

## Nudging or Fudging The World Development Report 2015

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### ABSTRACT

*The World Development Report 2015: Mind Society and Behaviour* (World Bank, 2015), seeks a redesign of development policy on the basis of insights emerging from behavioural economics. This article offers a critical assessment of the Report across four dimensions. First, it situates the Report within the broader and evolving knowledge role of the Bank. Second, it locates the Report in the context of the evolution of economics as a discipline and how this informs the shaping of the Bank's development economics. Third, the Report is critically assessed for its narrow take on behavioural economics itself. Finally, the practical significance of the promotion of behavioural economics is considered through reference to its use in interventions in health in general and in response to HIV/AIDS in particular. It is argued that the Report suggests a dramatic and flawed reduction of what development is about, in that it forgoes any analysis of the structural problems facing developing countries and fails to propose major reforms to tackle these.

### INTRODUCTION

In 1978, the World Bank published its first World Development Report (WDR) at the instigation of its then President, Robert McNamara. This launched a series that was rapidly to attain a large circulation worldwide. It reflected McNamara's attempt to transform the Bank into a development institution with an explicitly intellectual leadership role. Each year the Report focuses on a different topic. This allows the Bank to explore more systematically what it considers to be the core issues in development. The Reports

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do not seek to break new ground but serve as a vehicle through which Bank member governments can be mobilized around a particular understanding of development (Yusuf, 2009: 17).<sup>1</sup> The WDRs provide us with ‘an extraordinary window’ on the way the Bank understands the discipline and practices of development economics (World Bank Group, 2016: 192). They lend an opportunity to assess the way in which the Bank exercises its knowledge role and the implications this has across the discipline.<sup>2</sup>

The latest WDR (World Bank, 2015: 13), entitled *Mind, Society and Behaviour*, draws on behavioural economics and seeks to redesign development policy on the basis of ‘an expanded understanding of human behaviour’. The Report focuses on how individual decisions can be managed for better outcomes, but overlooks the need for consideration of underlying structural features. This article offers a critical assessment of the Report across four dimensions. The first section situates the Report within the broader and evolving knowledge role of the Bank. This bears on how the Bank understands its role in the production and dissemination of knowledge, even applying its latest insights into the behaviour of its own staff. The next section locates the Report in the context of the evolution of economics as a discipline and how this informs the Bank’s development economics. The substance of WDR 2015 is shown to be a result of the promotion of a particular (economic) understanding of development into which behavioural economics, and the policy of ‘nudge’, easily fits.<sup>3</sup> The Report is shown to constitute a leading example of the latest phase of economics imperialism applied to development. Instead of expanding the domain of application of economic theory through the application of utility-maximizing principles in a variety of domains, economics (imperialism) now expands and consolidates its scope through appending the behavioural economics view of human action.<sup>4</sup> The Report is then assessed for its take on behavioural economics itself. It is argued that this is a narrow view, both from within the behavioural sciences and in the associated understanding of the social determinants of individual behaviour. Finally, the significance of the promotion of such behavioural economics is considered in practice through an examination of its use in health interventions, with a particular interest in those seeking to affect HIV/AIDS prevalence.

The article concludes that the incursion of behavioural economics into development policy is indicative of the World Bank’s avoidance of tackling fundamental problems. It moves its actions further away from a tradition based on the identification of the structural problems that trap countries in impoverished development, proposing instead the alternative of minor

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1. Shahid Yusuf was himself the Director of the 1999/2000 WDR.

2. See Bayliss et al. (2011) for a collection of essays dissecting the Bank’s research across a range of topics.

3. *Nudge* is the title of Thaler and Sunstein’s (2008) bestselling book, having become the verb that synthesizes the behavioural economics approach to policy making.

4. See Fine and Milonakis (2009) and Mäki (2009) on the concept of economics imperialism.

tinkling with extant structures. This is not particularly surprising. It resonates with previous paradigmatic shifts in development policy and is equally in tandem with developments within economics itself. What is new is that the obstacles to development and poverty alleviation are now deemed to reside in deficient decision making and that the remedies to tackle poverty consist of ‘nudges’, i.e. minor changes to context that make it easier for the poor to choose better options.<sup>5</sup>

## WDR 2015 AND THE KNOWLEDGE BANK

The WDR constitutes the most important flagship report produced by the economics research department of the Bank (Development Economics Group, DEC). It offers a useful lens for a critical appraisal of the Bank’s knowledge role, providing insights into the way in which the Bank’s production and dissemination of development expertise underpins its intellectual and political influence. A few years ago, on the occasion of the thirtieth volume within the series, the 2015 Nobel prize winner, Angus Deaton offered a strongly negative appraisal of the Reports and what they reveal regarding the Bank’s intellectual role.<sup>6</sup> In a short piece entitled ‘World Development Report at Thirty: A Birthday Tribute or Funeral Elegy’, Deaton (2009: 113) wonders whether the WDR has turned from a star ‘to a red dwarf or even a black hole’? He continues: ‘the development expertise that is at the centre of the World Bank’s mission may not exist in useful form, or at the least, needs to be fundamentally rethought and restricted’. This raises a set of issues regarding the WDR and the Bank as a putative, self-designated ‘Knowledge Bank’.

Before exploring these in more detail, however, attention should be drawn to the way in which the WDR is funded. Originally funded through the Bank’s own research budget, the WDRs are now co-financed through Trust Funds.<sup>7</sup> Trust Funds are provided to the Bank by specific donors which, in return, can exert a significant degree of control over the deployment of these funds.<sup>8</sup> The WDR 2015 itself was funded through substantial donor

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5. In this respect, the Report compares unfavourably with its predecessors, which at least focused on the major issues of agriculture, gender, jobs, the environment, etc. see <http://www.worldbank.org/en/publication/wdr/wdr-archive>

6. An earlier report by Deaton et al. (2006) offered strong criticism of the Bank’s scholarly role but failed to make a serious dent in the Bank’s stature within, or influence over, the discipline. See Bayliss et al. (2011) for a comprehensive review.

7. The costs of producing a WDR have increased dramatically, from US\$ 3,613,000 (of which US\$ 1,188,000 came through Trust Funds) for WDR 2002 to US\$ 8,427,000 (of which US\$ 2,232,000 was provided through Trust Funds) for WDR 2010 (World Bank, 2011: 55).

8. Research programmes within the Bank that have been financed through Trust Funds include: the Poverty Dynamics and Public Service Delivery Trust Fund, the Global Public Goods Trust Fund, the Investment Climate and Trade and Integration Trust Fund (World Bank Group, 2014).

contributions, including by the UK's official aid agency DfID, the Department for International Development (World Bank, 2014: 30). Against that backdrop, the WDR 2015 then emerges not solely as a reflection of what the Bank sees as pertinent to development, but also as an attempt on the part of the British and other governments to increase the influence of behavioural economics over policy.

Indeed, on casual evidence, there seems to be something of an increasingly revolving, if not open, door between the worlds of scholarship, politics and self-interest. Behavioural economics is no exception. Since the UK's DfID has partly funded the WDR, it may come as no surprise that the current UK Government has set up its own 'behavioural insight team', popularly known as the 'nudge unit'. It is headed by David Halpern, and it has been partially privatized (a first for a government think tank), with its staff taking a third of the shares themselves in order to be able to be paid more flexibly. It is being housed in the charity Nesta, an innovation foundation headed by Geoff Mulgan. The benefit to all concerned will accrue through government and other contracts, not least, no doubt, from the World Bank itself as it promotes nudge consultancy.<sup>9</sup>

Returning to the specific issue of the WDR and the Bank's exercise of its scholarly role, several questions arise. First, what is the development expertise or intellectual stature lodged with the DEC which the WDR seeks to showcase? To illustrate the stature of the Bank's research enterprise, consider its scale. For nearly a decade, the resources of the Bank's economics research department have largely exceeded the resources available to any university department or research institute working on development.<sup>10</sup> Since 1995, Bank researchers have published over 15,000 scholarly books and articles, and the Bank has led a vast expansion of development data (World Bank, 2012: 2). Between 2009 and 2011 alone, Bank staff and consultants produced over 3,000 publications, including over 200 books, 1,300 scholarly

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9. Note that both Halpern and Mulgan seem to have moved seamlessly from being researchers in Tony Blair's Cabinets, with Mulgan heading overall research and Halpern, amongst other things, heading the unit for promoting social capital. Strikingly, social capital was itself heavily promoted by the Bank from the mid-1990s before being precipitously abandoned at the beginning of the millennium. Whilst the Bank's own take on social capital studiously ignored its role in promoting the elite, rich and powerful, it is possibly germane that the Institute for Government, for which Halpern served as Founding Director whilst serving Labour and Tory governments, has been primarily funded by the Gatsby Charitable Foundation, whose chief donor (of £1 billion or so) is former Labour Cabinet Minister Lord Sainsbury. In this light, it is unsurprising that behavioural economics should be deployed as a vehicle for promoting particular postures irrespective of its suitability for such and the scholarly standards involved.

10. The budget of the Bank's research department has been hovering around US\$ 50 million annually for the last few years (World Bank, 2012: 113). This can be compared, for instance, to the budget for research and grants of the Overseas Development Institute (ODI), which stood at £ 25 million (US\$ 35 million) in 2014; see <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9774.pdf>

articles in peer-reviewed journals and 1,000 policy research working papers (ibid.: 3). The Bank's working papers form the second most downloaded series via the search engine Research Papers in Economics (RePEc), behind the NBER Working Paper series (ibid.: 4). In the words of Stern and Ferreira (1997: 524), the Bank cannot be seen as 'just one of a number of fairly equal actors in the world of development economics'.

Second, how has the Bank traditionally understood its own intellectual role as practised through its WDR series? The Bank sees four objectives for its research programme: to generate knowledge that is a global public good and serves the development community; to guide the Bank's corporate strategies, policy advice, lending operations and technical assistance; to support specific Bank operations; and, finally, to assist in developing research capacity in Bank member countries (World Bank, 2012: 1). For the Bank, its knowledge role then resembles that of a 'clearing house for knowledge about development', and 'disseminator of development knowledge and policy lessons'; its knowledge provides an 'international public good', and the Bank operates as an 'honest knowledge broker' (Stone and Wright, 2007: 14; see also Wolfensohn, 1996). The Bank's research exercise is bestowed with neutral and professional qualities, with this image reinforced by the assumed technical and apolitical character of economics, the discipline dominating its research (Benjamin, 2007; Swedberg, 1986). Clearly, the Bank's own account of its knowledge role is prone to misgivings. The Bank's knowledge exercise is not a neutral, politically impartial or technical enterprise, but needs to be understood within its political, economic and disciplinary contexts. There exists a large body of critical commentary on the Bank's knowledge role drawing explicit attention to a set of governance features (see Broad, 2006; Wade, 2002), as well as to the role of economics as the Bank's foremost scholarly discipline (Fine, 2001).

Third, how is this taken forward in WDR 2015? In a chapter dealing with the 'biases' of development professionals including its own (World Bank, 2015: Ch. 10), WDR 2015 puts forward proposals to make development organizations, like the Bank, more effective. This would entail that: 'development practitioners become more aware of their own biases and that organizations implement procedures to mitigate their effects' (ibid.: 5). This sounds promising, but how is it understood? Development professionals are seen as influenced by their own mental models, which may be inappropriate for understanding the context within which project beneficiaries operate. The reasons for this inadequacy are manifold, but the Report highlights the 'disciplinary, cultural and ideological priors' that govern the engagement of development professionals with development problems. Yet, these 'priors' are entirely understood in terms of personal attributes of the individual, rather than being seen as attached to the culture of a discipline, collectively created and enforced through a host of processes, including university education, publication strategies, awarding of research funding, etc., or as related to the institutional context and the particular policy imperatives this may imply.

Sense-making in the WDR is reduced to an individualized, isolated process, even if the individuals are projected to ‘think socially’ as well as being potentially caught in particular ‘mental frames’. The latter are not located in the realm of disciplinary and intellectual contexts (World Bank economics) but derive entirely from the professional’s characteristics as an individual (like any other), rather than as an economist or social scientist reproducing a disciplinary order governed by particular canons, or as affected by particular institutional dynamics related to the Bank’s shareholder realities, the origins of its funds and the particular policy agendas and biases that these imply. So if ‘social’ or ‘mental’ models are brought into the analysis, this ‘recognition’ remains devoid of any reflection upon the specificities attached to the individual reproducing him/herself within a specific disciplinary culture and institution. There are no implications attached to the practice of economics, or to the resonance of particular trends within economics, or to the location of the professional within the World Bank. Thus, Bank development professionals are not seen to make mistakes because of the use of particular, generally inappropriate, analytical categories, the selective use of evidence, the promotion of findings in support of particular policy imperatives, etc. Essentially, the Bank’s professionals are deemed to make mistakes merely because they are not the poor people for whom they prescribe policies (and hence do not share their mental models). This is all a far cry from Broad’s (2006) account of the soft laws governing the Bank’s scholarly activities or from the evaluation of Deaton et al. (2006), each of which highlights that Bank research tends to favour particular policy practices.<sup>11</sup>

## **SITUATING THE TURN TO BEHAVIOURAL ECONOMICS AT THE BANK**

The evolution of the World Bank’s economics can be tracked through a number of overlapping and sequenced trajectories (see Bayliss et al., 2011; Fine, 2002, 2010; Fine and Milonakis, 2009; Milonakis and Fine, 2009). Most obvious has been that of mainstream economics, which evolved along a number of opposing divides. Foremost, at least initially in the post-war period, was that between (Keynesian) macroeconomics and a subordinate but prominent microeconomics. This left separate space for a variety of applied and empirical fields (such as development economics). Other social sciences remained more or less untouched by economics as a consequence of a relatively rigid interdisciplinary division of labour.<sup>12</sup>

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11. But see Van Waeyenberge and Fine (2011: 35–6) on how the underlying reasons for these biases remain ill-explored in the Deaton Report.

12. ‘Economics imperialism’, however, had deep roots in the 1950s with the emergence in particular of cliometrics, public choice theory and human capital theory. This ‘old’ form of economics imperialism was pioneered by Gary Becker and reduced the non-market to a more or less perfectly working market (Fine and Milonakis, 2009).

These conditions around scholarship dovetailed with the separate trajectories of context and corresponding policy imperatives. For the restricted scope of macroeconomics and microeconomics allowed the old or classic development economics, and a corresponding development studies, to prosper, drawing upon economic and social history and other social sciences and inductive methods. Within the Bank, this took the form of looking for empirical regularities in the development process and for models of, and policies for, modernization that served Cold War purposes, ultimately leading intellectually to the longstanding part played by Hollis Chenery as Chief Economist at the Bank, serving from 1972 to 1982.<sup>13</sup>

The end of the post-war boom in the 1970s signalled not only the monetarist counter-revolution spearheaded by Milton Friedman but even more virulent forms of laissez-faire macroeconomics and microeconomics, with increasing subordination of macroeconomics to microeconomics. The University of Chicago took the lead in consolidating the influence of various strands of neoliberal thinking. Further, the independent fields of applied and empirical economics (such as public, regional, industrial and development economics) were increasingly incorporated into microeconomics. Moreover, under the banner of perfectly working markets, and perfectly rational individuals, the nature and role of the state was reduced to total ineffectiveness other than to allow for inefficient distortion. With a short lag, the new development economics emerged in the early 1980s, denying that development required separate principles, focusing on the microeconomics of corruption and rent-seeking and otherwise leading towards markets working perfectly if not subject to state intervention (see Krueger, 1986).

At the Bank, the Washington Consensus shaped scholarship, ideology and policy in practice, with loose and at times inconsistent relations of these to one another. For scholarship, in particular, the Bank began to define the field of development economics almost to the point of appropriating it, not least in setting the agenda of state versus market. Further, for policy, from earlier preoccupations with providing funding for ‘hard’ infrastructure, through ‘softer’ concerns for poverty alleviation, the Bank began its journey to what has now become a self-appointed responsibility for all aspects of economic and social policy (social security, pensions, labour markets, health, education, etc.), while having recourse to an ever narrower set of intellectual and policy tools to address them. And, for ideology, neoliberal mantras coincide with substantial, wide-ranging and continuing interventions to promote ‘the market’.

Such expansion in scope of World Bank activity across scholarship, ideology and policy in practice was accelerated rather than diminished by the launch of the post-Washington Consensus in the late 1990s, and what might be termed the newer development economics. It unavoidably aligned with

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13. In 1982, Chenery and others of his ilk were cleared out by Anne Krueger in paving the scholarly conduit for the Washington Consensus.

the new phase of economics imperialism associated with imperfectly working markets due to asymmetric information, in which economic and social structures, institutions, customs, habits, culture, are explained as the rational, and possibly collective, response to imperfectly working markets.<sup>14</sup> Significantly, this retained both the optimizing individual and the predominance of microeconomic principles as the basis for macroeconomics and macro phenomena more generally.

By treating non-market institutions as responses to market imperfections, this new phase of economics imperialism extended the reach of economics over the other social sciences and over development economics itself. Microeconomic principles had become so well established that it became second nature to combine them with other disciplinary resources from across the social sciences. Ironically, this included variables or approaches that had been explicitly excluded from the purview of economics when these core principles were established in the first place.<sup>15</sup> In addition, this process of ‘suspension’ (see Fine, 2011) — taking core principles as uncritical point of departure; they are both there and not there at the same time — has been accompanied by a parallel process of simply adopting the methodology and formal techniques of economics. Statistical investigation has become especially prodigious within economics, with at most the loosest of attachments to theory. The result is the emergence of *The Economics of Almost Everything* (Frank, 2007).<sup>16</sup> Within the field of development, what might be termed the newest development economics has emerged, the most prominent illustration being randomized control trials (RCT). RCT reduces policy making to a mere technical problem with the aid of expert knowledge and opinion (Prince, 2012); it relocates the study of development from the field to the laboratory whilst consolidating the shift in focus of analysis from major transformation to individual psychology and behaviour.

This sets the scene for the WDR’s focus on behavioural economics, an approach strengthened by the global crisis: if (financial) markets did not work perfectly, individuals must be, in some sense, at fault and/or misread. The application of behavioural economics recipes to the developing world, however, is not new. Two renowned advocates of the behavioural approach to development, Banerjee and Duflo (2011: 269), had already advanced arguments for this shift. First, they note that the poor in developing countries and their counterparts in the developed world are equally prone to cognitive limitations and self-control problems, and thus similar policy prescriptions apply. Second, behavioural economics lessons are argued to be even more relevant in the developing world as individuals in these societies can rely

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14. Krugman’s alternative draws upon increasing returns to scale as opposed to asymmetric information. It has been much less prominent in scale and scope but has inspired new international trade theory and the new economic geography, with a WDR (World Bank, 2009) dedicated to the latter; see Fine (2010) for a critique.

15. Fixed preferences and motivation are examples.

16. Or ‘Freakonomics’ (Levitt and Dubner, 2005).



neither on properly functioning markets nor on a protective welfare state. The behavioural approach to development is seen as even more pertinent as ‘the poor bear responsibility for too many aspects of their lives, being far more vulnerable to cognitive and self-control biases’. Finally, behaviourally-inspired approaches that involve minor tinkering with the context of choice have the additional advantage of being perceived as cost-effective. This is clearly a feature of the behavioural approach to development welcomed by WDR 2015: ‘The behavioral perspective on decision making suggests that seemingly minor and low-cost policy changes may have a large impact on the achievement of development goals and the reduction of poverty’ (World Bank, 2015: 38).

The behavioural approach to development thus represents yet another paradigmatic shift further away from the older tradition focused on the structures that trap poor countries and poor people. It instead adopts a micro-level approach devoted to the management of choice within a given set of socioeconomic constraints, reinforcing the structures that might have generated the problems in the first place. In the developing world, with underdeveloped markets and weak or non-existent welfare systems, the possibilities for the behavioural approach appear overwhelming. Indeed, the more meagre the prospects for the advancement of market forces and the narrower the scope for government intervention, the more attractive an individualistic approach to development based on improving individual choices becomes.

## **THE WDR APPROACH TO BEHAVIOURAL ECONOMICS**

### **The WDR’s Mental Model**

The WDR 2015, while showcasing behavioural economics and promoting behaviourally-inspired development policy, still adopts neoclassical economics as its preferred mental model. Indeed, the neoclassical model is pervasive throughout the WDR 2015. Consider the Report’s stated goal, ‘to inspire and guide researchers and practitioners who can help advance a new set of development approaches based on a fuller consideration of psychological and social influences’ (World Bank, 2015: 2); most significantly, the text proceeds with the immediate disclaimer that ‘the new tools based on this full consideration of human factors do not displace existing policy approaches based on affecting self-interested personal incentives; rather, they complement and enhance them’ (ibid.: 3).

This literally echoes the way behavioural economics positions itself towards neoclassical economics. Camerer and Loewenstein (2004: 3), two leading practitioners in the field, highlight that: ‘at the core of behavioural economics is the conviction that increasing the realism of the psychological underpinnings of economic analysis will improve the field of economics on

its own terms — generating theoretical insights, making better predictions of field phenomena, and suggesting better policy’. They also emphasize that the consideration of psychological factors is complementary to neoclassical economics since the relevance of human psychology to economics does not imply ‘a wholesale rejection of the neoclassical approach to economics based on utility maximization, equilibrium, and efficiency’.

The WDR’s reliance on behavioural economics as neoclassical plus is evident in its policy approach as it focuses on ‘how humans think (the processes of mind) and how history and context shape thinking (the influence of society) [and how this] can improve the design and implementation of development policies and interventions that target human choice and action (behaviour)’ (World Bank, 2015: 2). The emphasis on the processes of the mind draws on the seminal work of Kahneman and Tversky (1979) and Tversky and Kahneman (1974, 1981) and on heuristics and biases, later reframed as the automatic system of judgement and choice as opposed to the deliberative system (Kahneman, 2003). The interest in the influence of society is inspired by the game-theoretical strand of behavioural economics, which incorporates in the individual utility function the agent’s concern for the welfare of others (i.e. his/her social preferences in addition to the agent’s concern for his/her own welfare) in the study of strategic and cooperative problems of social interaction (e.g. Camerer, 2003). Yet, attention to automatic systems of judgement and choice implies a revision of the rationality assumption of neoclassical economics and, together with the game-theoretical strand, undermines the assumption of self-interested and exogenous preferences. While both research strands then apparently challenge the neoclassical economics model of human action, these challenges are limited if not deceptive. For once context and interdependence come into play, these ought to be addressed as socially determined not individual attributes.

To the contrary, the appeal of behavioural economics arises both from its continuity with, and its departures from, neoclassical economics (Davis, 2008; Fine, 2002). If, on the one hand, behavioural economics incorporates more realistic psychology in economic theorizing, making it more palatable to policy makers, on the other hand, it generally conforms to economics’ preferred methods (i.e. individualism and formalism) and pro-market stance (Davis, 2008; Santos, 2011; Santos and Rodrigues, 2014). Like other attempts at incorporating insights from other social sciences (Fine and Milonakis, 2009), the insights from psychology that are deployed in the behavioural economics approach are filtered through their compatibility with neoclassical economics’ technical apparatus, resulting in a lack of genuine engagement with other behavioural sciences (see also Bazerman and Malhotra, 2012; Berg and Gigerenzer, 2010; Davis, 2013; Sent, 2004).<sup>17</sup>

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17. This is crucial in rejecting the hypothesis of reverse imperialism between economics and the other social sciences.

Automatic thinking, central to the WDR's take on behavioural economics, appears to simplify decisions, using associations and belief systems that compensate for missing information and facilitate decision making. Automatic thinking is thus fast, effortless and associative, but sometimes leads to large and systematic mistakes. These stem either from errors in information processing (bounded rationality) or a mismatch between intentions and actions (bounded willpower), i.e. failure in carrying out previously deliberated courses of action. Automatic thinking contrasts with deliberative thinking, which neoclassical economics characterizes as decisions made on the basis of unbiased, effortful and reflective calculations of all possible outcomes from alternative choices. The dual system of thinking is taken to expand the standard economic model, allowing for the consideration of outcomes that deviate from those that would result from the deliberative system.

On this account, that individuals rely on automatic thinking has significant implications for understanding development and for designing policies to tackle poverty, which seek to make it simpler and easier for individuals to choose courses of actions consistent with their desired outcomes and best interests. This requires paying close attention to the 'choice architectures' underlying all institutionally mediated interactions (Thaler and Sunstein, 2008), assisting individuals in their decision making by framing choices, 'adjusting what information is provided, and the format in which it is provided' (ibid.: 6). But such proposals, inspired by the heuristics and biases branch of behavioural economics research, still work with(in) the neoclassical framework approach, focusing on the problems posed by deviations to its rationality assumption, targeting solutions that make people behave more rationally. In this sense, behaviour in practice is akin to a (market) imperfection to be corrected as far as possible towards perfect rationality.

The strand of behavioural research that has been inspired by game theory draws attention to so-called social preferences, i.e. people's aversion to inequality, tendency to abide by social norms, and reciprocal or altruistic behaviours (e.g. Camerer and Fehr, 2004). Again, consideration of these aspects of human sociality is contrasted with the autonomous, self-regarding assumption of neoclassical economic theory. The policy implication is that a sole focus on external material incentives like prices is insufficient, and policy makers need to resort to 'social incentives', mobilizing social expectations, social recognition, patterns of cooperation, care of in-group members, and social norms for new kinds of intervention.

This provides another indication of the intricate complementarity between neoclassical and behavioural economics. The former is taken to apply to situations in which market exchanges are considered adequate and efficient, and where individual actions stem from people's deliberative systems. The latter applies to situations in which forms of exchange based on trust and reciprocity are required and effective, and where individual actions have other-regarding considerations. However, the functional articulation between market and non-market spheres, which neoclassical and behavioural

economics promote, takes the ‘liberal societies’ of the developed world as their implicit contextual framing. The two spheres are considered complementary by both neoclassical and behavioural economists (Santos and Rodrigues, 2014). The ultimate goal for policy then is to cultivate, through an appropriate institutional mix, the right combination of self-interest and other-regarding considerations. In response, individuals would learn to be, simultaneously, ‘habitual social exchangers’ and ‘vigorous traders’, meaning that markets could coexist with the social foundations on which they ultimately rely.

### **Behavioural Economics and Development: The Conquest of Another Frontier?**

The behavioural approach then offers an exemplary illustration of the application of the newer phase of economics imperialism to development, highlighted by the ‘optimizing individual plus something else’ approach. Most significantly, ‘(t)he new approaches do not replace standard economics’ (World Bank, 2015: 4). Instead, the latter is supplemented by a range of ways of behaving, ‘automatically’ instead of ‘deliberatively’, as well as determinants of behaviour, ‘thinking socially’, depending on what others think, and ‘thinking with mental models’ (ibid.: 3). Such is the privileging of the economic, which remains inconsistent with the non-economic — an insight unwittingly highlighted by the Report which acknowledges that “‘Economic man’ is a fiction, not a reality’ (ibid.: 25).

Why this fiction should prevail is left unresolved. For ‘[p]olicies that assume that rational decision making will always prevail can go astray in many contexts . . . Updating the standard assumptions about human decision making is essential’. The WDR sees this as a new insight, since ‘[t]hirty years ago, people might reasonably have viewed the findings of behavioral economics as a few anomalies’ (ibid.: 28/29). Yet it seems to have long prevailed, given that, ‘[t]he idea that people have two systems of thinking is not new and has been anticipated in the work of many psychologists and philosophers over the centuries’ (ibid.: 27). By the same token: ‘[e]veryone knows that economic incentives can influence behavior. What is less commonly recognized is that social incentives can also exert a powerful effect on behavior’ (ibid.: 43). In short, the WDR is caught between claiming the common-sense of not relying upon rationality (whilst still privileging it), and ignoring the failure to have gone beyond rationality until recently.

Even so, the enrichment of rationality is extremely limited and conforms to reliance upon universal notions of human behaviour in forms that are characteristic of (economic) rationality itself. Continual reference is made to the economic and the non-economic, the automatic and the deliberative, the intuitive and the reflective, the social and the mental, the framing, the anchoring and the loss aversion, the effortless and the effortful, emotion and cognition, instrumental and intrinsic reciprocity, and so on. Significant here,

from the smallest act of altruism to grand narratives of historical change, are the mental models that individuals adopt, for '[h]istorians attribute the rise of the modern world to a change in the mental model of how the universe works' (ibid.: 72).

Despite reference to the social nature or determinants of behaviour, these are totally decontextualized, implicitly reflecting asocial, ahistorical and universal notions of human, as individual, behaviour. Consequently, even as universals, there is no reference to power, conflict, class, gender, race, etc., in and of themselves, let alone as the raw materials for understanding the systemic origins of (non-rational) behaviour.<sup>18</sup> Indeed, we are informed that, 'both poor people and people who are not poor are affected in the same fundamental way by certain cognitive, psychological, and social constraints on decision making' (ibid.: 81).<sup>19</sup> At most, appeal is made to the eponymous institutions, cultures and customs that underpin irrational behaviour. The acknowledgement of such influences naturally opens the space to use them for policy purposes and 'gives policy makers new tools for promoting development and provides new understandings for why policies based on standard economic assumptions can fail' (ibid.: 72). The inevitable major conundrum for the WDR is, though, whether it is necessary to strengthen irrational behaviour in an imperfect world or reduce it to make it perfect. Thus, '[p]redicting exactly when these social relationships can help or hinder progress is still an open question and thus requires careful testing of program design' (ibid.: 90).<sup>20</sup>

Such decontextualization of behaviour has two striking effects in the WDR. One is to allow a free range over examples of behaviours without regard to context, since all behaviour conforms to universally prescribed notions of human nature. The result is an extraordinary enfeeblement of the WDR, for there is an unusually wide appeal to illustrations that lack relevance for issues of development or are not drawn from development at all. For example, the WDR commends the use of stickers placed in minibuses in Kenya which reduced the accident rate (ibid.: 52–3); lockable metal boxes that increased investment in health products in a Kenyan project (ibid.: 120);

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18. Equally striking is the total absence of any reference to the global crisis and the role of finance and financiers within it.

19. As mentioned above, such behaviours are equally seen as characteristic of Bank operatives themselves: 'Because policy makers are themselves subject to cognitive biases, they should search for and rely on sound evidence that their interventions have their intended effects, and allow the public to review and scrutinize their policies and interventions, especially those that aim to shape individual choice' (World Bank, 2015: 20).

20. Indeed, concluding the section on parenting and childhood: 'More experimentation and testing are needed to tailor interventions to the situations that parents experience, harnessing insights from neurobiology and the behavioral sciences to understand and tackle the psychological and cultural barriers to effective parenting that arise from the contexts in which individuals live' (World Bank, 2015: 108). For a critique of the newly emerged field of neuro-economics, itself an exemplary illustration of the latest phase of economics, see Fine (2011: Appendix 1).

a water-saving campaign in a city in Colombia that featured the mayor and his wife taking a shower together (ibid.: 176); posters of watchful eyes that boosted payment for milk at an open tea and coffee station in a university in England (ibid.: 47); and a project that used stickers and moved bins and benches to reduce second-hand smoke in Copenhagen Airport (ibid.: 194).

The other effect of decontextualization follows from the reduced way in which the social and systemic have been constructed through the continuing commitment to a methodological individualism widened beyond economic rationality.<sup>21</sup> This is most notable in the treatment of poverty: here, the role of behavioural economics is implicitly deployed as a means by which to encourage the poor to learn to live with the condition, possibly even to imagine escaping from it, without once discussing the structural causes of poverty that both make it inescapable in practice and condition the responses to it. Indeed, in a parody of economic rationality as optimization subject to price and income constraints, the poor are seen as being both more behaviourally motivated and more behaviourally constrained (ibid.: 81):

First, poverty generates an intense focus on the present to the detriment of the future. When poor people must direct their mental resources toward dealing with the concerns of poverty — for example, paying off debts or keeping their children safe — they have less attention to devote to other important tasks that may be cognitively demanding, such as expending greater and more productive effort at work or making timely investments in education and health . . . Second, poverty can also create poor frames through which people see opportunities. Poverty can blunt the capacity to aspire . . . and to take advantage of the opportunities that do present themselves.

Third, the environments of people living in poverty make additional cognitive demands. The absence of certain physical and social infrastructure that eases cognitive burdens in high-income contexts — like piped water, organized child care, and direct deposit and debit of earnings — encumbers those living in low-income settings with a number of day-to-day decisions that deplete mental resources even further.

In short, the poor are offered a pathology of material and behavioural deprivation, which ‘in effect tax an individual’s *bandwidth*, or mental resources. This *cognitive tax*, in turn, can lead to economic decisions that perpetuate poverty’ (ibid.; italics in original).

The most obvious and immediate remedy might be to go to the source of the problem — the material deprivation that intensifies individual and social dysfunction. Far from it, however, for it seems the goal is to rationalize intervention to improve the choices made by the poor within their behaviour-determining poverty (although, as will be seen, not always with their own benefit in mind). This is the neoliberal nudge dilemma: how to amend

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21. Similar considerations apply to the neglect of the systemic sources of climate change, with an implicit presumption that this is driven by inappropriate individual (consumer) behaviour that can therefore be remedied behaviourally.

people's free will by amending their behaviour in their own best interests. In this case, the WDR suggests, '[f]irst, shaping choices can help people obtain their own goals', and '[s]econd, individuals' preferences and immediate aims do not always advance their own interests' (ibid.: 20). Indeed:

Still, it is not the case that when governments refrain from action, individuals freely and consistently make choices in their own best interest, uninfluenced by anyone else. Any number of interested parties exploit people's tendency to think automatically, succumb to social pressure, and rely on mental models... including moneylenders, advertisers, and elites of all types. In that context, governmental inaction does not necessarily leave space for individual freedom; rather, government inaction may amount to an indifference to the loss of freedom. (ibid.)

Whether governments should intervene to help people make decisions that are in their own interests is a recurrent theme when discussing the policy implications of behavioural economics, and one raised at the outset by Thaler and Sunstein (2003, 2008), placing their 'nudge' proposal within a libertarian paternalistic approach to policy making. While they reject the assumption that people always make choices in their best interest, granting the policy maker the responsibility for organizing the context in which people make decisions (the paternalistic stance), they are keen to stress that the policy maker must refrain from constraining the options of the individual (the libertarian stance). The difficulty of reconciling these two aims is, not surprisingly, a subject of discussion.<sup>22</sup> Significantly, the WDR also engages in this discussion, and on these terms,<sup>23</sup> even if it adopts a forceful stance on the need for government action: 'The standard justifications for government action in market economies are monopolies, externalities, public goods, asymmetric information, redistribution, and macroeconomic stabilization. This Report adds another. *Governments should act when inadequate engagement, situational framing, and social practices undermine agency and create or perpetuate poverty*' (World Bank, 2015: 203; emphasis added). Again, the discussion on the role of government reveals the WDR's mental model, taking neoclassical economics as the main theoretical and political reference. The market is retained as the default institution and non-market institutions are justified as rational solutions to market failures.

The limitations of this position are revealed in the illustrations deployed, with poor outcomes consistently blamed on the poor choices people make. Lack of self-control is seen as the fundamental cause of poor outcomes throughout the Report. We turn people away from choosing sugary foods (ibid.: 36) but say nothing about the support offered to the production of sugar in a world in which the obese now outnumber the hungry. For exploitative credit markets, there is a presumption of poor decision making from lack of

22. See Sunstein (2014), as well as Goodwin (2012), Grüne-Yanoff (2012), Hausman and Welch (2010) and Sugden (2009) for a critique.

23. The WDR closes with a section entitled, 'Why should governments shape individual choices?' (World Bank, 2015: 202).

financial literacy (*ibid.*: 122) as opposed to desperate attempts to deal with starvation and medical expenses. Despite the space given to experiments that improved people's financial information about payday loans, there is little reflection on the findings. In one experiment, individuals provided with better information about the true costs of payday loans (*ibid.*: 32) were 11 per cent less likely to use a payday loan service in the subsequent four-month period. The Report ignores the meagre extent of the change — only 11 per cent — and the fact that many were just as likely to use payday loans even though they knew how punitive the costs would be. Similarly, the Report asserts '[l]ack of self-control is a leading explanation for lack of savings' (*ibid.*: 120) and argues for commitment-based savings plans, without looking at poverty and need. Most revealing of all is the section concerned with the workplace, where it is assumed that people simply need to work harder (*ibid.*: 132–3) — although no justification is given for why this is to their benefit and why it is dysfunctionally irrational for them to do otherwise. Indeed, 'there are many nonremunerative aspects of work that influence the effort that employees exert on the job' (*ibid.*: 139). Perhaps low pay and poor working conditions might be more pertinent than 'intention–action divides and what their peers are doing' (*ibid.*).

However, behavioural findings may support policy proposals that extend beyond the nudge approach (Dolan et al., 2010; Oliver, 2013). For example, that human cognitive and emotional processes can be manipulated to serve the undesirable and inefficient interests of firms, moneylenders, banks and other interested parties may warrant regulations that impose limits on their actions. Behavioural findings may, therefore, suggest a wider range of policies, such as regulatory measures and laws that aim to change or create new institutional conditions deemed conducive to human welfare. But moving beyond minor tinkering with the context of choice in development policy would entail profound institutional change, bearing, not least, on an institution like the World Bank. As the WDR reminds us, 'achieving social change in a situation where mental models have been internalized may require influencing not only the cognitive decision making of particular individuals but also social practices and institutions' (*ibid.*: 12).

#### **FROM BEHAVIOURAL ECONOMICS TO WORLD BANK POLICY IN PRACTICE: THE CASE OF HIV-RELATED CASH TRANSFERS**

The discussion so far may suggest that this WDR is mostly irrelevant. There is no substantive departure from the tenets of mainstream economics and the Report produces examples of behaviourally-aware policies that manage to be both mundane and ephemeral. Moreover, who would reject a policy approach that makes it easier for individuals to make better decisions? However, as innocuous as the Report appears in terms of policy, in practice it furthers a new trend in the design of development interventions which



threatens to remove any commitment to the necessity for structural change as part of the development process. This has strong ethical as well as sustainability implications for development interventions. To illustrate the fundamental failures of an approach to development based on behavioural economics both in its limited understanding of poverty and its policy focus on individual choices, rational or otherwise (instead of engaging with underlying structural issues), we take a closer look at an example of health-related behavioural economics interventions, namely HIV-related cash transfers.

While behavioural economics policies in the WDR often appear as subtle ‘nudges’ to the choice environment,<sup>24</sup> behavioural economics interventions in poor countries span a wide stage and take particularly intrusive forms. They have generally involved cash incentives to take up health services or to affect behaviour in particular ways. Cash transfers are now used extensively, and rough estimates suggest that between 0.75 and 1 billion people in low- and middle-income countries currently receive non-contributory cash benefits (Barrientos and Niño-Zarazúa, 2010).<sup>25</sup> However, it is necessary to distinguish between generic forms of cash transfers and those inspired by behavioural economics. On the one hand, standard cash transfer interventions aim to raise income of a particular group (targeted in terms of age or other characteristics) and, in their conditional form, they often require beneficiaries to use nutrition or health services. On the other hand, cash transfers inspired by behavioural economics do not aim to reduce poverty as such but to change specific incentives around health behaviour. Here, following behavioural economics, people are agents who ignore health messages because of the weight of social pressure or who are myopic and heavily discount the future benefits of health-seeking activity, while overly valuing their current pleasure. For example, myopic individuals will not choose to eat healthily because they focus on the immediate pleasure of unhealthy foods and remain oblivious to the future benefits of a balanced diet, or they may not complete a course of TB treatment, as they focus on the immediate costs of repeated hospital attendance, rather than on the ultimate result of such repeated visits.

A critical assessment of health interventions inspired by behavioural economics can be made on the basis of a closer examination of HIV-related policies. Within this context, individuals are seen as failing to take up HIV prevention messages by focusing on the immediate pleasure of unsafe sex while discounting the cost of acquiring HIV, due to either myopia or social norms. Thus, cash transfers become a way to affect the balance between short- and long-run benefits so that individuals become more likely to choose

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24. For example, health-related libertarian paternalism in the North might focus on the way that a change to the layout of school canteens can increase the uptake of fruit and vegetables (<http://www.sciencedaily.com/releases/2013/02/130226172506.htm>, accessed 10 November 2014).

25. For critical assessments of conditional cash transfers (CCTs), see Lavinas (2013) and Saad-Filho (2015).

safe sex or abstinence (de Walque et al., 2012b: 2). The presumptions are, first, that incentives can increase the implicit price of unsafe sex (through the immanent loss of the cash reward); and, second, that even small regular payments may “nudge” individuals to overcome inertia and extricate themselves from unduly risky sexual relationships’ (ibid.). Third, de Walque et al. (2012a: 14) also suggest that cash incentives provide individuals with an excuse for deviating from social norms, allowing them to act in conformity with their true underlying preferences for less risky behaviour. In essence, in such an approach, HIV epidemics are the result of sub-optimal decisions by individuals who (mistakenly) believe they are making, or are persuaded by social norms to deviate from, optimal decisions and who can be nudged into changing their choices (through cash transfers).

Let us examine the implications of these presumptions through a critical dissection of a set of existing programmes. Projects to change HIV risk behaviours have been implemented in Lesotho, Malawi and Tanzania, while others have begun in South Africa (Johnston, 2015). According to the designers of the Lesotho intervention, people engage in risky sexual behaviour despite high prevalence of HIV as they weigh the short-term benefits more highly than the long-term costs (Björkman-Nyqvist et al., 2013). De Walque et al. (2012a: 6) assert that the young people involved in the Tanzania RESPECT project ‘appear to understand their HIV risks and know how to behave to prevent transmission — yet they don’t choose to act on that knowledge’.

It should be noted that, in general, cash transfers to change health incentives typically operate with smaller cash outlays and more stringent forms of conditionality than standard cash transfer programmes. In standard cash transfer programmes, such as, for instance, the Kenyan Orphans and Vulnerable Children programmes, US\$ 20 per month is given to ‘the main care giver’ in each participating household (Handa et al., 2014). In contrast, in the Malawi rural incentive programme that sought to decrease HIV incidence rates, participants were allocated an amount of up to US\$ 16 to be paid one year later if they maintained their HIV-free status (Kohler and Thornton, 2012). In the Tanzania RESPECT programme, participants were paid either around US\$ 10 or US\$ 20 per four-month testing round if they tested negative for four curable, sexually transmitted infections (STIs) (de Walque et al., 2012b). Finally, the Lesotho programme offered no guarantee of cash reward. If individuals tested negative for two easily treated STIs, they were eligible to participate in a lottery, with prizes worth the equivalent of US\$ 74 or US\$ 147 per four-month testing round. In each round, four lottery winners were drawn (two men and two women) (Björkman-Nyqvist et al., 2013).

Projects inspired by behavioural economics also have more stringent conditionality embedded within them than general cash transfer programmes. Standard poverty-focused interventions may have no conditionality or might be conditional on school attendance. However, behavioural economics

interventions tailor conditionality to incentivize behaviour change through higher frequency of rewards and use of external monitoring. De Walque et al. (2012a: 14) and Medlin and de Walque (2008: 5), for instance, argue that if people have high rates of discount (and thereby are at greater risk of acquiring HIV), they value quick payoffs; in such cases, offering a reward after a long delay will tend to be ineffective. The programmes also often include frequent testing for STIs. In practice, however, HIV itself is not always used as a test indicator as it may be too insensitive to behaviour change and too expensive to test (Medlin and de Walque, 2008: 12–13; de Walque et al., 2012a: 17–18).

Do projects inspired by behavioural economics produce their intended effects? In the Tanzania RESPECT study, with its two sizes of cash transfer, only the higher payment group had a statistically significant difference in the STI indicators compared to the control group at the end of twelve months (de Walque et al., 2012b). Moreover, the data on HIV showed no significant difference (de Walque et al., 2012b: 8), casting doubt on the link between the STI indicators and HIV risk. It was not clear whether the study encouraged a change in sexual behaviour or whether it was observing a change in the treatment sought for the curable indicator STIs. In the Lesotho project, two years after its initiation, HIV incidence was significantly lower among the study participants, especially for women and for those with the greatest potential lottery payout (Björkman-Nyqvist et al., 2013). However, in the Malawi Incentive Project, the authors were surprised to find that male recipients ended up with a greater HIV risk, possibly as extra cash made them more attractive sexual partners (Kohler and Thornton, 2012). In contrast, female recipients were less likely to report having had sex, leading the authors to conclude, rather myopically, that conditional cash transfers can be protective for women (ibid.: 169).

It will be crucial to assess the longer-term impact of these programmes after they have come to an end. This is an area of limited information at the time of writing this article. In the Tanzanian RESPECT study, however, the impact on STI acquisition by women had disappeared two years after the end of the project (Heise et al., 2013: 4). Rigsby et al. (2000) studied the impact of a four-week cash transfer project on anti-retroviral drug adherence among a sample of US veterans. While the use of monetary reinforcement clearly helped treatment adherence during the project, adherence in the cash-transfer group had returned to near-baseline levels just eight weeks after its end.

Overall then, these programmes have had mixed immediate results and strong concerns remain regarding their long-run impacts (not least in the absence of attention to longer-term, structural determinants). Their design also raises ethical issues, specifically regarding whether inclusion and exclusion from health-focused interventions can be justified and whether the intrusion of interventions is outweighed by the benefits (Johnston, 2015). Through the design of projects that remove benefits to individuals (some of whom are children or young adults) when they become ill, challenging

ethical precedents are set. Another ethical concern arises in the context of a programme that establishes lotteries with groups who are seen as having a poor ability to behave rationally let alone assess risk.

Finally, underlying these interventions is a narrow conceptualization of ill health as the result of poor choices by individuals. More specifically, behavioural economics does not recognize the role of systemic (rather than individual) factors in explaining poor health, which are diverse, specific to particular health conditions and often deeply political. When these are ignored, it is not surprising that cash transfer projects have complex and sometimes limited impacts. At the same time, they appear attractive to policy makers: the simplistic premise of these projects may offer short-cuts in dealing with politically difficult questions of power, distribution and class. This is not to suggest that interventions inspired by behavioural economics are harmless, however: embedded within them are particular norms and values. By blaming individuals for their poor health, they cement stigma around the acquisition of illnesses like HIV. Further, by extending the commodification of health and welfare, they reduce the role of the state in guaranteeing health outcomes.<sup>26</sup>

## CONCLUSION

Using WDR 2015 as a lens through which to appraise the World Bank's shifting scholarly roles exposes a set of issues. First, while the Bank's arguments about its position as knowledge bank have previously been organized around the attributes of the discipline of economics, we now have forays into the behaviour of development professionals, including Bank staff. Second, across the Report, what seems like a contradiction between universal notions of human behaviour and an emphasis on local context apparently dissolves once it is accepted that the latter is to be understood entirely in the service of the former, i.e. an interest in context emerges only to the extent that it allows a better understanding of the choice architecture facing individuals, rather than drawing attention to systemic or structural issues bearing on why poverty is reproduced.

Third, the inadequacies of the Bank's economics (in principle and practice) are obscured through reference to behaviour — itself understood in highly reductionist terms. This nudges us into doing the right thing, while simultaneously steering safely away from structural issues bearing on worsening social and economic outcomes across the world, except of course through the further deepening of labour market reforms, and the restructuring of public services to the profit of private enterprise. The more we nudge,

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26. Arguably, the structural adjustment programmes of the 1980s exacerbated the HIV crisis in sub-Saharan Africa by crippling health systems, while the informalization of labour markets has served to reduce employment-related health provision (O'Laughlin, 2013).

the less we need to budge in the face of worsening inequalities and the continuing assault of finance on living standards and democratic accountability. Finally, WDR 2015 implies a dramatic reduction of what development is about (recall the Report's focus on stickers in cars, metal boxes in households, showers with partners, etc.). And while the interventions this fosters in practice remain far removed from the mainstay of Bank activities, which have become increasingly organized around large public–private partnerships, they have proven popular in certain fields, including health, often with dubious impacts and moral implications.

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