

Homo Economicus Lives: Some Implications for Humanitarian Assistance

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Abstract: When it comes to helping poor people in the developing world, most people in the developed world act like *homo economicus*. They claim to care greatly about humanitarian crises in impoverished nations, but their behavior suggests they care very little. The funders of humanitarian assistance therefore have little interest in seeing that the assistance they provide is used effectively. Given this disinterest, it's unsurprising that, as Coyne (2013) describes, humanitarian aid often seems to do little good.

Introduction

In his provocative new book, *Doing Bad by Doing Good: Why Humanitarian Action Fails*, Christopher Coyne (2013) identifies two types of problems that humanitarian efforts to alleviate suffering face. According to the first, which Coyne calls the “planner’s problem,” effective humanitarian aid is difficult because the suppliers of such aid lack the information required to promote economic development in developing countries. In the absence of such information, potentially successful humanitarian assistance is limited to increasing pre-selected, though not necessarily economically efficient, outputs in needy parts of the world.

According to the second type of problem Coyne identifies, which he calls the “incentive problem,” effective humanitarian assistance is difficult because of aid administrators’ perverse incentives. These incentives lead administrators to engage in humanitarian activities that the planner’s problem suggests cannot be accomplished successfully, and often cause activities that the planner’s problem suggests can be accomplished successfully in theory to fail in practice.

My goal in this paper is to highlight an additional, and perhaps more primordial, problem in achieving the ostensible goals of humanitarian assistance directed abroad.² To put it bluntly, most of the people who fund such assistance don’t in fact care much about improving the plight of the suffering. Thus they have little interest in seeing that the assistance they provide is used effectively. Given this disinterest, it’s unsurprising that humanitarian action frequently fails.

Homo Economicus Lives

It’s currently fashionable to criticize traditional economics for its allegedly impoverished view of humans. Traditional economics assumes people are rational and self-interested. Rationality does not mean that people do not make mistakes, only that their behavior is forward looking and consistent over time. Self-interest does not mean that people care exclusively about themselves, only that they maximize their welfare as they conceive it, which may include the welfare of others.³ In practice, however, traditional economics often assumes further that one’s welfare as one conceives it consists of what materially benefits her personally. The stylized person with these traits, who is both rational and concerned primarily about herself, is often called *homo economicus*.

Modeling human behavior using the assumptions of rationality and “selfishness” explains a good deal of what humans actually do and, perhaps

more important, explains considerably more of what they do than theories of human behavior that lack these features.⁴ Nevertheless, a growing body of work, typically referred to under the banner of “behavioral economics,” demonstrates that under various contrived scenarios in experimental laboratory settings, people do not act as *homo economicus* should and, of particular relevance for my discussion, in some cases appear to depart from selfish behavior significantly.

This work has led a growing number of scholars to suggest that *homo economicus* is dead—or rather that she never existed—and to call for some new model of humans that more accurately captures their nature. I suspect that the majority of scholars who have taken this perspective never believed much in economics in the first place. Thus it does not seem particularly problematic to them to throw away what traditional economics has achieved. But many of these scholars would surely deny that this is what they are doing and, in any event, I am not interested in considering this matter here.

What I am interested in considering is the fact that, at least when it comes to gifting resources to persons in need who live in other countries (which is, after all, where most of the persons in need in the world live), *homo economicus*—or at least her selfishness—appears to be alive and well. In a moment I will spell out what I believe are the implications of this fact. But first I want to convince you that it is indeed true.

Consider the following. In 2011 the average American contributed 0.029% of her income through her government to developing countries for specifically humanitarian purposes (OECD 2013). Thus, at least as a proportion of what she is able to give, she gives almost nothing. If you count all of her contributions to development assistance through her government, the majority of which does not have explicitly humanitarian aims, she contributed 0.188% of her income (OECD 2013). This is not much of an improvement.

Americans also give privately to needy citizens abroad. But again, they do not give very much.⁵ In 2010 Americans gave—through foundations, corporations, private and voluntary organizations, volunteerism, universities and colleges, and religious organizations—a total of \$39 billion to foreign nations in private assistance (Center for Global Prosperity 2012). This figure sounds impressive.

But it is not. \$39 billion in private assistance to developing nations suggests that the average American privately donated to foreign persons in need about 0.259% of her income. Accounting for what she also gave through her government, this means she donated, in total, 0.447% of her yearly earnings to people in need of humanitarian assistance abroad. Of the remaining 99.553% of her yearly earnings, she redistributed a relatively small part to needy persons in the United States, redistributed (and had redistributed from others

to her) a larger part to other middle-class Americans, and kept the overwhelming majority for herself.

99.553% is not 100%. But it is close—close enough to suggest that in terms of humanitarian contributions to non-Americans, *homo economicus* is alive and well.

What are we to make of the average American's paltry humanitarian offerings to impoverished persons abroad? I see two possibilities. One is that we would like to give much more, but for some reason are prevented from doing so.

I cannot think of such a reason. Nor do the individuals I talk to in private conversation seem able to do so. One person I spoke to suggested that Americans actually want to give much more to foreigners than they currently do, but that their government isn't responsive to this demand. As I pointed out to this fellow, even if what he said were true, it would not explain the miniscule part of our income we give in humanitarian aid to impoverished foreigners, since nothing stands in the way of our contributing more privately if we in fact wished to do so. The average U.S. citizen is certainly wealthy enough to give more if she wants, and there are no legal barriers to further generosity.⁶ The fellow I said this to reacted by staring blankly.

This leaves the other possibility for why Americans give very little as a percentage of their income to foreigners in need of humanitarian assistance, and that which I believe the evidence supports: Americans don't in fact care very much about being humanitarian toward the masses of impoverished persons who, by the misfortune of Mother Nature, happened to be born in poverty outside the United States.

I am not suggesting that Americans don't care at all about helping foreigners who would benefit significantly from their humanitarian aid. We do, after all, give such persons something. And a few of us give tremendously. The employees of many religious organizations, foundations, and other private entities have devoted their lives to helping those in need—including those who live beyond our borders. But these individuals are the exception, not the rule. The average American is willing to give some humanitarian assistance to non-Americans, just not very much.

It may seem strange to suggest that most Americans care only a little about the plight of those in need. Hardly a single activity our government undertakes is undertaken without justifying the activity on the grounds that it will "help the poor." This is true even when, quite obviously for those who care to explore the activity in question, government's proposed action will not in fact "help the poor" and may in fact harm them.

Most of these government activities are domestic in nature (which is itself peculiar if Americans are truly interested in assisting those who need

assistance most, given that virtually all such persons are located abroad). And some of these activities do in fact help the poor. However, many of them do not. Moreover, the same justification of “helping the poor” so often heard defending government assistance for the domestic poor is also heard justifying government assistance for the foreign poor.

It’s difficult to know how to interpret this contrast between what we say about wanting to help the poor abroad and what we in fact do. But I will suggest one possibility. Perhaps many people want to feel as though they care about alleviating the incredible poverty that plagues unlucky populations in the developing world, or at least think other people want them to care, and saying they care helps them accomplish as much. Again, I am not suggesting that no one has genuine charitable inclinations. Indeed, I think most people do. When it comes to persons outside their nation’s borders, however, those inclinations appear to be quite weak.

David Hume (1739) famously noted that the further outside the circle of one’s family and closest associates one goes, the weaker her concern for others’ welfare becomes. This idea has sometimes been referred to as humans’ “span of moral sympathy.” I think Hume is right. And although it’s unpopular to say so explicitly—perhaps because of the desire to delude oneself about one’s own concerns, or perhaps because of the desire to delude others about them—it seems clear that the average person’s “span of sympathy” reaches scarcely further than the borders of the country she inhabits.

This limited span of concern for needy foreigners’ welfare is not peculiar to Americans. Indeed, it may be less severe among them than among the citizens of other wealthy countries. *Homo economicus*, at least in the limited sense I am concerned with, thrives in the countries that are members of the OECD outside the U.S., just as it thrives inside the U.S.

In 2011, in the average member country of the OECD’s Development Assistance Committee, contributions of humanitarian aid to the developing world were 0.025% of income (OECD 2013). Including all development assistance, contributions were 0.281% (OECD 2013). Quite generally, it seems, citizens in rich countries care little about persons outside their territories who exhibit humanitarian need. The priorities of the average citizen in wealthy nations appear thusly: she looks minimally after needy foreigners, and a bit more after her needy compatriots. But mostly she looks after herself.

I don’t say this in a moralizing way. I’m in no position to do so. Nor am I a moralist who claims to have some special insight about what humans should or should not do. I leave this matter to others to (pretend to) sort out. Rather, I say that we care little about assisting the poor in the developing world simply as a matter of fact—a fact which, as I will now discuss, I think bears significantly on the frequent failure of humanitarian assistance to help those in need.

Implications for Humanitarian Action

The fact that citizens in rich countries don't care much about citizens in need of humanitarian assistance in poor countries has a few basic, if stark, implications. First, humanitarian givers will spend little time attempting to determine how to allocate the funds they devote to humanitarian assistance effectively—i.e., in the ways that would maximize those funds' benefit to recipients. Second, humanitarian givers will refuse to adopt modes of assistance that would benefit impoverished foreigners more than their current modes—even when the additional benefit for those people would be great—if doing so requires them to incur even a modest cost.

The figures supplied earlier suggest that the average American spends, in all forms totaled, about \$216 per year on persons in need in foreign countries. This is roughly 13% less than the average American spends on soda each year (Geller 2012), which suggests that humanitarian aid occupies a less important concern to the average American than her soft drinks.

If the average American spends, say, 30 minutes per year thinking about how to best allocate her spending on soda, which seems generous, the relative importance of soft drinks to humanitarian assistance in her consumption bundle implies that she will spend perhaps 26 minutes per year thinking about how to best allocate her spending on humanitarian aid for the poor in foreign countries.⁷ Given the complexities involved in establishing how to most effectively allocate humanitarian assistance, this is surely inadequate.

The reader will notice that 26 minutes per year is significantly more time than he or she actually spends considering how to allocate his or her contributions to humanitarian assistance abroad. 26 seconds per year is probably a more accurate estimate.

One reason for this gap is that my estimate above does not account for the fact that most people spend much more time thinking about decisions that affect them directly than they spend thinking about decisions that mostly affect others. An individual who makes a correct decision about the soda she will consume personally enjoys refreshment. One who makes an incorrect decision about the soda she will consume personally suffers distaste. In contrast, an individual who makes a correct, or incorrect, choice about how to allocate her humanitarian assistance primarily benefits, or does not benefit, other people and, moreover, other people she does not know. If an individual knew her aid was being used ineffectively, she might express some disappointment. But that's probably all she would do since her own position is nearly the same regardless of how her assistance is allocated.

The situation is actually more dire than this. When she chooses her soda poorly, the consumer immediately learns as much. However, when she wastefully allocates her humanitarian assistance, she immediately learns nothing. To establish if her gift was an effective one or should have instead taken some alternative form, the gifter will need to follow up on the matter in the developing country she gave to and find out how things turned out for the intended recipients. If the cost of doing so is even modest, the gifter will not bother to learn about the effect her gift had because her benefit from doing so is more modest still in light of the fact that she cares little about helping her gift's recipients.

Indeed, even learning about the most basic features of her humanitarian assistance is evidently too costly for the average gifter to bother doing. Approximately 1% of the U.S. budget is spent on foreign aid annually. Yet in a recent survey of American citizens, the average respondent expressed the belief that foreign aid constituted 27% of the U.S. budget (Survey of Americans on the U.S. Role in Global Health 2012).

It should not be surprising that citizens who do not care enough about humanitarian assistance to be capable of estimating the proportion of their government's budget devoted to such assistance within 2,500% of its actual proportion also do not care enough about humanitarian assistance to learn about how to provide that assistance effectively. What is puzzling is not that humanitarian aid so often fails in this context, as Coyne (2013) describes, but rather that it does not fail more often still.

The second predictable consequence of the fact that citizens in rich countries care little about the poor in foreign countries is that the former will refuse to undertake humanitarian action that would do much more to help the latter than their current activities—even when they are aware this is the case—if the cost they would incur to do so is even moderately large. Perhaps the clearest example of this is immigration policy. It must be quite obvious to most Americans that, as Coyne (2013) points out in his book, simply opening their country's borders to persons abroad in need of humanitarian assistance would dramatically improve these persons' welfare. Yet most Americans not only object to allowing impoverished foreigners to live and work in the United States. They are happy to spend money to actively *prevent* impoverished foreigners from entering the United States.

Concluding Remarks

In terms of providing humanitarian aid to the inhabitants of the world who need it most, *homo economicus* is alive and well. Most Americans, who are of course exceptionally wealthy by global standards, do not behave as though they

care very much about helping poor people in other countries. This is clear by considering the small fraction of their income they're prepared to spend on improving the plight of impoverished foreigners, and by considering the fact that they're prepared to spend money to prevent impoverished foreigners from improving their plight by migrating to the United States. While I wholeheartedly endorse the importance of the planning and incentive problems that Coyne (2013) highlights in his book, the foregoing observations seem more basic in explaining the frequent failure of humanitarian aid.

In concluding I want to address one final item that, without clarification, I fear may mislead readers about what exactly it is I'm saying. My argument does not suggest that the current sum of money Americans devote to humanitarian aid *in aggregate* is too small to significantly help poor people in need abroad. The total amount of aid, public and private, currently supplied by American citizens would be enough to write a check to every person in Sierra Leone for more than \$11,000. This represents a 7-fold increase in the average Sierra Leonean's income (CIA World Factbook 2013).⁸ "Writing checks" would involve minimal administrative cost. But even if this cost were quite high, the improvement for Sierra Leoneans, using only the aggregate quantity of assistance Americans currently supply, would be tremendous.

The small portion of her income that the average American is prepared to spend to help the poor abroad reflects her small interest in helping such people. But it is the latter—the dearth of interest in helping—rather than the portion of income itself, which is merely symptomatic of this disinterest, that is the more important obstacle to effective humanitarian action.

Notes

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² Tullock (2005) was the first to discuss the disjoint between the rhetoric of Americans' attitudes toward helping the poor in other countries and the reality of their behavior. His line of reasoning, together with Coyne's (2013) argument about humanitarian action failure, inspired the discussion in this paper.

³ For an excellent overview of the method of traditional economics, see Becker (1992).

⁴ Though, of course, it does not explain everything. However, I would suggest that the economic method, which does not require assuming "selfishness," but rather restricts itself to assuming utility maximization in general, better explains remaining human behavior than non-economic "theories" of human behavior one can find in other disciplines. See, for instance, Becker (1976).

⁵ And this is despite the fact that the U.S. government subsidizes private contributions by making them tax deductible.

⁶ Indeed, the number of NGOs devoted to administering private contributions to assistance is larger than ever, making providing more private contributions easier than ever.

⁷ If the reader for some reason thinks 30 minutes is too low of an estimate, he or she should feel free to supply his or her own estimate and then calculate what this implies for time spent on thinking about the allocation of humanitarian assistance. Doing so, the reader will find the same basic result. The average American spends almost no time considering how to best allocate her humanitarian contributions.

⁸ Sierra Leone is a country of only 6 million people. Still, it provides a sense of how much of an improvement a relatively small aggregate amount of humanitarian aid may be capable of producing. Even considering the most populous country in Sub-Saharan Africa, Ethiopia, aggregate American giving would go a very long way. At current U.S. giving levels, it would be possible to write a check to every Ethiopian for \$788, which represents a 34% improvement in the average Ethiopian's income.

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