

# Behavioural public policy – groundwork and questions

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1. Where do we come from?
2. The behavioral turn in economics
3. Behavioral Public Policy
4. Important questions



# 1. WHERE DO WE COME FROM?

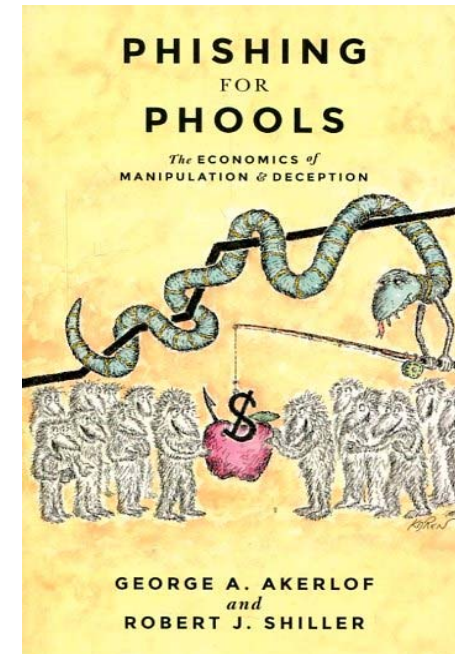
# Neoclassical Economics & *Homo Oeconomicus*

- Rational choice theory
- Perfect markets, rational actors
- Prices include all relevant information
- Sovereign consumers act independently and maximize utility
- Invariant individual preference orders

*„The best consumer policy is a good competition policy“ (really?)*

# Economics of Information

- market failures due to asymmetric information (G. Akerlof)
  - experience goods and credence goods
  - misallocation and moral hazard
  - New: false information as strategy
- behavioral patterns
  - bounded rationality (H. Simon) and fraud
  - regulated information
  - signaling (M. Spence)
  - screening (J. Stiglitz)
  - bans (misleading information)



*“A good consumer policy provides **relevant** information and bans false information”*

# New Institutional Economics and transaction costs

## **Formal** institutions

- standards
  - products
  - production
- laws and orders
- statutes
- bans

## **Informal** institutions

- mental models and thought patterns
- norms, conventions
- codes of conduct
- networks

*“A good policy designs institutions which minimize information, bargaining and contractual costs on markets”*

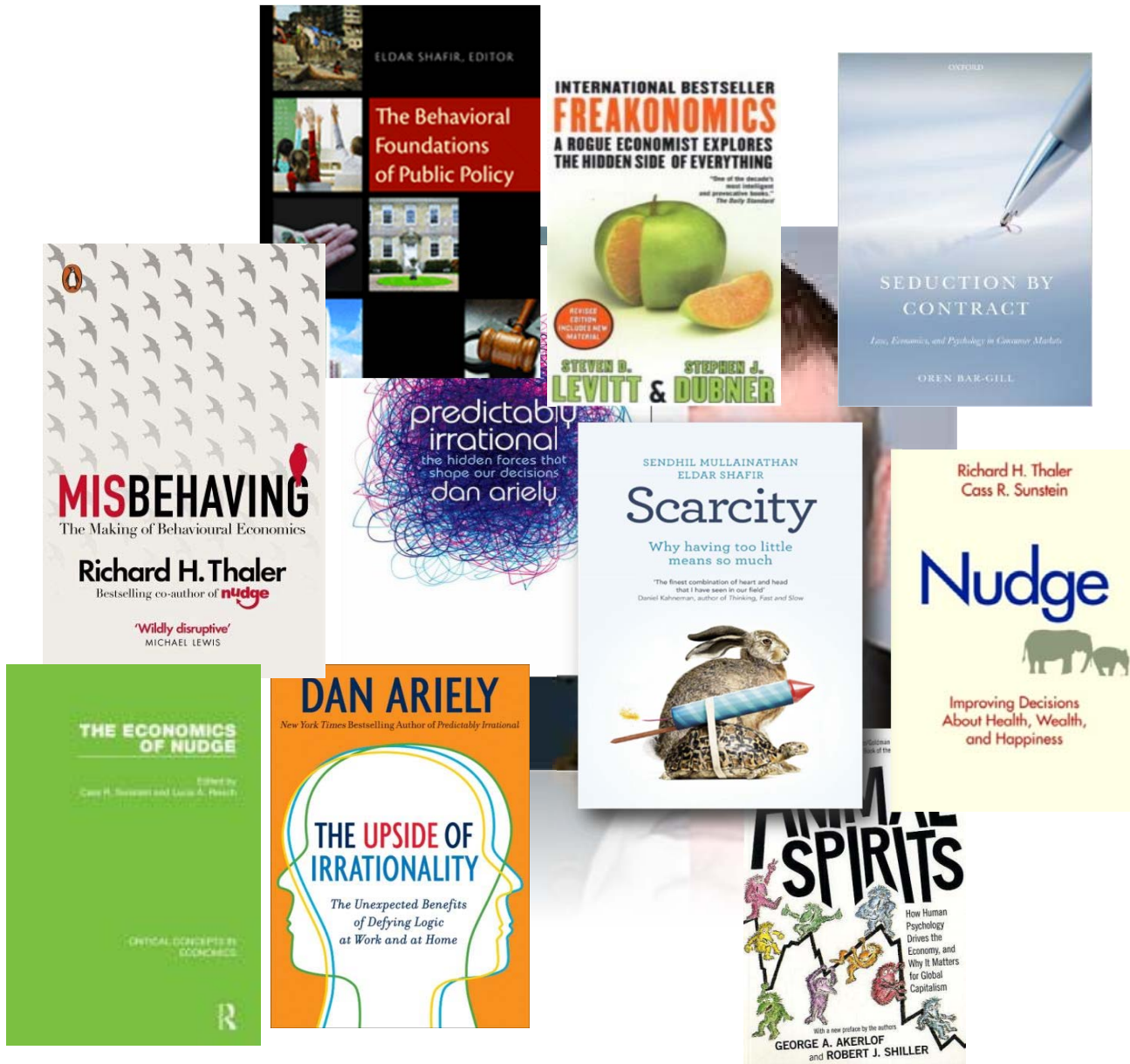
## But – there is more

- the context and framing of information
- restricted mental capacity and information overload
- addictions, impulsiveness
- limited „cognitive bandwidth“ and capacities
- limited self-regulation and self-control
- role of involvement and (social) emotions
- physical, hormonal, and neurological state of people (hunger, activation level)
- stress, distraction, time poverty
- physical and social environment (affordances)
- ....

## **2. THE BEHAVIORAL TURN IN ECONOMICS**



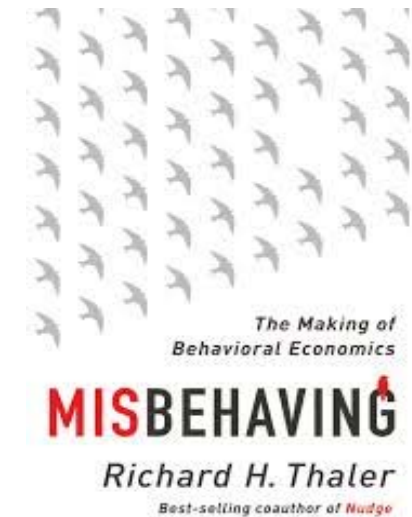
# Humans – not Econs



- well informed?
- information seeker?
- competent?
- knowledgeable?
- far sighted?
- rational?
- stable preferences?
- disciplined?
- self-controlled?
- unlimited „bandwidth“?

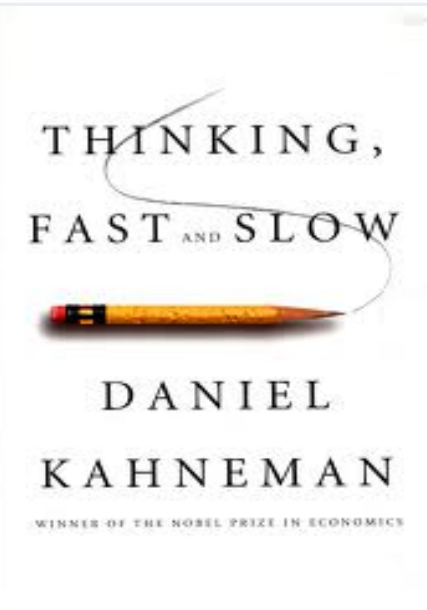
# Behavioural Economics

- There are *systematic* violations of „rational“ self-interested behaviour in decision-making
- information processing and risk analysis: humans are *biased* and use *heuristics*
- limitations of self-control
- SIFs are highly relevant (the power of context)
- empirical view of consumer behaviour (experiments, surveys, trials)



# Dual process theories

System 1	System 2	
human	econ	Thaler & Sunstein 2008
fast	slow	Tversky & Kahneman 1974
affective	cognitive	Slovic et al. 2002
experiential	analytical	Slovic
experiential	rational	Epstei
heuristic	systematic	Chaik
reflexive	reflective	Hodgk
peripheral	central	Petty



# Behavioural biases and heuristics

1. Overconfidence bias
2. Conformity bias & herd behaviour
3. Endowment effect & status quo bias
4. Present bias & hyperbolic discounting
5. Irrational risk aversion
6. Probability blindness
7. Procrastination
8. ....



# „Stone-age biases“

- Self-interest
- Short-sightedness
- Status
- Social imitation
- Sensing

*Source:* van Vugt et al. (2014). Naturally green: Harnessing Stone Age psychological biases to foster environmental behaviour.

# Situation and context

1. Defaults dependency
2. Choice / information overload
3. Framing effects
4. Reference points
5. Cognitive anchors
6. Constructed preferences
7. Physical context and „affordances“
8. ....

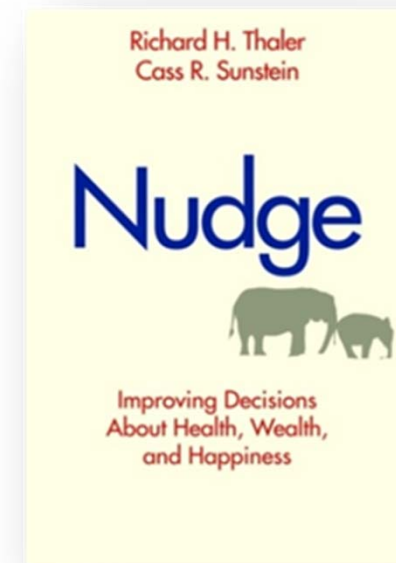
# 3. BEHAVIORAL PUBLIC POLICY

# The Aim of Nudging

“... to influence choices in a way that will make choosers better off, *as judged by themselves.*”

*Source:* Thaler & Sunstein (2008). Nudge

“ ... a feature of the social environment that affects people’s choices without imposing coercion or any kind of material incentive”





# The 10 most important Nudges

1. Default rules
2. Simplification
3. Use of social norms
4. Increase ease of access and use
5. Disclosure and transparency
6. Warning signs (visual or other)
7. Self-binding tools („Snudges“)
8. Reminders
9. Trigger intentions to change
10. Feedback on earlier choices

## **4. SOME IMPORTANT QUESTIONS**

# Do nudges work?

- No doubt!
- To be watched:
  - What exactly means „effective“?
  - Which level of scientific evidence is „enough“?
  - Are there unintended side effects on the target group (e.g. distributional, moral licencing, rebound, boomerang, crowding out)?
  - Third party effects?

# Is nudging ethical?

- **Welfarist** argument:
  - ✓ potentially large benefits for well-being (and often low-cost)
  - ✓ in particular for those who have the least resources (the poor, the vulnerable)
- **Regulator's** argument:
  - ✓ nudges work, also when fully transparent
  - ✓ are nothing new, but inevitable and omnipresent
  - ✓ often, there is no „neutral way“ to proceed
- **Ethical** argument:
  - ✓ freedom-preserving and not coercive
  - ✓ autonomy, dignity and choice preserving (enhancing)
  - ✓ most nudges allow learning

# How do we “nudge for good”?

- work strictly empirical and case-specific
  - „test – learn – adapt – share“
- compare most effective policy approach
  - CBA, appropriate, socially accepted
  - account for secondary effects
- be fully transparent
  - subject to public scrutiny and review
- do not use for illicit ends
  - only legitimate if welfare-enhancing
  - no “sludges”

# Do people like nudges?

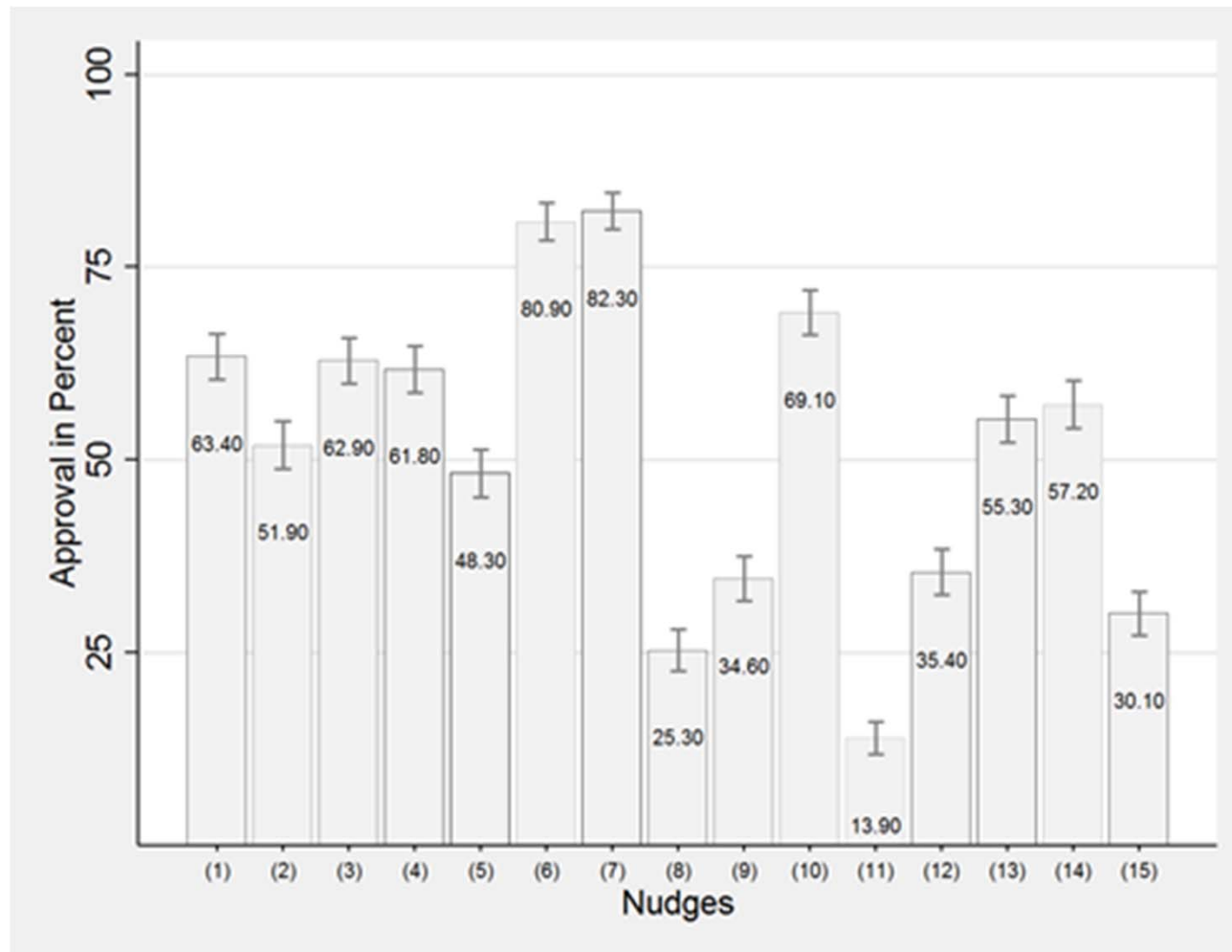
- 18 countries, 15 nudges (health, safety, environment)
- 2015-2018
- representative, online

**A) Enthusiasts:** Mexico, China, South Korea

**B) Pro nudge:** Australia, Belgium, Brazil, Canada, France, Germany, Ireland, Italy, Russia, South Africa, UK, US

**C) Cautiously pro-nudge:** Denmark, Hungary, Japan

# Denmark

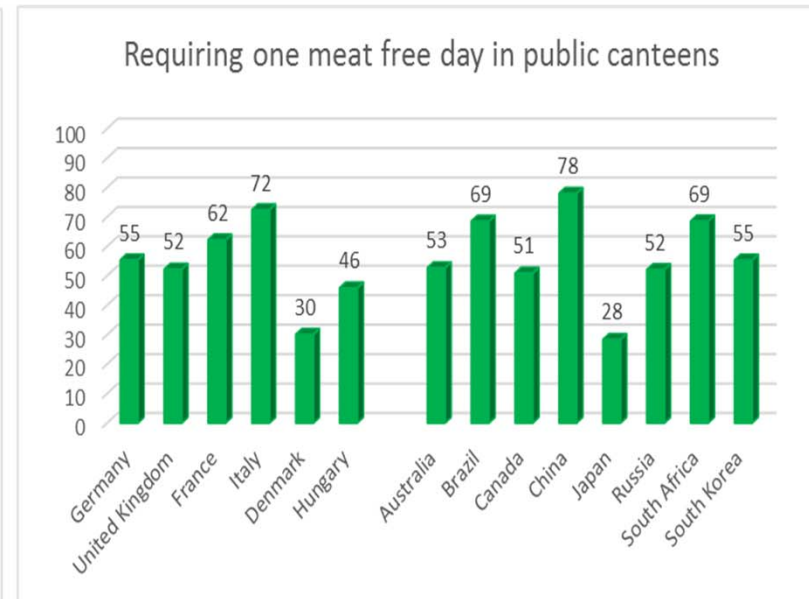
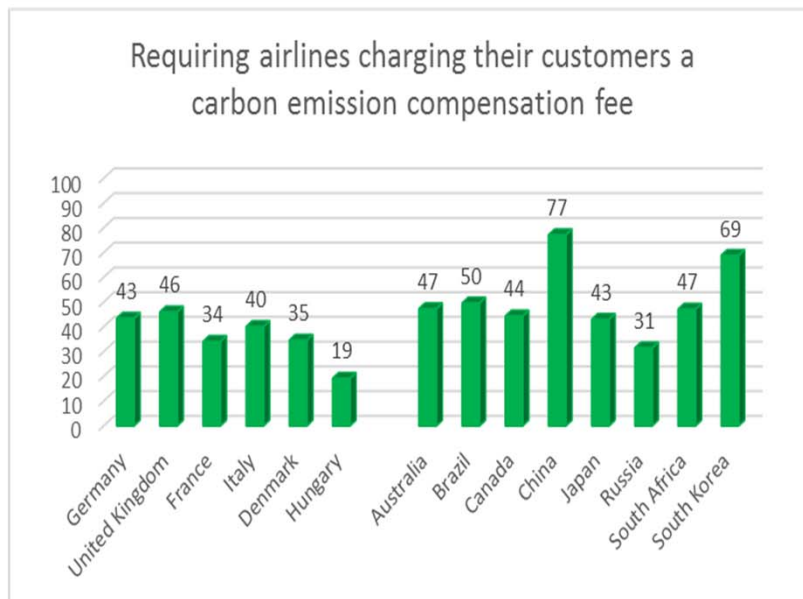
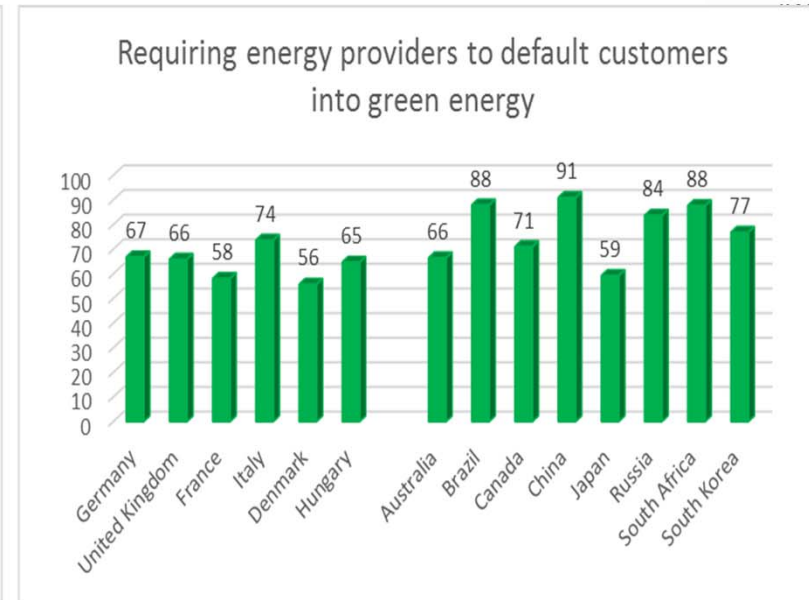
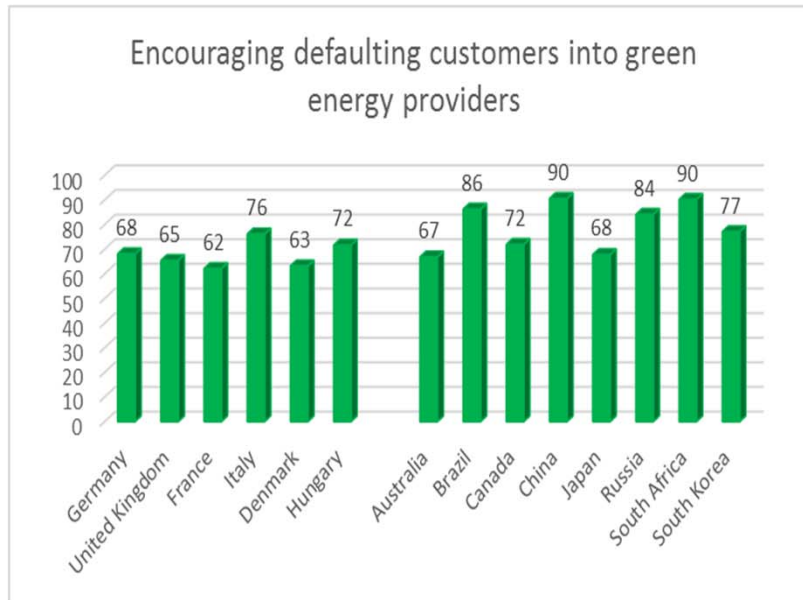


Source: Reisch & Sunstein (2016), Do Europeans like nudges? *J Judg Dec Making*

Thanks for listening



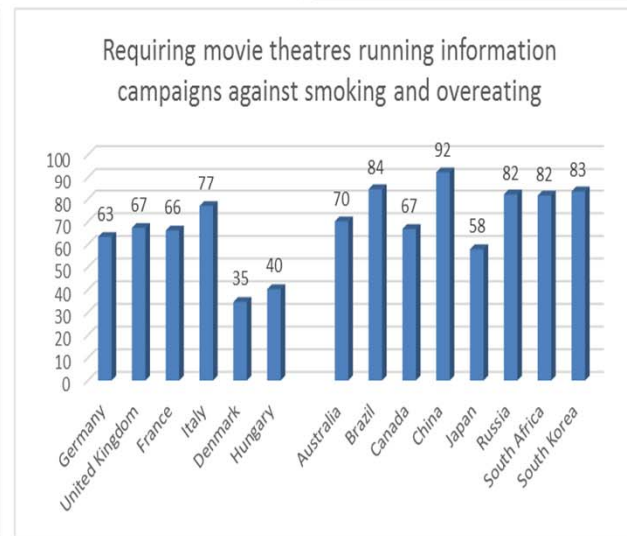
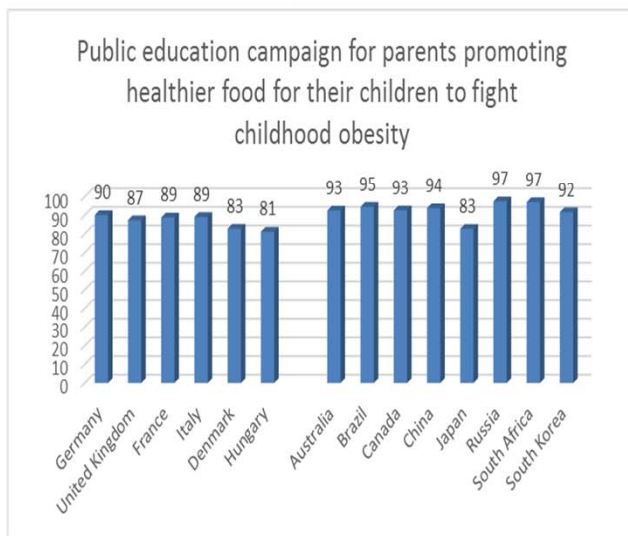
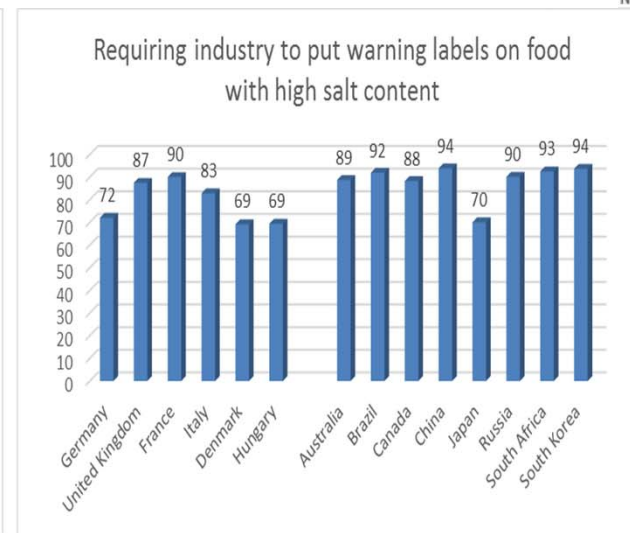
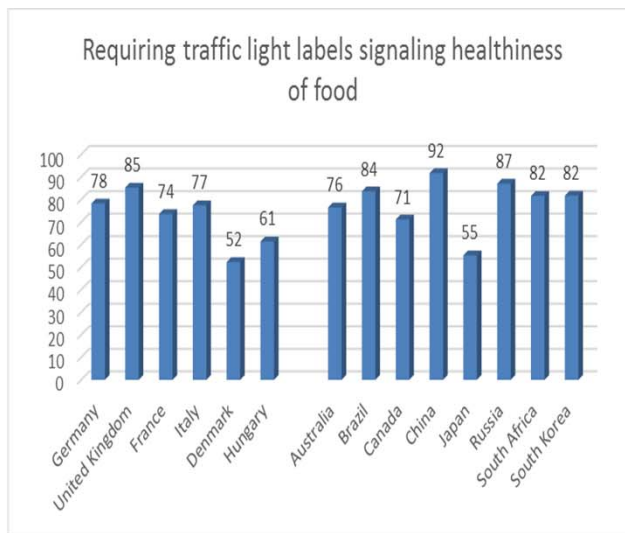
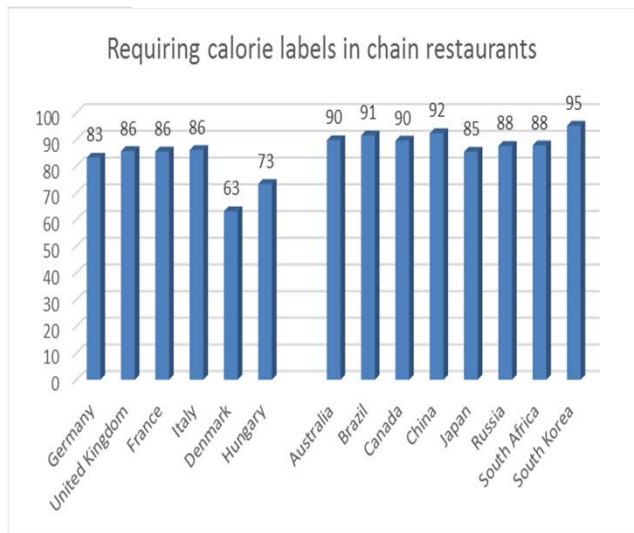
# Do people like (green) nudges?



Approval rates for 4 environment-related nudges in 14 countries

Source: Sunstein, Reisch & Rauber (2017)

# Do people like (health) nudges?



Approval rates for 5 health related nudges in 14 countries

Source: Sunstein, Reisch & Rauber (2017)

(2018) Caezilia Loibl, Cass R. Sunstein, Julius Rauber & Lucia A. Reisch. Which Europeans like nudges? Approval and controversy in four European countries. *Journal of Consumer Affairs* (in print).

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