb argues, each individual deserves to be treated respectfully by society.

The author then argues that history has shown that both theory and realization of individualism have never emerged without democracy, at least at the start. For him, individualism and democracy are inextricably linked. Furthermore, this is true for no other political system.

He discusses this hypothesis based on two examples, the Athenian democracy in ancient Greece and the first modern democracy in the United States of America. Especially Plato, he claims, provides a description of democratic individualism that covers all of its theoretical aspects, even to modern standards.

At the center of the concept of democratic individualism is the choice to live according to one’s liking. That entails professions can be switched, and no class or caste system dictates it. Further, a subject can freely decide how to architect her own life, change roles, or reverse them. Those roles, however, do not fully define the individual, as it can never be completely defined. Rather the individual itself is more important than any function it has. The role of society in this is to make this possible for every individual in it. The latter aspect is important for the democratic aspect. As soon as only a few are allowed to express themselves freely while others are restricted to an assigned role, individualism turns antidemocratic. A philosophical monarchy, for example, is such an antidemocratic individualism as only a few philosophers are allowed to go beyond established roles.

Therefore, every member of a society is politically equal, as this is a necessity for freedom.

Hence, the freedom of one individual requires from her to respect the freedom of others. Rich and poor alike have to be able to realize themselves. One modern version of antidemocratic individualism is Social Darwinism with its underlying concept of surviving of the economically fittest. It assumes that society improves over time if the capable and hardworking survive while the lazy die out. This stands, Kateb writes, diametric to the democratic principle, but because of the focus of the single subject it an individualistic approach. Whether behavioral development economics has a clear democratic or antidemocratic individualism is discussed at a later stage of this thesis.

### **Non-Western philosophies**

This chapter has mainly focused on Western countries as they have always been at the center of modern economics. Classical economists like Smith and Riccardo, advocates of the Austrian School like Hayek, Neoclassical economists like Pareto, or monetarists like Friedman all lived and taught in Europe or the USA. Prestige universities are located in cities like Stanford, Cambridge, and London. Therefore, it is no surprise that the individualistic philosophy has prevailed in economics over the centuries.

But this skewness in academic focus toward the West distracts from the diversity of philosophy around the globe. Indeed, some influential philosophies and religions do not promote the same individualistic idea.

The level of individualism varies from country to country. The population can be best described as individualistic for some, while others are more collectivistic. Hofstede (2011) provides a list of criteria that draw a line between the two. One is the perception of the words 'I' and 'We'; another is the trade-off between openness and harmony. In general, people of collectivistic societies are more interdependent and interactive. A study by Earley (1993) shows that collectivists outperform individualists in group projects, while they do relatively worse in individual tasks.

However, this would only be an issue if there were systematic differences in the level of individualism between Western and non-Western countries. And indeed, Hofstede and Triandis' (1993) individualism index IDV is strongly correlated with Western societies. The USA, Australia, and Great Britain have the highest IDV score. At the same time, the lowest quartile almost exclusively consists of countries from South America and East Asia, only with Pakistan and Western Africa as exceptions.



An important observation by the authors follows this finding. Both traditional economics and psychology do not have general validity but are rather heavily skewed towards Western individualism. Another interesting aspect is the correlation between individualism and wealth. The idea that individualistic countries are economically stronger is widely known. However, this relation reverses for the economically strongest countries as economic growth is negatively correlated with the IDV (p. 133). Hence, the idea of economic advantages of individualism over collectivistic societies appears to be more ambiguous and therefore has to be treated critically.

One concrete example of an economic approach based on different values is Islamic Economics which is the product of a religious worldview. Islam, and religions in general, have other concepts of the individual, freedom, and societies. In the Age of Enlightenment, philosophers devised a worldview alternative to the Abrahamic religions. These modern Western philosophers have influenced economics up until the present day. Therefore, Islamic Economics is an excellent example of a different economic approach.

For Haneef (2005), Islam defines how to live life in all aspects, including economics. A religious man is a servant of God and is assigned a specific role. It's already striking how this stands diametric to the individualism discussed by Kateb (2003). But also, utility maximization and the egocentrism of modern economics give way to religious principles. Instead, *inter alia*, the Quran provides a guideline.

The structure of this new discipline exhibits many parallels to Western economics. While many tools are adapted, the significant differences lie in the philosophical motivation and the interpretation of the results. Whereas modern economics aims to prove its theories mathematically or support its hypothesis empirically, Islamic Economics requires one more step. The findings of these economists have to pass the criteria of religious revelation to achieve validity.

This approach is not only different because of the open acknowledgment of its entanglement of science and religion but also because of the fundamental differences between the religious worldview of Islamic Economics and the Western philosophy in mainstream economics.

One might argue that religious criteria are not scientific and hence the discussion is irrelevant for economic science. Indeed, religion is not a science. However, this would neglect that economics is not purely scientific either, as it inevitably involves philosophy.

In summary, this chapter has discussed the misconception of economics as a value-free discipline and analyzed its philosophical pillars. Modern economics, both neoclassical and behavioral, predominantly claims to be purely positive unless policy recommendations are formulated. However, philosophical analyses show that this leaves out crucial parts of economics. Individualism and freedom are philosophical pillars of economics that require sound reasoning and an awareness of the various alternative concepts. While both approaches share their views on individualism, they differ in the understanding of freedom. Moreover, by ignoring their philosophical elements, both neoclassical and behavioral economics implicitly claim superiority over other schools of thought. They correctly regard them as value-laden while incorrectly considering themselves value-free.

Furthermore, it gives an overview of the meaning of individualism and the variety of concepts of freedom. Lastly, cultural differences and the example of Islamic Economics show the relevance of the next chapter of this thesis, where I discuss the consequences of Behavioral Development Economics.

### **3 Normative Behavioral Development Economics**

Behavioral development economics is on the rise. Emerging from the theories of behavioral economists (e.g., Tversky and Kahneman 1989) since the 70s and 80s, it has become more and more popular in recent years. However, behavioral development economics is not an independent theory but the tool-set for practical applications of the theoretical work of behavioral economics in developing countries (Demeritt and Hoff 2018). Hence, the philosophical elements of both disciplines are similar.

Based on the concept of behavioral biases, economists use it to improve the effectiveness of policies in developing countries. For this, the fields of application are versatile. Impactful work has been published, ranging from nudging farmers in Kenya to increase fertilizer usage (Duflo et al. 2011) to studying the impact of monetary scarcity of Indian farmers on their cognitive performance (Mullainathan and Shafir 2013). The common goal is to reduce poverty and help the poor improve their situation effectively. In contrast to costly and inefficient macro policies, small nudges can provide a promising alternative. For example, Duflo et al. (2011) find that their nudging approach for fertilizer usage is both cheaper and leads to higher welfare gains for farmers than traditional heavy subsidies.

Furthermore, Demeritt and Hoff (2018) elaborate that there are two different approaches in behavioral development economics, both going beyond the entirely rational actor model. First, there is the quasi-rational actor model, which is also predominant in behavioral economics. The second model assumes that people are both quasi-rational and enculturated. The enculturated actor model focuses not only on the psychological limitations but also on the influence of peer groups or society on subjects' decision-making. For example, Hoff and Pandey (2014) study the effect of the caste of students in India on their performance. They find that belonging to a lower caste only negatively affects their grades when it is made public to their fellow students. Such extensions of the model are valuable, yet they do not change the underlying goal of the policies. The ideal decision-making of a subject is still the rational agent who is now biased both by psychological and socio-cultural influences. Only the approach changes while the envisaged outcome remains.

Therefore, the problems of behavioral economics discussed in the second chapter stay the same for behavioral development economics. Henceforth I will show why the neglect of value-

ladenness and the philosophical foundations of behavioral economics is particularly dangerous in development economics.

### **3.1 Imposing Western Ideas on non-Western Countries**

Indeed, there is one significant distinction. Behavioral development economics actively applies those concepts and, therefore, its ideas and philosophy to non-Western countries. Policy architects nudge people of other cultures to behave according to the economic ideal.

This problem is not as enhanced in Western societies as they share the same philosophical background with modern economics. Thus, less tension occurs between economists and subjects. But the more different a culture is, the more severe the implications get. Furthermore, the micro-level focus of behavioral development economics changes the role of the governments in the use of development funds. Davis (2013) argues that while traditional development aids are transferred to developing countries to let the government decide how to use them, behavioral development economics targets specific microeconomic aspects and hence implies earmarked funds. For him, this bypassing of governments marks an imperialistic character of the discipline. I will take up this criticism again later.

Another example by Davis for imperialism is the focus on the subject without considering the social context, e.g., the trust in the government or peer dynamics. Indeed, many studies only use the model of a quasi-rational but not enculturated agent, i.e., they do not take societal influences into account. The imperialism, in this case, is not on a cultural level, but it's the neglect of non-economic factors by policy architects as everything gets explained by economic models. This disregard for social and cultural factors is not severe in Western countries that share the same idea of society. But Davis argues that these aspects must be considered for societies with different views. Otherwise, policymakers nudge subjects to their concept of society, even when it is unintentional.

When Davis published his paper in 2013, the model of the quasi-rational and enculturated agent was fairly new. Three years later, Hoff and Stiglitz (2016) find such concepts only in then-recent works, which explains why Davis (2013) does not discuss the enculturated actor. However, this enculturated actor model avoids some of Davis' criticism. Social context is taken into account as well as how societies are organized. The interplay between the subject and her peers also plays an essential role in the model. Demeritt and Hoff (2018) advise considering history and culture and generally the social context in decision-making analyses to improve

models' accuracy and increase realism.

Nevertheless, the fundamental issue mentioned earlier in this chapter remains. The subject's environment and psychological biases prevent the enculturated agent from acting wholly rationally. This rationality ideal is not touched but remains as the foundation.

Hence, the enhanced model avoids part of the criticism by Davis as it does embed the subject in a social context. But the underlying goal to make the agent's decisions more rational remains, as well as the idea of rationality. Davis argues that this implicitly can lead to a different conception of the subject herself and her environment, away from the old one and towards the Western one of the policy makers.

In summary, this kind of economic imperialism imposes its philosophical principles on societies with different conceptions.

### **Two Issues to Consider**

Now consider such a society with fundamentally different conceptions, for example, Islamic Economics and its values described by Haneef (2005). The differences in the worldviews and philosophical fundamentals are distinct. Behavioral development economics faces two issues when operating in such countries.

First, the understanding of freedom and the role of the individual is disparate. As analyzed in the second chapter, Western philosophy, inter alia rooted in the Age of Enlightenment, has heavily influenced behavioral economics. The individual acts freely and is the architect of her fortune, only limited by psychological factors and societal influences. At the core of the human image is a rational agent. Furthermore, this agent maximizes her utility and has monotonic preferences.

Contrary to this, in Islam, as in many other religions, the religious human is a servant of God. Translating it into economic terms, a human acts accordingly to the 'preferences' of God and 'maximizes utility' in God's imperative. However, these terms are out of place when it comes to religious concepts, as the necessary materialization of everything is not given. It's hard to imagine how the belief in salvation or transcendental experiences finds its way into utility functions. And without quantification, such factors are not eligible for consideration in econometric analyses.

One could argue that this problem is neglectable. Overall, behavioral development economics aims to improve lives, reduce suffering, and simultaneously not intervene too much in choices.

But it is important to remember to whom this argument aims. Behavioral economics includes presumed irrelevant psychological factors. For policies, nudging is based on libertarian paternalism. This reasoning that psychological tools can influence behavior without changing the set of choices is tailored to neoclassical economics. It works well to avoid the criticism of unjustified interferences as they should, in theory, not matter for the outcome. Nudges will not influence an entirely rational agent.

But when it comes to development economics, this reasoning is not sufficient anymore. Behavioral economics now has to consider many different conceptions which do not have the homo economicus at their core. Libertarian paternalism then becomes very relevant again and has to be justified differently. As soon as psychological tools are regarded as relevant, paternalism needs legitimation and a debate over its implications.

If this confrontation with the topic does not happen, behavioral economics implicitly denies the validity of other ideas and hence becomes imperialistic in the sense of Davis' definition.

To return to the initial point, good intentions of behavioral development economics alone are not sufficient. Some factors cannot be quantified but are highly relevant to the treated subjects. A policy can be a complete success in all measured variables. But simultaneously, it could have been harmful to a religious aspect. This intervention would be subjectively detrimental to someone who only cares little about secular welfare.

It's important to repeat that this thesis does not aim to present a maxim for those considerations. Instead, it is about drawing attention to the issues and their relevance.

Secondly, those interventions can potentially change the views of the subjects. Given that the interventions lead to the desired result, they alter the subjects' decision-making. A behavioral economist would argue that this is due to the bias that the policy has corrected. Ideally, this would be the whole story. However, economics is a social science that deals with the complexity of humans and abstract concepts that cannot be physically measured. Thus, this causality comes down to interpretation. Whether biases are the main or sole driver can only be argued for but never be proven. It cannot be ruled out that unobserved factors play a part too.

One potential factor is that certain societal or worldviews change. Davis (2013) argues that nudging people to an understanding of economics in the sense of liberal market societies crowd out alternative constructs. Consequently, people potentially change how they perceive themselves and society. A change of those conceptions goes hand in hand with changes in

values and philosophical views, even though it might happen unconsciously.

Even though policies do not always reach persistent changes in behavior (e.g., Duflo et al. 2011), it is fair to assume that this would be the desired outcome. Welfare gains through debiasing people are the key intention of behavioral development economics. Additionally, many interventions over time might not be persistent individually but have a lasting effect overall. It follows that getting rid of the targeted bias for good is ideal. In this case, the potential change in conceptions is persistent as well. Therefore, a fully successful intervention is likely to have a lasting effect on societies and makes them more economically liberal and presumably individualistic. It's a Heraclean task to determine the relevance and magnitude of this impact channel as there are far too many other potential effects at work.

Nevertheless, an analysis by Santos et al. (2017) shows that individualism indeed increased worldwide and not only in developed countries in the past decades. India, for example, has strongly adopted individualistic values. The authors find that socio-economic development is the primary driver of this global trend. Changes in income, urbanization, industrialization, and education, inter alia, accurately predict the dynamics of individualism. Behavioral development economics aims to accelerate socio-economic development and hence influences values through this channel. However, the direct influence of behavioral-driven policies on values is yet to be examined.

Moreover, as soon as debiasing and a change in conceptions are entangled, the latter indirectly is in the interest of policymakers as it improves the wanted result.

Behavioral economists predominantly measure the success of interventions empirically. As previously discussed, the success is then only determined by the variables included in the empirical analysis. The consequences of a change in conceptions are neglected in such studies, not least because they are difficult to quantify. Simultaneously, the side effect of a more effective debiasing improves the main results. Therefore, behavioral development economists benefit from those conceptual changes on an individual level while they potentially damage the overall goal of behavioral development economics of improving the lives of the poor. That might partially explain why this issue has not gotten adequate attention even though it should.

To sum up, behavioral development economics has two problems which come down to measuring. First, the econometric tools cannot capture factors that are both non-materialistic and non-quantifiable. Of course, behavioral economics also deals with non-materialistic

elements like emotions and loss or ambiguity aversion. However, economists always quantify those factors. Schmeidler and Gilboa (2004), for example, created the Maxmin Expected Utility function to include ambiguity aversion in the mathematical framework of economics. A counterexample is religious efforts for the afterlife, which cannot be quantified and compared to secular preferences by definition.

Variables have to be measurable to be taken into consideration in an analysis. As a result, economists try to maximize utilities that do not necessarily reflect actual preferences.

Secondly, policies have the potential to change societal conceptions. Nudging people to behave according to their own ideals might also lead to an adaption of the underlying values. A justification of this side effect is not trivial, and sound reasoning for the benefits of this conceptual change is required. These effects are hard to measure, and the impact channel of policies on the dynamics of values is most difficult to isolate. Hence, it is no surprise that such considerations are missing, even though they are necessary for an optimal approach to development economics.

### **Collectivistic societies**

Davis (2013) writes that such conflicts are mild for countries with predominant values similar to those of modern economics. Nudging policies in, e.g., the USA, do not require the same debate as in developing countries. The more different a society is from the values of behavioral economics, the more careful behavioral development economics has to be.

There are, of course, differences between developing countries. India, for example, is both an emerging and developing country. Its population size and economic potential, along with a relatively low GDP per capita, make it interesting for development economists. Based on Hofstede and Triandis' (1993) criteria, India is relatively balanced in collectivism and individualism. Still, its index value of 48 for individualism is only half of the USA with 92 out of 100. Vietnam and Thailand, also popular countries for behavioral development economists (e.g., Gloede et al. 2015; Hardeweg et al. 2013), have an even lower index value of 20. There are differences between Western and Eastern countries and the potential for conflict when individuality-driven models meet collectivistic societies.

Ogihara (2017) describes such a conflict in Japan. In the past decades, individualism increased in Japanese culture while some societal values remained collectivist. On the one hand, economic factors drove the individualism trend; on the other hand, cultural heritage preserved



collectivistic values. As a result, tensions between those values emerged in Japan. The negative influence of an individualistic mindset on goal achievements especially damages interpersonal relationships.

People adopted the economic thinking of Western culture but kept the traditional values of society. Thus, the author concludes that an increase in individualism is far more ambiguous regarding well-being for collectivistic societies than for already individualistic ones. Interestingly, a study that would only focus on the economic improvements might conclude that the overall impact of such a development is clearly positive. That shows the importance of a comprehensive analysis of potential influences, including non-materialistic aspects.

On the other hand, policymakers have to be aware of the benefits of collectivistic societies. Nudging people to an ideal that promotes individualistic thinking consequently reduces collectivism. Triandis (1988) gives the example of a lower crime rate in collectivistic cultures. A well-connected community is most efficient in preventing criminal behavior by fellow citizens. Vice versa, crime rates increased in countries where individualism was on the rise. There are arguably other factors that partially drive the magnitude of this correlation, but different studies support the existence of this impact channel.

Another point raised by the author is lower drug use. Interpersonal relationships decrease the risk of addiction to harmful drugs like alcoholism. The same is true for suicide rates.

Both drug usage and crime are highly relevant problems in poor societies. Poverty leads to higher crime rates (Dong et al. 2020) and a higher likelihood of drug addiction (Mossakowski 2008; Pear et al. 2019).

The two aspects are exemplary for the benefits of collectivistic values. Addiction and violence are essential issues in developing countries. A shift to a more individualistic culture could potentially worsen the problem and damage the overall welfare.

Of course, there are also disadvantages of collectivism, and a similar argumentation can be written about benefits of individualism. The aim of this subchapter is not to claim superiority of the former but rather to show the ambiguity of benefits and downsides as well as the need for a sophisticated understanding for each individual case. The focus simply lies on the upsides of collectivism and risks of individualism because behavioral development economics potentially increases the latter but not the former.

### **Downsides of Individualism**

Therefore, it is also necessary to discuss these potential downsides of individualism. It is often associated with economic growth and forms a central ideal of modern economics. On the other hand, it weakens social cohesion (Triandis 1988). Especially in the face of the challenges of our time, solidarity might be a key factor for developing countries.

One example is the ongoing Corona crisis, which turned into a global pandemic in 2020 and severely impacted developing countries. In a comprehensive analysis, Bian et al. (2022) studied the role of individualism during the COVID-19 crisis. They find that more individualistic societies experience worse infections and mortality outcomes. Furthermore, governments enforce stricter measurements because they are 30 % less effective.

Additionally, the vaccine uptake rates were lower, employment rates dropped more heavily, and small businesses were less likely to survive. As a form of voluntary redistribution, donations were fewer and smaller in magnitude. Consequently, more individualistic societies recovered more slowly from the crisis in the medium run.

The paper mainly uses data that compares counties in the USA. However, an external validity check using the individualism score by Hofstede, which this thesis also references, indicates that this channel holds on a cross-country level.

The authors hypothesize that more individualistic people do not internalize the societal benefits of following the measurements and vaccines. Their own interests weigh more, and they value social responsibility as less important. Thus, in times when consideration and cohesion are vital to minimize the damage of a crisis, strong individualism becomes a problem.

Another crisis that will most likely shape our future decisively is the accelerating climate crisis. While economists associate individualism with benefits like increased innovation (Gorodnichenko and Roland 2017), an important factor for adaptation and the fight against climate change, there are also considerable downsides.

Xiang et al. (2019) conducted three studies to test whether individualism leads to more inaction toward climate change. The findings of the three studies support this hypothesis. Individualism, with perceived intractability as a mediator variable, leads to lower effort in battling climate change on a personal level and less environment-friendly behavior.

Simultaneously, the accumulated effects of every individual's behavior determine the trend of

the climate crisis. But a self-perception of an independent self whose actions are detached from the bigger picture reduces the willingness to act accordingly.

The forecast by Kulp and Strauss (2019) makes the significance of climate change for developing countries particularly clear. They predict that by 2050 countries like India, Vietnam, Indonesia, and many more will face chronic floods that will affect 300 million people due to a higher sea level. That includes highly populated capitals like Bangkok in Thailand or Dhaka in Bangladesh.

By 2100, an area that is now home to 200 million people will be permanently below sea level.

Furthermore, various other crises accompany the climate. Shortage of resources will lead to strong migration flows (e.g., Kniveton et al. 2012) and drive many species towards extinction (McCarty 2001). Also, natural disasters will increase in number and severity (van Aalst 2006). Developing countries, especially in South-East Asia, have been hit by tsunamis, heavy floods, droughts, and many other catastrophes.

As described, individualism is more of an obstacle than a help when it comes to preventing crises and dealing with them. Both will become more and more important in the following decades. The individualism-driven approach of modern economics has arguably paved the path for economic wealth and development in Western countries in the past centuries.

However, in the light of climate change, voices of criticism arise, with some even expecting a paradigm shift (Anderson and Bows 2012). Nudging people to more rational decisions in the sense of behavioral economics can potentially lead to increased individualism as well. The side effect is hard to measure but highly relevant to discuss. It is a philosophical and ethical decision to change people's conception of interdependence and social responsibility. One problem in such evaluations lies in the nature of quantifying effects. The impact channel of increased individualism due to policies on climate change is hard to isolate, and the effects are only marginal on a subject level. At the same time, monetary gains are easy to measure. But a widespread intrinsic motivation to reduce one's ecological footprint is indispensable to prevent the worst from happening.

A comprehensive analysis by development economics should internalize this aspect and evaluate the risks and benefits of individualism-driven policies.

Nudge theory in policy making is not per se detrimental to the environment. On the contrary, various such approaches target wasteful behavior and insufficient awareness (e.g., Kallbekken

and Sælen 2013; Lehner et al. 2016). Rather, it is the isolated view that policymakers have on issues. The individualistic perspective of modern economics often tends to fail to take larger-scale externalities into account. Careful consideration of possible side effects is set aside in favor of easily measurable successes. The underlying idea of behavioral economics to bypass big debates by altering only details in behavior overlooks the far-reaching side effects and its philosophically charged character. This way of thinking has to change in the face of the immense tasks and crises that the future holds.

Sure, there are critics of nudges in general (e.g., Bregman 2018), while others highlight limitations (e.g., Loewenstein and Chater 2017). However, a discussion about the issues I elaborated on in this subchapter is missing in the academic literature.

### **Religious Influences in the West and East**

Returning to differences in values, we can find a variety of worldviews across the globe. For example, Islam, Judaism, and Christianity form the Abrahamic religions. There are significant differences between each of them. As already discussed, Islamic Economics with the Quran as a guideline has partially opposing goals to the secular approach of modern economics. Nevertheless, modern economics is not free of religious influence either as

*“Judeo-Christian beliefs - if often in modern secular disguises - continue today to exert a much greater influence on their thinking than most current economists and other social scientists have seemed prepared to understand” (Nelson 2014).*

Prima facie, this seems to contradict the previous discussion about the secular character that not only economics but science, in general, has adopted in the West since the Age of Enlightenment. However, this observation is not so much about religious beliefs but the concept of truth. Nelson describes that the Judeo-Christian religion believes in absolute truths. As there is wrong or right, there is false or true, and God is the center of one big truth. The secularization removed God and religion from their role as the absolute truth, but the idea prevailed in science (p. 301). The concept of falsification is key to most disciplines. Western economics also try to falsify their hypothesis and find an objective truth in economic interrelations. In Muslim countries, behavioral development economics has to be aware of the different truths people seek. However, for East Asian countries, this consideration is not sufficient anymore.

Hofstede and Triandis (1993) highlight the difference in beliefs between Eastern and Western religions. Contrary to the Abrahamic religions, Eastern religions do not believe in this concept.

Thus, they do not seek such a truth. More generally, it's not beliefs that are central but rather actions. It follows that the practice of good deeds is more important than a theoretical search for absolute truth. The authors also find that this more practical approach to virtues leads to increased self-satisfaction.

Therefore, putting the rational ideal of human behavior in the center of policy design becomes more questionable when this is not the predominant ideal in the targeted society. Hofstede and Triandis (1993) describe that, for example, the Chinese value common sense more highly than rationality. Rationality is an abstract concept that needs analytic thinking and consistent preferences, i.e., rules out contradicting decisions. On the other side, common sense is more intuitive, and decisions result from experience rather than abstract reasoning.

Thus, it is insufficient to motivate interventions with a violation of rationality. First, it must be reasoned that rationality increases well-being in the respective context and that the more practical approach is not better suited. Behavioral development economists usually only focus on the internal validity of their concepts. Within the framework of rationality, the policy has to improve the subject's situation. This condition is necessary but not sufficient.

Additionally, they need to check whether the approach fits the respective societies. For that, an analysis has to consider criteria that are important for the targeted subjects in developing countries and not just the ones that result from the rationality framework. Regardless of the conclusion of such a consideration, changing the way of thinking about problems from a more practical to an abstract way is a strong intervention that should not be done without ample reflection.

### **3.2 Democratic Individualism in Behavioral Development Economics**

There are many critics of libertarian paternalism in behavioral economics. E.g., adherents of the libertarian school of thought have criticized that the very term is an oxymoron and that the approach has a totalitarian character (Veetil 2011; Mitchell 2004). Other economists, particularly behavioral economists, object to this criticism (Sunstein and Thaler 2003). For them, paternalism can be libertarian because it increases individual freedom, as discussed in chapter 2.1.

However, behavioral *development* economics has not been sufficiently examined in this regard, even though the problem is significantly greater for policies in different cultures as analyzed before.

In this subchapter, I discuss whether the intention and execution of behavioral development economics follow a democratic or antidemocratic individualism based on the criteria by Kateb (2003) that I summarized in chapter 2.1.

I already unambiguously answered the question of whether the approach is individualistic in the previous chapter. The focus on the individual subject is a key element.

Whether it is also democratic has to be answered in two parts.

Wealth and political influence go hand in hand in almost every society. Donations of big companies to political parties, financing one's election campaign, or bribing decision-makers are only a few channels. Especially the latter is widespread in developing countries. But also, on a more fundamental level, participation is not free of cost for the subject but requires time and effort, resources that are scarce for those that struggle to make ends meet. Consequently, not everyone can afford to partake. Even more, people who experience extreme poverty have to battle for survival which ties them to economic constraints and practically takes away most of their freedom. This topic is highly relevant as the crises of COVID and climate change drastically worsened the forecasts of the Worldbank (2020). Due to Corona alone, around 100 million more people are living in extreme poverty, and an additional estimated number of 68 to 132 million people by 2030 will add to that because of climate change. The global community will very likely not reach its goal of reducing the percentage of extreme poverty worldwide to below three percent as the number increased during the Covid crisis for the first time in decades.

The key goal of behavioral development economists is to lift people out of poverty and improve the poor's lives in terms of health, education, or wealth. For example, Mullainathan and Shafir (2013) devote great effort to examining the effects of poverty and how it perpetuates itself. They find that poverty creates a massive mental burden that impedes cognitive performance and use their findings for policy advice. Other economists focus on biases like loss aversion or present bias and try to lift people out of poverty by counteracting those. The discussion about the accuracy and realism of such models set aside, the intention of those policies is always to reduce poverty.

Another necessity for democratic individualism is the ability to architect one's life without it being determined by a class or caste. As shown by the study of Hoff and Pandey (2014) about caste-related performances of students, there are concepts like aspiration failure in behavioral

economics that model mediate effects of class societies. The goal to exhibit and overcome this problem is also entirely in line with the idea of democratic individualism.

Making the poor financially better off is one of the most critical aspects of democratizing societies, as ensuring basic human needs is an indispensable prerequisite for democratic participation. Direct effects and indirect channels are important to consider, and both take place in behavioral development economics. Thus, its intention fully complies with the ideals of democratic individualism. Moreover, this factor weights more heavily on developing countries than developed countries. Therefore, in this regard, the individualism of behavioral development economics is more democratic than the general individualism of behavioral economics.

The discussion, however, gets more ambiguous when it comes to the execution.

There are two main characteristics of the discipline that I consider debatable when it comes to democratic individualism.

The first argument coincides with Davis' (2013) criticism of the imperialism of behavioral development economics. As described earlier, the author raises concerns about the bypassing of governmental institutions. Indeed, policy architects collaborated with NGOs instead of governments to implement their design (e.g., Duflo et al. 2011 and International Child Support). However, the choice of the type of partner itself is not the primary concern but the role of governments in general. Behavioral economists usually create a theoretical framework which they then apply to the field. They rely on local partners to fine-tune the implementation and make use of their knowledge and reputation but not to fundamentally change the policy's goal. The funds are per se earmarked. Given that development funds are limited, more earmarked funding means less decision space for local authorities. Representatives of the people are not in complete control of the policies, and hence, decisions are made for the people in developing countries instead of deciding themselves.

There is, then, a clear difference in the level of paternalism between developed and developing countries. Rebonato (2014) argues that democratic governments cannot use paternalism to every extent as they have to answer to the public. Elections give people the power to vote out a government. Further, there are political dynamics in parties and governments too. Hence, democratic tools prevent unrestricted paternalism. But those tools disappear as soon as not the own government is in charge but outsiders.

The argument that voters can elect a government that prohibits such policies only holds if developing countries do not rely on development funds. Otherwise, this option becomes improbable. Additionally, those people that policies aim at often do not have the capacities for political participation, as already described.

Therefore, paternalism is much more pronounced in behavioral development economics and lacks democratic monitoring of policy makers.

Indeed, there are good reasons for earmarked funds. For example, there is severe political corruption in many developing countries, and consequently, the costs for development aid increase while the efficiency decreases (Olken and Pande 2012).

Nevertheless, behavioral development economics lacks one aspect of behavioral economists' justification of paternalism.

Secondly, democracy requires an equal chance of participation. As discussed, behavioral development economics aims to improve the poor's financial situation, which is vital for more political equality. But on the other hand, the discipline itself leaves no room for influence by other philosophies. The Western-based rationality concept dominates while other approaches are neglected. Thus, there are many subjects of policies that have different views than the policy architect. By ignoring this, the latter puts her views above the others.

Here, there is an interesting parallel to Plato, on whom Kateb (2003) builds his discussion. The image of a well-intentioned social planner is closer to a philosophical monarchy than a democracy. As a critic of democracy, Plato preferred the former over the latter. For him, philosophers should rule as this would lead to the "greatest general happiness of all" (Kateb 2003). This stance is trivially anti-democratic.

I mentioned earlier that the most prestigious universities with the most influential professors of behavioral and neoclassical economics are located in Western countries, especially in the USA and Great Britain. The likelihood of higher education for children of financially fragile households in the USA is already significantly lower (Charles and Hurst 2003). For the vast majority of the poor in developing countries, it's practically impossible to end up at such a university. Their chance to participate in the design process of mainstream economic theory is not given. Surely, this is a problem of immense scope which goes far beyond enrollments in economic studies.

Nevertheless, most people in developing countries are excluded from active participation in the



scientific debates about, *inter alia*, the ethics and concepts of behavioral development economics. Simultaneously, there is a lack of awareness in the discipline of this issue. Thus, divergent philosophies and values are not introduced to the design process via other channels to counteract this. Therefrom again follows that the paternalism of behavioral development economics is significantly more pronounced.

Davis (2013) highlights that nudges on societies that are not market-centered have much stronger implications and can potentially change the structure of societies. The Western conception that all people are capitalistic-minded participants of an omnipresent market society (Mankiw 2020, p. 9) then implicitly leads to economists assigning this role to non-market societies too. This role assignment is not as obvious as those that Kateb (2003) discusses. His examples are far more concrete as he interprets the term ‘role’ in the context of castes or occupations. The more abstract ‘role’ of market participants might not be as noticeable, but it should also not be ignored in the discussion.

Considering all arguments, I conclude that behavioral development economics’ individualism is more democratic than anti-democratic.

Indeed, it cannot overcome some criticism that applies to behavioral economics and even creates new tensions. First, earmarked funds undermine the authority of governments. Secondly, the neglect by behavioral economics of its normative and philosophical parts transfers to behavioral development economics and negatively affects its democratic character. Thirdly, there is no chance of participation in the design process of economic theory for those the policies aim at. And lastly, economists assign a role to the subjects who are then treated as members of a market society.

But that is offset by its dedication to fight poverty. Behavioral development economics is fundamentally contrary to Social Darwinism and aims to improve the economic situation of the poor. Financial improvements are key for enabling political participation and escaping pre-determined societal roles. In view of the plight caused by poverty, that factor weighs more heavily than the counterarguments.

However, it also became apparent that behavioral development economics is more paternalistic than traditional behavioral economics. The usual justifications cannot be fully applied to societies with deviating world views, and paternalistic interventions are ultimately not subject to any democratic control anymore.

### **3.3 Intermediate Summary**

In this chapter, I applied the criticism discussed in chapter two to behavioral development economics. From this, several findings emerge.

The young discipline lacks an understanding of its philosophical and ethical scope. It does not consider divergent concepts of individualism and freedom nor entirely different conceptions of life, welfare, or society. Moreover, there is a potential to change those conceptions, which then again could lead to adverse follow-up effects. Tensions in societies and the crises of our time are only two examples.

Furthermore, I discussed the individualism of behavioral development economics. Even though I find its individualism overall democratic, there are still urgent issues to tackle.

In summary, discussions about the discipline are highly philosophical once we look behind the facade of the alleged objectivity. Importantly, it became clear that its normative character is even stronger than that of behavioral economics. Thus, economists should be well aware of their responsibility.

Also, this chapter shows the limitations of the discussion. The academic literature lacks research about the societal impact of behavioral development economics, its influence on conceptions and beliefs, and analyses of welfare beyond Western measures. A comprehensive analysis of the benefits and downsides requires such work.

The intention of behavioral development economics is benevolent. But the diversity of worldviews and values across societies must be reflected in the discipline. Sticking to a false perception of objectivism and a value-free theory is detrimental to the achievement of its objective to help people in developing countries.

## **4 Experiment: Economics Students & Normative Views**

So far, I have argued that neoclassical, behavioral, and behavioral development economics all are value-laden and normative. I elaborated on the philosophical consequences and implications for policies and paternalism. Furthermore, I mentioned the absence of such discussions in mainstream economics textbooks. But this alone does not provide a complete overview of the discipline. Additional to influential professors, philosophers, and authors, students' views are important to consider.

Thus, I conducted an online survey with the software of Qualtrics to collect data about this missing piece. The fourth chapter presents a study of the philosophical understandings of economic students. It compares their views and contextualizes their answers with the findings of chapters two and three.

### **4.1 Methodology**

The study examines the views and values of economics students and tests for differences between behavioral economics students and students of other economics-related disciplines. For that, the survey asked 85 participants six demographic and 20 philosophical questions. Only former and active students of an economics-related program participated. Besides that, there were no restrictions for entering the survey. I distributed the survey via social media and personal contacts.

#### **Survey design**

The survey started with an introduction page that included information about the purpose of the study, the institution, a brief description and duration estimate, and contact details for inquiries and open questions (Figure 1, Appendix B). The following questionnaire is comprised of two parts.

The first six questions were about age, gender, level of education, the program of participants' studies, country of residence, and employment status. The specific questions and answer options are listed in Table 6 (Appendix A). After that, the next page showed five definitions of terms that were important for understanding the survey. The page briefly explained the concepts of 'Behavioral Economics', 'Behavioral Development Economics', 'Nudging', 'Positive', and 'Normative' in not more than two sentences each (Figure 2, Appendix B). A delayed submit button stalled participants for ten seconds before they could continue.

Subsequently, the survey presented 20 philosophical questions. Table 7 (Appendix A) shows the full questions, the level of data of the responses, and the answer options. The upper limit of the number of questions per page was four. Except for question 16, participants had to answer each to continue with the survey. Furthermore, there was no limitation on time spent on the survey or single pages. After the questions, the last page gave a brief summary of the survey's intention, a closing statement, and provided contact details (Figure 3, Appendix B).

### **Survey Questions**

The first five philosophical questions were about personal views on freedom and individualism. Q1 asked for the participant's societal ideal and how collectivistic or individualistic it is. The scale goes from thoroughly individualistic to fully collectivistic. The index values for individualism by Hofstede and Triandis (1993) give an approximate comparison between the according countries and the survey sample. Q2 asked about the importance of individual freedom and hence complemented question one. The following three questions are about collective responsibility, equality, and economic freedom.

Altogether, they draw a picture of general values and conceptions about freedom and the role of the individual in society, two crucial aspects of the prior discussion.

Questions six to nine are about whether neoclassical and behavioral economics can be value-free. I will compare the answers to the predominant views of popular economists later on.

For Q10, subjects had to give their opinion on the responsibility of Western countries for the poor in the developing world. This responsibility is a crucial pillar for development economics in general.

Next, the focus shifts to earmarked development funds. The results will be put into context with Davis' (2013) criticism of imperialistic tendencies.

Q11 aimed at students' perception of the potential ethical problems of nudging in different cultures. Furthermore, Q13 asked whether behavioral economists' should focus their policies in developing countries only on the financial situation of the poor.

In reference to Kateb (2003), Q14 was about how desirable democratization would be as a side effect of policies. Similarly, Q15 asked whether a shift to a more market-based society would be a positive side effect.

For Q16, participants could write down their biggest ethical concern about Behavioral Development Economics but did not have to. Thus, I both quantitatively test whether there is a

difference in the share of subjects that answered and qualitatively interpret the answers.

The following four questions presented statements by Milton Friedman, John Davis, and Gregory Mankiw, all of whom I referred to in the discussion. Friedman served as a representative of the idea of a positive and value-free economic method. Mankiw supports this idea too and plays a vital role as the author of one of the most popular economics textbooks. Two quotes by Davis illustrated the counterpart to that view. Participants stated how much they agreed with the content of those citations.

The last question asked how capable subjects felt in answering the survey. This self-assessment provides insight into how accurate the answers resemble the actual views of the participants.

### **Incentives & Assumptions**

Participants of this experiment did not receive financial incentives of any kind. There was neither a participation reward nor earnings for single parts of the survey. I discuss the consequences in the last subchapter.

Thus, I assume that participants were intrinsically motivated to answer the questions. Due to the focus on their personal views and opinions, as well as the relevance of the topic, this assumption is sensible.

A further assumption is that the effect of the dummy variable for being a behavioral economics student accurately captures the differences between the two groups. Thus, no omitted variable skews the magnitude. Several factors complicate this assumption. As the groups are not randomized, other characteristics could have influenced the outcome. To reduce the interfering noise, the survey only focuses on active or former students. Furthermore, it collected data about demographics and individual values. These precautions ease that assumption.

### **Statistical tests**

Most of the 21 philosophical questions asked for a value between zero and ten, of which the latter value mostly stands for full agreement or maximum importance. Thus, those results are on an ordinary level. The latter also applies to question 21, which only had four choices. However, questions eight and nine had the three options “yes”, “no”, and “not sure”. Hence its data is only on the nominal level. For the quantitative part of question 16, I created a dummy variable that measures whether participants gave an answer or not. Consequently, the data for Q16 is also nominal.

That results in four different statistical tests that I use to compare the two groups of behavioral

economics students and students of other economic-related disciplines. I will refer to the former as the treatment group and the latter as the control group.

First, I use the Mann-Whitney U test for all ordinal data. This test measures differences in distributions and compares the means of each group. Secondly, a chi-squared test compares the frequencies in each answer option for Q8 and Q9. Similarly, a Fisher exact test checks for unequal response rates in question 16. All three tests are non-parametric and hence do not require the assumptions of parametric tests that may not hold.

As there are 21 quantifiable philosophical questions, I test for 21 hypotheses. However, these can be generalized to one main hypothesis:

H0: Behavioral economics students and students of other economic-related programs do not differ in values and philosophical beliefs.

H1: Behavioral economics students and students of other economic-related programs have different values and philosophical beliefs.

## 4.2 Evaluation

### Descriptive Statistics

Overall, 122 subjects took part in the survey. However, only 85 completed the survey and confirmed that they are or have been students of an economic-related program. Vice versa 37 people either did not complete the survey or did not confirm the opening question. In both cases, the observations were dropped.

Table 1 shows the descriptive statistics for the age of the 85 participants and the dropped observations. Results for the former and latter are almost identical.

Sample	Age (mean)	Age (median)	Lowest age	Highest age
<b>Dropped observations (n=37)</b>	25.8	23	21	58
<b>Whole sample (n=85)</b>	25.4	24	21	56
<b>Behavioral economics students (n=50)</b>	25.06	24	21	56
<b>Non-behavioral economics students (n=35)</b>	25.89	24	22	51

Table 1: Descriptive statistics of age

For the whole evaluated sample, the average age is approximately 25, and the median age is 24. All values are very similar across the three different samples.

Furthermore, Table 2 gives a comprehensive summary of the remaining demographic variables.

## Experiment: Economics Students & Normative Views

40 of the 85 participants who completed the survey were female, two non-binary, 42 male, and one preferred not to say their gender. The share of women is slightly bigger for the behavioral economics sample but remains close to 50 %.

Further, all but one participant had already achieved their bachelor's degree. That was the highest level of education for 49 %, while 48 % had also finished their master's program. One former behavioral economics student had obtained a doctorate. With 77 %, the share of master's students is significantly higher for the treatment group. Vice versa, the share of bachelor's students in the control group is 70 %.

The treatment group consists of 35 subjects. The control group includes students of Economics (20), Business (5), Business & Economics (10), Econometrics (1), Financial Economics (3), Economics & Law (2), Economic Philosophy, and four students from different programs. Those were Business Informatics (1), Finance (1), Economics & Finance (1), and Economics, Finance & International Business (1).

The vast majority of the participants lived in Europe, with only one person from the USA and one from Columbia. For Europe, the most frequently selected countries were Germany (34) and the Netherlands (43). Belgium, Croatia, France, Greece, Italy, and Spain only had one observation each. The treatment group accounts for 30 of the 43 observations for the Netherlands, which is a share of 86 % in that sample. Similarly, 68 % of the control group selected Germany as the country of residence. I will discuss the differences later on.

Experiment: Economics Students & Normative Views

Variable	Frequency	Share in %	Share in % for behavioral economics students
<b>Gender</b>	<b>85</b>		
Female	40	47	54.3
Non-binary	2	2.4	2.9
Male	42	49.4	42.9
Prefer not to say	1	1.2	0
<b>Level of Education</b>	<b>85</b>		
Highschool	1	1.2	0
Bachelor	42	49.4	20
Master	41	48.2	77.1
PhD	1	1.2	2.9
<b>Program</b>	<b>85</b>		
Behavioral Economics	35	41.2	100
Economics	20	23.5	0
Business	5	5.9	0
Business & Economics	10	11.8	0
Econometrics	1	1.2	0
Financial Economics	3	3.5	0
Economics & Law	2	2.4	0
Economic Philosophy	5	5.9	0
Other	4	4.7	0
<b>Country</b>	<b>85</b>		
Belgium	1	1.2	2.9
Colombia	1	1.2	0
Croatia	1	1.2	2.9
France	1	1.2	0
Germany	34	40	0
Greece	1	1.2	2.9
Italy	1	1.2	0
Netherlands	43	51.6	85.7
Spain	1	1.2	2.9
USA	1	1.2	2.9
<b>Employment</b>	<b>85</b>		
Working full-time	6	7.1	2.9
Working part-time	7	8.2	5.7
Unemployed	2	2.4	0
Student	69	81.2	91.4
Retired	0	0	0
Other	1	1.2	0
<b>Survey progress</b>	<b>122</b>		
Completed	85	69.7	92.1
Not completed	37	30.3	7.9

Table 2: Descriptive statistics for gender, education, study program, country, employment, and survey progress



## Results

In this subchapter, I analyze the participants' answers and test for differences between the treatment and control groups. Table 3 gives an overview of the results for all questions. Table 7 (Appendix A) provides the exact formulations of the questions. The values of the first column of Table 3 are the p-values of the comparison of the two groups. The second column shows the means of all answers, and column three provides the according standard deviation. The latter indicates the distribution of the answers and how dispersed they are. Columns four and five list the separate means for behavioral and non-behavioral economics students.

### Q1-Q5 Personal values

The first five questions show no significant differences between behavioral economics students and the others. Question one asked for the societal ideal where zero means individualistic and ten collectivistic. All three means are around 5.5, indicating that economic students prefer a balanced mixture of individualism and collectivism on average. That is interesting as Hofstede and Triandis (1993) assess European countries as more individualistic. E.g., the Netherlands ranks 4<sup>th</sup> in their comparison of individualism across 76 countries.

The answers to the second question reflect this individualism stronger. The participants valued the importance of individual freedom highly, with an average value of 8 out of 10. This value is slightly higher for behavioral economics students, even though the difference is insignificant, with a p-value of 0.45 in the Mann-Whitney U test. Nevertheless, the entirely Dutch treatment group might partially reflect the high individualism in the Netherlands.

However, collective responsibility was almost as important as freedom of the individual for the participants. The mean of Q3 is 7.6, with nearly identical averages in the two groups. Combined with Q2, that explains the balanced results in the first question.

Equality in society was the most important aspect for participants of the first block. On average, they valued it even slightly higher than individual freedom. The mean of 8.3 for the treatment group is the highest score in the whole survey. Parker et al. (2019) provide one explanation, as they find that today's young adults care a lot about equality. The age range for their findings aligns with the age of most participants.

The last question of this section asked about the importance of economic freedom and freedom of markets. Even though it has the lowest value for importance at 6.7, subjects still cared about

Experiment: Economics Students & Normative Views

Question	Mann-Whitney U Test <sup>1</sup> p-value (n=85)	Mean whole sample (n=85)	Standard deviation whole sample (n=85)	Mean behavioral students (n=35)	Mean non-behavioral students (n=50)
Q1	0.941	5.46	2.00	5.49	5.44
Q2	0.454	8.02	1.58	8.11	7.96
Q3	0.948	7.59	1.81	7.54	7.62
Q4	0.668	8.05	1.90	8.31	7.86
Q5	0.806	6.66	2.02	6.8	6.56
Q6	0.127	5.85	2.03	5.47	6.1
Q7	0.051*	5.14	2.01	4.65	5.48
Q6&Q7 <sup>2</sup>	0.013**	n/a	n/a	n/a	n/a
Q8	0.346	n/a <sup>3</sup>	n/a	n/a	n/a
Q9	0.147	n/a <sup>3</sup>	n/a	n/a	n/a
Q10	0.098*	6.26	2.73	5.69	6.66
Q11	0.887	7.44	1.92	7.46	7.42
Q12	0.080*	5.24	2.43	5.74	4.88
Q13	0.005***	3.6	2.24	2.83	4.14
Q14	0.755	6.11	2.34	6.09	6.12
Q15	0.671	5.70	2.29	5.83	5.6
Q16 (answered)	1.00	54.12%	0.5	54.29%	54%
Q17	0.026**	4.99	2.44	5.71	4.48
Q18	0.209	6.55	1.85	6.31	6.72
Q19	0.471	4.71	2.47	4.97	4.52
Q20	0.194	6.24	1.97	5.83	6.52
Q21	0.986	2.99	0.72	3	2.98

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 3: Test results, means, and standard deviations for all philosophical questions

Notes: <sup>1</sup> Chi-squared test for Q8 and Q9 & Fisher exact test for Q16 & t-test for Q6&Q7,

<sup>2</sup> a comparison of the means of Q6 and Q7, <sup>3</sup> Not ordinal data

this kind of freedom too. Neither behavioral nor non-behavioral students were indifferent about it on average.

All in all, the answers show that participants acknowledged their collective responsibility and considered individual freedom very important.

### Q6-Q9 Positive economics?

Next, the survey asked four questions about the positive character of neoclassical and behavioral economics. The response option for Q6 and Q7 was a scale from zero to ten, with the former standing for a completely objective science and the latter for a purely ideological one. For both neoclassical economics in Q6 and behavioral economics in Q7, participants were neutral between the two terms on average. That also applies to the means of the individual groups. Therefore, current and former economics students seem aware of the disciplines'

partially normative and value-laden aspects. However, behavioral economics students found the disciplines more objective in both cases. While the p-value for Q6 is slightly larger than the 10 % threshold, this finding is weakly significant for Q7 with a p-value of 0.05. Thus, behavioral economics students are less critical of their own field of work.

Furthermore, participants found behavioral economics to be more objective in general. A comparison of means between Q6 and Q7 shows a significant difference. That is an interesting finding but still far from being in line with the distinction behavioral economists like Kahneman made, which I refer to in chapter 2.1.

Table 4 presents the results for Q8 and Q9. Most participants disagreed on whether descriptive (behavioral) economic concepts can be free of values. An equal share stated to agree or to be not sure. The distribution is similar between the groups and for the two questions. Therefore, most economics students do not believe in a value-free science as famous economists describe it. Thus, they agree that economic theory has at least some underlying values and philosophical assumptions.

Question	Yes	No	I'm not sure
Q8	21 (11)	44 (18)	20 (6)
Q9	19 (10)	48 (21)	18 (4)

Table 4: Distribution of answers for Q8 and Q9. Number for behavioral economics students only in parentheses.

### Q10-Q16 Development economics

Next, the survey focused on the views on development economics. For all questions except Q16, participants selected a value from zero to ten, i.e., from complete disagreement to full agreement with the question. Q10 opened the section with the principal question of whether developed countries are responsible for developing countries' poor. While the control group tended to agree somewhat, the mean value for behavioral economics students is weakly significantly lower and closer to neutral. This result comes unexpected and lacks an apparent explanation. But also, in general, it's interesting to see that international responsibility is not as important as societal responsibility to both groups on average. Also, Q10 has the highest standard deviation, illustrating a polarized distribution of all answers.

For Q11, all average means align. Most participants tended to agree that development funds should be earmarked instead of leaving the decision to the local government. This result

supports the relevance of Davis' (2013) criticism that there is a trend in development economics to bypass regional institutions. I discussed the issues of such bypassing in chapter 3.1.

After that, subjects gave their opinion on nudging in Q12 and stated how philosophically problematic it is in the context of development economics. The average value of 5.2 indicates that they were neutral on this topic. However, behavioral economics students were weakly significantly less concerned about nudging, presumably because it is a well-established tool in their discipline. Further, the neutral stance supports my hypothesis that philosophical issues have found too little attention in modern economics.

Q13 shows the most significant difference in agreement of the whole survey. When asked whether (econometrically measurable) financial improvement should be the only aim of behavioral development economics, the behavioral economics students clearly disagreed. On the other hand, their counterpart was relatively neutral about this. This result encourages optimism for behavioral economics students' receptiveness to policies beyond the traditional focus.

The following two questions asked about the desirability of two side effects of development policies, both with similar outcomes. While Q14 was about democratization, Q15 addressed development toward more market-centered societies. On average, participants remained neutral on these topics, with little difference between the two groups. There does not seem to be a predominant sentiment among students of economics. However, the distribution shows that students were not opposed to those possible side effects, as only 12% in Q14 and 16% in Q15 chose a value of three or lower (Figure 4 & Figure 5, Appendix B). Only a minority had a reluctant view on influencing societies to adopt Western values.

In Q16, I asked participants to name their biggest concern about behavioral development economics. This answer was optional. The share of subjects that gave an answer is the same for both groups at 54%. Table 8 (Appendix A) shows all 46 replies. They included concerns about manipulation, paternalism, different values, and cultures, or inaccurate conceptions of preferences. Interestingly, the answers addressed most of the main concerns raised in chapter three. Table 5 presents short summaries of the issues and matching comments from the participants. Of course, the responses are mostly brief and hence do not capture the total bandwidth of each discussion. However, it was not the intention of Q16 to ask for extensive

criticism but to test whether economics students are aware of the concerns about behavioral development economics. And indeed, there are matching responses for most matters.

<b>Concerns from chapter 3</b>	<b>(~ Partly) Matching responses from Q16</b>
Bypassing governments	n/a
Neglect of different cultural conceptions	“Erasing culture of other countries just because we think that Western European way is better for other countries” “Interfering to other countries without respecting their culture and values” “to create a model, some assumptions and definitions must be made. And those generalisations may harm the already disadvantaged groups / countries. The developing countries has different dynamics both economically and politically”
Rationality as ideal	“It is highly ideologically biased”
Wrong or incomplete measurements of welfare	“That optimal behavioural model outcomes do not fully measure the underlying situation and could potentially lead to wrong-headed nudges, being especially problematic for the poor” “The core concepts of what is good for one might not be good for the other” “Not anticipating the preferences of the poor correctly, by inducing values of developed nations onto the poor [...]”
Changing views and values	“The possibility of multiplying underlying normative opinions through the policy mechanism” “Changing the culture of developing countries”
Individualism in the face of crises	~ “take responsibility for sustainability”
Lack of participation in the designing process	“Trying to convince people of something they don’t actually want”
Lack of democratic control over policies by the subjects of policies	~ “Political motivation and misuse” ~ “The ethics of nudge units and the ominous threat of western hegemony/ neo-liberal control”

Table 5: Comparison of concerns from chapter 3 and matching responses from Q16

### Q17-Q20 Quotes

In this part, the survey gave four different quotes to the subjects and asked for the level of agreement, similar to the previous section. Table 7 (Appendix A) includes all exact formulations. The first question was the quote by Milton Friedman (1953) that also marks the beginning of chapter 2. Both groups were neutral about the independence of ethical positions of positive economics. However, behavioral economics students agreed significantly more with the economist. A causal reason for this difference is difficult to determine. The quote by Gregory Mankiw (2020) in Q19 about the scientific objectivity of positive economics has very similar results. That is of little surprise as both quotes share the same idea. Compared to the results of Q8 & Q9, the average for the two questions is higher than expected.

Q18 and Q20 each presented a quote by John Davis. The first one was a counterpart to Friedman

and Mankiw and called economics “inherently value-laden” (2021). The second quote expressed the concern of Davis that behavioral development economics can take an imperialistic character (2013).

Again, the average value for agreement is similar between the two questions. Further, there is little difference between the treatment and control group. In contrast to the other two quotes, participants tended to agree with both statements. Q18 to Q20 show that economics students are slightly critical of the claim of value-free positivism by modern economists. However, they mainly remain indifferent between both positions, which means there is no complete agreement with Davis’ criticism. The at least slight agreement in Q20 is in line with the concerns subjects expressed in Q16.

### **Q21 Understanding**

In the last question, participants stated their capability to answer the survey questions on a scale from one to four. Subjects that chose the latter had no difficulties at all. The average answer was three, with no differences between the two groups. Only two participants felt not capable at all. Thus, most participants had a good understanding of the questions the survey asked them. The fact that behavioral economics students did not have a better understanding of the topics is at least a little surprising.

## **4.3 Limitations & Discussion**

### **Limitations**

There are two main limitations of the study that I will discuss.

First, the survey was not incentivized. Participants had no monetary motivation to answer truthfully and conscientiously. Instead, I relied on intrinsic motivation and asked for truthful answers on the welcome page of the survey (Figure 1, Appendix B). Since the survey focused on personal views and opinions about a relevant topic, and the participants voluntarily chose to participate, I assume that there was an intrinsic motivation and, moreover, that it was sufficient.

Secondly, there is a potential selection bias both for the whole survey and between the two groups. In general, participants mainly resided in Germany or the Netherlands. Additionally, most students of behavioral economics that participated were presumably students of the Erasmus University of Rotterdam. Therefore, the responses could differ for other countries. E.g., students in the USA might value individualism and freedom of markets higher than

Europeans based on the findings of Hofstede and Triandis (1993).

Within the survey, the treatment and control group mainly differed in two aspects. 86 % of behavioral economics students resided in the Netherlands, while 68 % of the control group selected Germany. The most obvious explanation is that the Erasmus University of Rotterdam is one of the few European universities that offer a pure Behavioral Economics master's program. Simultaneously, as a student of Erasmus University and its behavioral economics program, many participants were fellow students of mine, hence leading to a strong correlation between country and study program. The large share of Germans presumably stems from the survey distribution via my personal network, which is mainly located in Germany.

However, the doctrine of economic theory is similar across countries, and students work with the same textbooks. Thus, I assume that the restricted sample of the study shows a lower level of differences across countries than would generally be the case. Nevertheless, there are still doubts about the representativeness of the results on an intercontinental level. A conclusive assessment of the relevance of the selection bias requires a larger-scale study with participants from different countries and universities.

Furthermore, the share of master's students is significantly higher in the treatment group.

A possible explanation for this is the fact that there are very few universities that offer a bachelor's program in behavioral economics. It is important to note that this master's degree was a one-year program. Consequently, equivalent master's students of two-year programs stated to be bachelor students because they would not have finished their master's degree in the current academic year. Thus, the difference is probably smaller than the descriptive data suggests.

## **Discussion**

All in all, the results do not fully support the central hypothesis that behavioral economics students have different views and values. There was a significant difference in only five out of 21 questions.

Interestingly, two of those differences stem from questions about behavioral economics. Its students find the discipline more objective while regarding nudging as less problematic. Therefore, they are less skeptical of its approach and tools.

Furthermore, behavioral economics students believe that development economics should go beyond financial goals. Together with the insightful comments about the ethical concerns about

behavioral development economics, this result raises optimism about the receptiveness to a new way of philosophical thinking about the discipline.

As for Q10 and Q17, it is difficult to draw a conclusion from the findings. There is no apparent explanation for why behavioral economics students feel less responsible for developing countries. Similarly, the higher popularity of the quote by Friedman in Q17 does not transfer to the quote by Mankiw, although they are similar in their basic idea.

Nevertheless, the survey draws an insightful picture of current and former economics students in general. It is an important addition to the previous chapters and completes the analysis of the case of normative behavioral development economics.

Economics students' values combine individualism with collectivistic responsibility and equality. On the other hand, they are not very opinionated on questions about normative and positive economics. Their neutrality reflects the ambiguous conception in the discipline. Even though Q8 and Q9 suggest that economics students are aware of some normative and value-laden characteristics, the overall results remain ambiguous. Moreover, there are also partly contradicting answers. E.g., participants tend to agree with the quote by Davis (2013) about cultural imperialism but are also in favor of earmarked development aids, with the latter being part of the reasoning behind the former.

The survey shows potential for a promising debate in economics, particularly in behavioral development economics, about ethics and philosophical issues. Students formulated exciting and highly relevant thoughts in the survey. However, the survey also indicates that these thoughts are not comprehensive enough. Indeed, without a broad discussion in classes, it becomes unlikely that students can fully grasp the philosophical depth of the topic. Nevertheless, the thought process is already ongoing on an individual level. Now, universities must provide a platform for ethics and philosophy in economics.



## 5 Conclusion

This thesis presented the first step toward understanding values and philosophy in behavioral development economics.

For that, I first analyzed the status quo in modern economics and found that it avoids confrontation with its underlying values and philosophical pillars. Economists claim objectiveness and positivism of their discipline based on an incorrect conception of the terms. On the contrary, economics is immanently value-laden and uses definitions of freedom and individualism rooted in Western philosophy. This misconception leads to a false belief of objective superiority over other schools of thought that openly admit philosophical, ethical, or religious influences and to an underestimation of the responsibility towards inherent normative elements.

Subsequently, I showed how this problem transfers to behavioral development economics.

It is as value-laden as behavioral economics, but the confrontation with other cultures and different societal conceptions makes its approach more paternalistic. The example of Islamic Economics and East-Asian philosophy highlight that modern economics' definitions of welfare, rationality or societal ideals have no general validity but rather are one among many. Furthermore, there is very limited democratic control by the subjects of the policies. Earmarked funds and a missing chance of participation in the design process offset the democratic mechanisms that legitimate paternalism in Western societies.

Lastly, I studied the views of economics students on these topics. While the results of the conducted study underline the lack of deep confrontation in the teaching of economics, students have a basic awareness of the issues that arise. Participants identified important issues that this thesis discussed and tended to agree with critical assessments of their field. The findings show the potential for future change toward a more self-reflected discipline and hence a sufficiently normatively motivated approach to behavioral development economics.

In summary, the philosophy of economics is complex. A shortcut via the misconception of a purely positive discipline does not do justice to the importance of philosophical debates. It is time for economics to overcome this outdated thinking and face its responsibility. This thesis aims to make economists aware of the philosophical issues and inspire a discussion about the normative pillars of behavioral development economics.

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## 7 Appendix

### A: Tables

Table 6: Summary of all demographic questions in the survey

<b>Variable</b>	<b>Question</b>	<b>Answer options</b>
<b>Age</b>	How old are you?	Any number between 1 and 99
<b>Gender</b>	What is your gender?	1 = "Female" 2 = "Non-binary" 3 = "Male" 4 = "Prefer not to say"
<b>Level of Education</b>	What is your highest level of education? (Note: If you will finish your current degree/program in this academic year, choose this one)	1 = "Highschool" 2 = "Bachelor" 3 = "Master" 4 = "PhD"
<b>Program</b>	In what program have you achieved your highest economic-related degree? (Note: If you will finish your current program this academic year 2021/22, consider this one)	1 = "Behavioral Economics" 2 = "Economics" 3 = "Business" 4 = "Business & Economics" 5 = "Econometrics" 6 = "Mathematical Economics" 7 = "Financial Economics" 8 = "Economics & Law" 9 = "Statistics" 10 = "Economic Philosophy" 11 = "Other"
<b>Country</b>	In which country do you currently reside?	Drop-down list of 194 countries
<b>Employment</b>	What best describes your employment status over the last three month?	1 = "Working full-time" 2 = "Working part-time" 3 = "Unemployed" 4 = "Student" 5 = "Retired" 6 = "Other"

## Appendix

Table 7: Summary of all philosophical questions in the survey

Question	Data level	Answer options
<b>Q1</b>	Ordinal	Value between 0-10 0 =Fully individualistic 5= An equal mix of both 10= Fully collectivistic
<b>Q2</b>	Ordinal	Value between 0-10 0 = Not important at all 10= Highly important
<b>Q3</b>	Ordinal	Value between 0-10 0 = Not important at all 10= Highly important
<b>Q4</b>	Ordinal	Value between 0-10 0 = Not important at all 10= Highly important
<b>Q5</b>	Ordinal	Value between 0-10 0 = Not important at all 10= Highly important
<b>Q6</b>	Ordinal	Value between 0-10 0 = Completely objective 10= Purely ideological
<b>Q7</b>	Ordinal	Value between 0-10 0 = Completely objective 10= Purely ideological
<b>Q8</b>	Nominal	“Yes” ”No” ”I’ m not sure”
<b>Q9</b>	nominal	“Yes” ”No” ”I’ m not sure”
<b>Q10</b>	Ordinal	Value between 0-10 0 = Fully disagree 10= Fully agree
<b>Q11</b>	Ordinal	Value between 0-10 0 = Fully disagree 10= Fully agree
<b>Q12</b>	Ordinal	Value between 0-10 0 = Fully disagree 10= Fully agree
<b>Q13</b>	Ordinal	Value between 0-10 0 = Fully disagree 10= Fully agree

## Appendix

<b>Q14</b>	Democratization of developing countries would be a desirable side effect of behavioral development economics	Ordinal	Value between 0-10 0 = Fully disagree 10= Fully agree
<b>Q15</b>	Making societies in developing countries more market-based would be a desirable side effect of behavioral development economics	Ordinal	Value between 0-10 0 = Fully disagree 10= Fully agree
<b>Q16</b>	My biggest ethical concern of Behavioral Development Economics is:	Text	Response in text form, answer was optional
<b>Q17</b>	How much do you agree with this statement by the economist Milton Friedman (1953)? “Positive economics is in principle independent of any particular ethical position or normative judgements”	Ordinal	Value between 0-10 0 = Strongly disagree 10= Strongly agree
<b>Q18</b>	How much do you agree with this statement by the philosophical economist John Davis (2021)? “Economics is an inherently value-laden discipline [...]. Economics and social science disciplines are built around anchor values or normative ideals and additional sets of values concerning what most people in those disciplines see as most valuable and good about human society”.	Ordinal	Value between 0-10 0 = Strongly disagree 10= Strongly agree
<b>Q19</b>	Mankiw (2020) writes that "Economists try to address their subject with a scientist's objectivity. They approach the study of the economy in much the same way as a physicist approaches the study of matter". In your opinion, how close can economics come to physics in objectivity?	Ordinal	Value between 0-10 0 = Not at all 10= Both are equally objective
<b>Q20</b>	How much do you agree with this statement by philosophical economist John Davis (2013) that there is a "vulnerability of behavioral <b>development</b> economics with its heuristics and biases approach to the charge of being culturally imperialist"	Ordinal	Value between 0-10 0 = Strongly disagree 10= Strongly agree
<b>Q21</b>	Did you feel capable of answering the questions in the survey?	Ordinal	“Not at all” “I struggled with many questions” “Some difficulties, but overall yes” “Yes”



## Appendix

Table 8: Text answers for Q16 – “My biggest ethical concern of Behavioral Development Economics is:”

**Behavioral economics student**    **Answers**  
**(Note: Grammatical and spelling errors are not corrected for)**

<b>No</b>	manipulation
<b>No</b>	manipulation of the underdeveloped people to the benefit of developed players
<b>No</b>	Undesired effects of policies/studies
<b>No</b>	Influencing people's lives
<b>No</b>	Colonisation
<b>No</b>	Erasing culture of other countries just because we think that Western European way is better for other countries
<b>No</b>	That optimal behavioural model outcomes do not fully measure the underlying situation and could potentially lead to wrong-headed nudges, being especially problematic for the poor.
<b>No</b>	Experimenting with peoples live choices and opportunities.
<b>No</b>	Libertarian Paternalism
<b>No</b>	Interfering to other countries without respecting their culture and values.
<b>No</b>	It is highly ideologically biased
<b>No</b>	Paternalism
<b>No</b>	Randomised control trials
<b>No</b>	take responsibility for sustainability
<b>No</b>	The possibility of multiplying underlying normative opinions through the policy mechanism.
<b>No</b>	to create a model, some assumptions and definitions must be made. And those generalisations may harm the already disadvantaged groups / countries. The developing countries has different dynamics both economically and politically.
<b>No</b>	too much market-based
<b>No</b>	paternalism
<b>No</b>	individual freedom to decide what they deem best for them in the moment
<b>No</b>	imposing ideals of a society onto another society that has different values and ways of doing things
<b>No</b>	The core concepts of what is good for one might not be good for the other - pareto efficiency
<b>No</b>	Trying to convince People of something they don't actually want
<b>No</b>	The aims are normatively debatable, moreover power dynamics and politics sometimes neglected.
<b>No</b>	Ignoring cultural differences and patronising societies
<b>No</b>	Changing negatively the behavior of the poor, or not to give the sources to choose and make decisions better.
<b>No</b>	It being used for other purposes
<b>No</b>	The strings attached to the development funding
<b>Yes</b>	Nudging
<b>Yes</b>	unequality

## Appendix

<b>Yes</b>	Sometimes I wonder whether Western model can be applied to entirely different societies and cultured
<b>Yes</b>	Interventionism
<b>Yes</b>	That the people in developing countries do not learn how they should make decisions. That the developed countries help poor countries for the gain of the western world, and that they are dependent of the western world in stead of helping developnig countries for the benefit of the poor countries.
<b>Yes</b>	framing
<b>Yes</b>	Not anticipating the preferences of the poor correctly, by inducing values of developed nations onto the poor. What we think of a better life is not necessarily what they would want. Since behavioural tools mainly rely on subconscious mechanisms, it makes it difficult to circumvent them especially as a poor individual
<b>Yes</b>	Changing the culture of developing countries
<b>Yes</b>	Social manipulation
<b>Yes</b>	manipulative
<b>Yes</b>	Wrong intention
<b>Yes</b>	The ethics of nudge units and the ominous threat of western hegemony/ neo-liberal control
<b>Yes</b>	Too aggressive marketing
<b>Yes</b>	capitalistic views
<b>Yes</b>	Western societal standards
<b>Yes</b>	Manipulation
<b>Yes</b>	market-focused
<b>Yes</b>	political motivation and misuse

## B: Figures

Figure 1: Welcome page of the survey



**Dear participant,**

**Welcome to this survey. Thank you for taking the time to participate!**

This survey will be used for my master thesis at the Erasmus School of Economics to study the economic philosophy views of students.

Please continue with the survey **if you are or have been** a student of economics or a discipline related to that (Econometrics, statistics, business, economic psychology, etc.)

The survey is completely anonymous. Please answer truthfully.

You will answer six demographic and 20 very short philosophical questions which will all together take **around 5-7 minutes**.

For questions, contact me via [619401mh@eur.nl](mailto:619401mh@eur.nl)

**Are you or have you been a student of economics or a program related to that?**

- Yes
- No

**By continuing with the survey you consent to participate in the research**

0%  100%



## Appendix

Figure 2: Brief definitions of terms important for the survey



**Please read the following brief definitions before continuing with the survey:**  
(You can continue after at least 10 seconds)

**Behavioral Economics**

An extension of the neoclassical model of the rational agent by psychological factors. It studies why and how people deviate from rational choices and uses insights from psychology.

**Behavioral Development Economics**

Applying the concepts of Behavioral Economics to policies in developing countries with the goal to improve the lives of the poor

**Nudging**

Change behavior by small alterations that don't alter the choices available  
*"Putting fruit at eye level counts as a nudge. Banning junk food does not"* (Richard Thaler)

**Positive**

Description of how something is, based on facts and data

**Normative**

Prescription of how things should be / ought to be, based on opinions, values, and judgments



Figure 3: End page of the survey



This is the end of the survey.

Thank you very much for participating!

Based on your answers I will compare the understanding of economic philosophy of behavioral economists to students of other economic disciplines.

For any further questions, contact me via [619401mh@eur.nl](mailto:619401mh@eur.nl)



## Appendix

Figure 4: Results for Q14 – “Democratization of developing countries would be a desirable side effect of behavioral development economics”

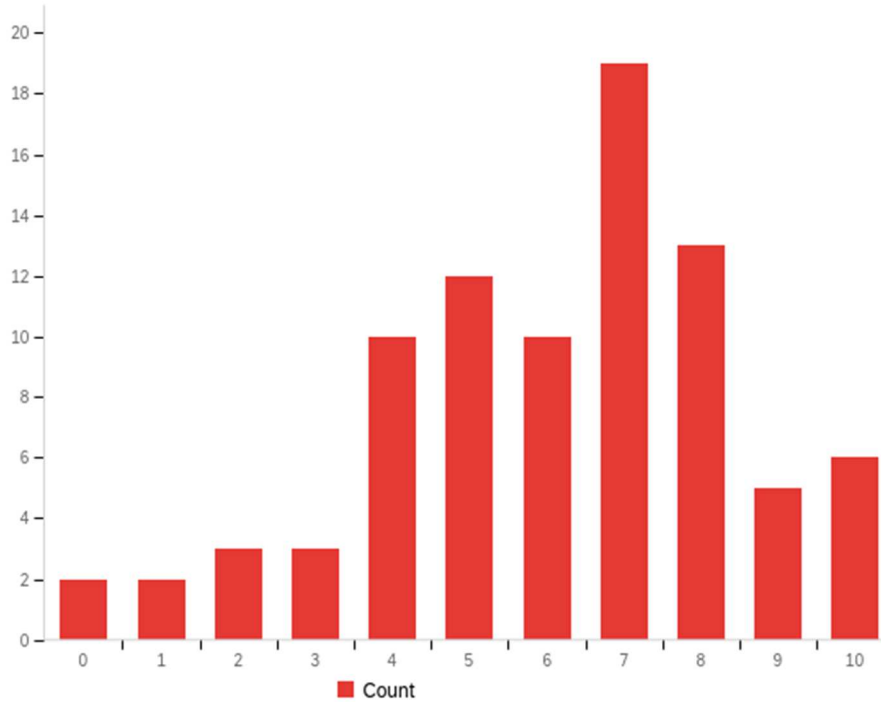


Figure 5: Results for Q15 – “Making societies in developing countries more market-based would be a desirable side effect of behavioral development economics”

