

Nudging and Beyond: From Behavioral Economics to Public Policy

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Some Goals of “Nudging”

- Make government SIMPLER
- Make government more efficient/less costly for taxpayers
- Make government more effective
- Preserve freedom of choice
- But help citizens!
- FOR EXAMPLE:

A Program



Children and School Meals

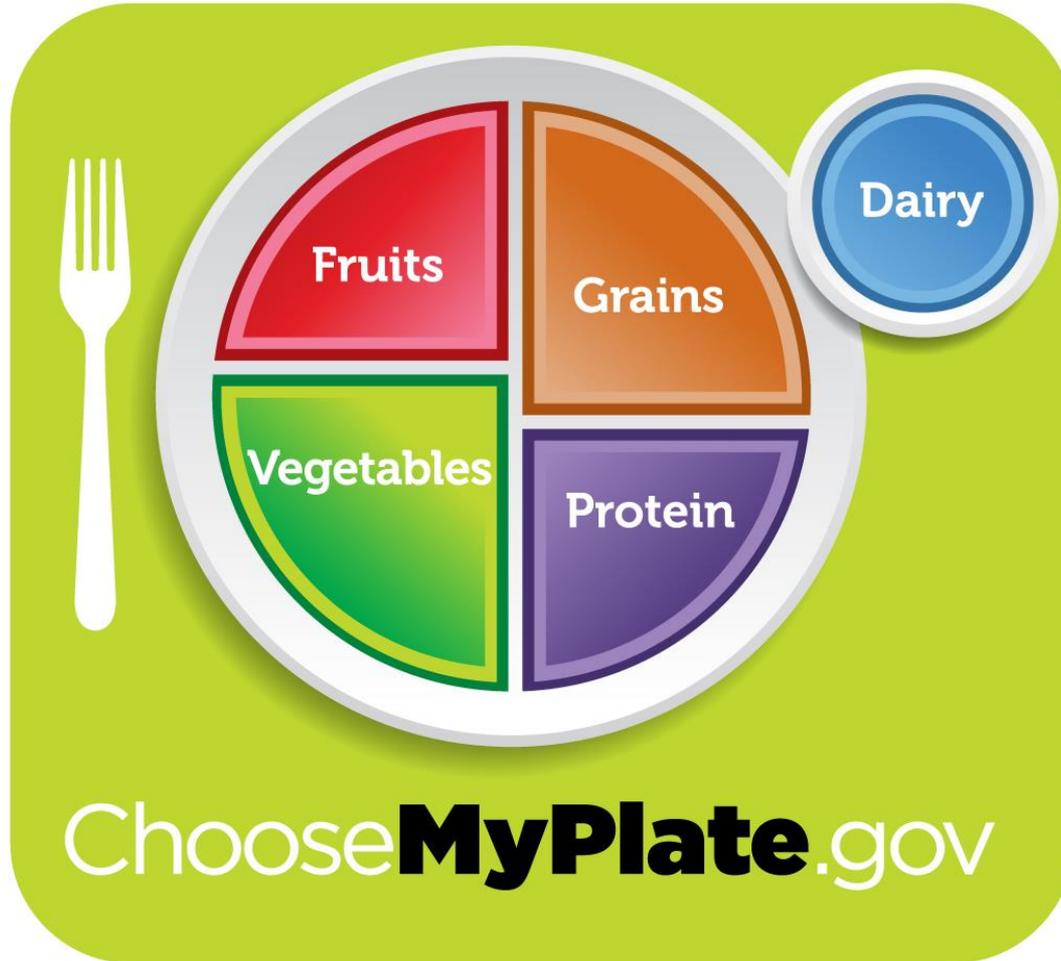
- A problem!
- What solution?
- “Direct certification”
- Recent years: States and Local Educational Agencies directly certified more than 11 million children

PLATE, NOT PYRAMID

Old USDA Food Pyramid



New USDA Food Plate



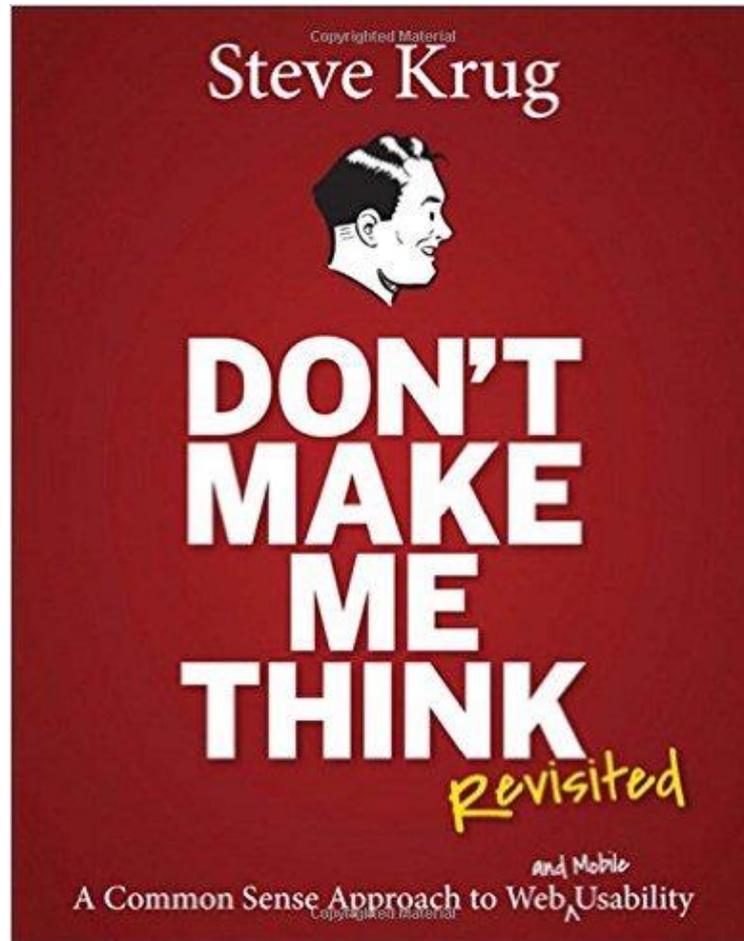
SAVINGS

- TIME (mid-size) (9.7 billion hours!)
- What do forms look like? (What US government has done: form simplification!)
- PRINTING (small)
- What is the default rule?
- ENERGY (big)
- What is the default provider?
- A tale from Germany

And!

- A few of **many** American nudges:
 - CARD act (disclosure and default rules; cf. Federal Reserve and overdraft protection)
 - Financial reform (“know before you owe”);
 - Health care (disclosure!)
 - Fuel economy & energy efficiency labels)
 - Education (financial aid form, for-profit education)
 - Childhood obesity

A Book



Data

- The cost-effectiveness test: How many \$\$ per impact?
- Vaccinations, getting people to go to college, saving for retirement, saving energy
- The recent data
- The surprises

Orientation: Default Rules (Behavioral Gold Medalist)

- Savings
- NY taxis
- Thermostat settings
- Why?
- Power of inertia
- Power of suggestion
- Loss aversion (golfers; teachers; DC bag experience)
- Consider: Change from opt in to opt out!

Orientation: Information Disclosure (Behavioral Silver Medalist?)

- The tale of calorie labels – note again the generality of the initiative/finding
- The sophisticated view, and the aggregate data
- Men
- Women
- What makes sense
- A puzzle

Orientation: Five Problems (pick your favorites, even if not here)

- Poverty and unemployment (uptake challenge)
- Alcohol and drug abuse
- Smoking
- Mental illness
- Energy and the environment
- What might help?

Real Developments

- Behavioral Insights Team in UK
- US: Office of Evaluation Sciences (oes.gsa.gov)
- Activity in many states and localities
- **A Note on Trump Administration**

Executive Order 13563: “Mini-Constitution” (2011) **(Note: This is The Big One)**

Flexible approaches: “each agency shall identify and consider regulatory approaches that reduce burdens and maintain flexibility and freedom of choice for the public. These approaches include warnings, appropriate default rules, and disclosure requirements as well as provision of information to the public in a form that is clear and intelligible.

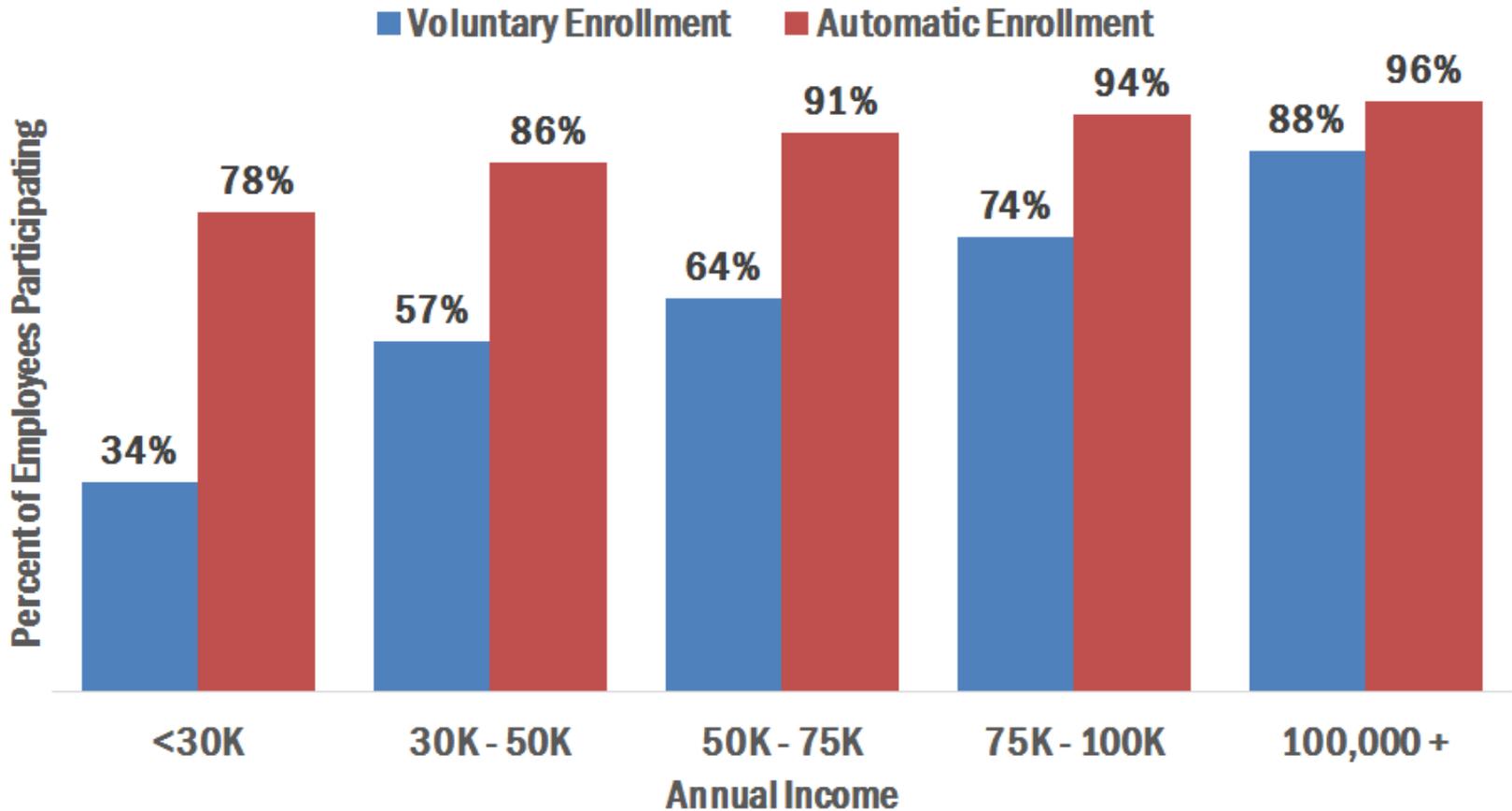
Executive Order, Sept. 2015 (Important too)

- “A growing body of evidence demonstrates that behavioral science insights -- research findings from fields such as behavioral economics and psychology about how people make decisions and act on them -- can be used to design government policies to better serve the American people.”
- “The Federal Government should design its policies and programs to reflect our best understanding of how people engage with, participate in, use, and respond to those policies and programs.”

Six Behavioral Policy Claims (emphasized in 2000s)

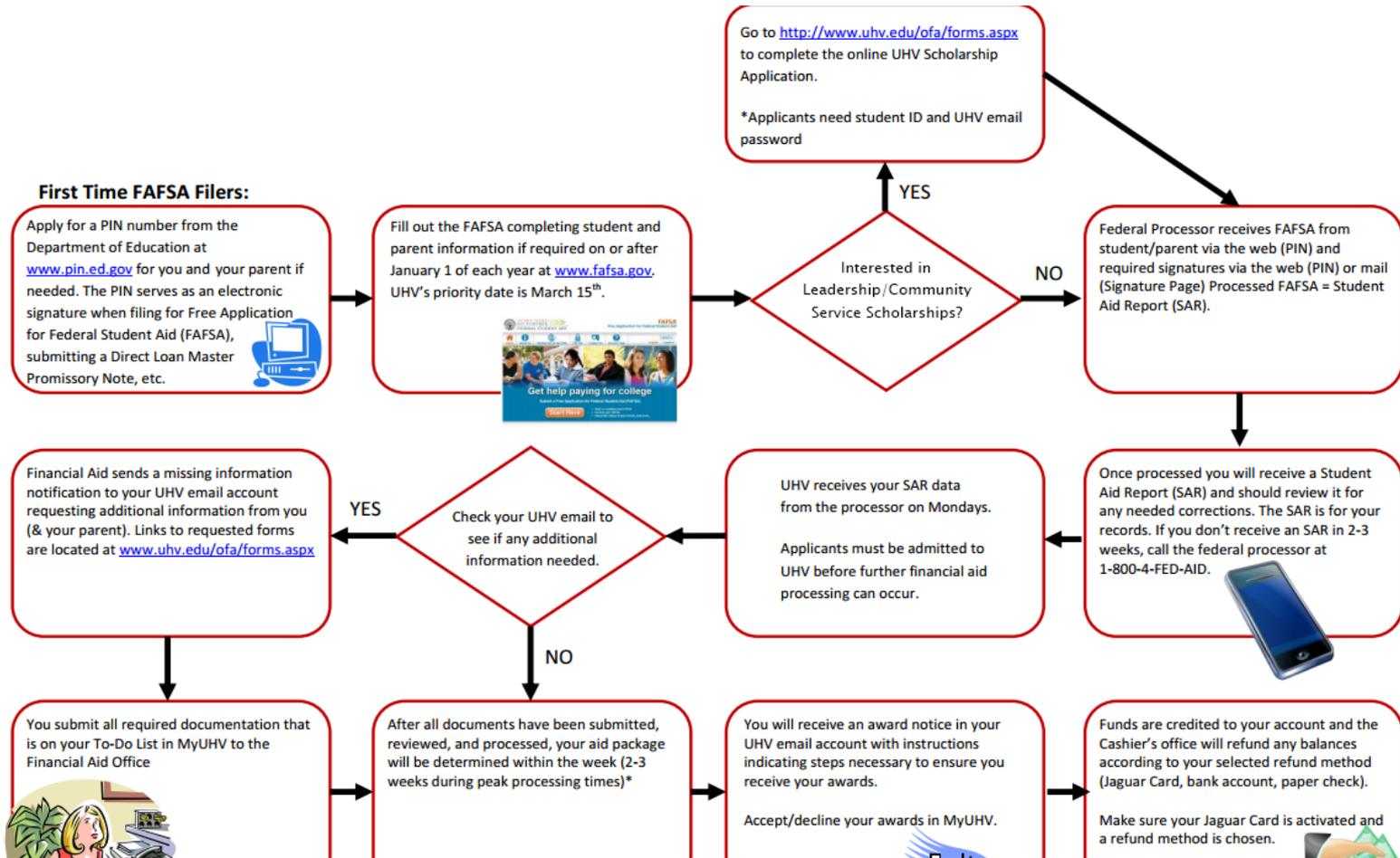
- 1) Default rules matter (energy, savings, voting)
- 2) Incentives may not always matter (much)
- 3) “Choice architecture” is exceedingly important
- 4) Choice architecture is not avoidable
- 5) People can use a nudge
- 6) Simplicity is VERY important (“Simpler” as a mantra)

Some Data: Automatic Enrollment and Savings



Government Failure, in a Nutshell?

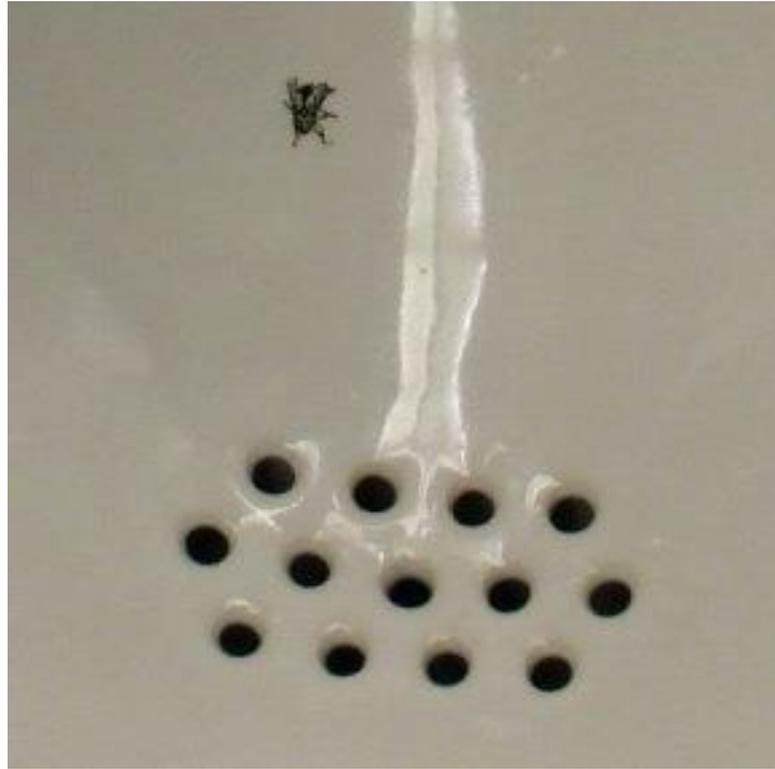
FAFSA (this is a flowchart, not the form)



What Is A Nudge?



What is a Nudge?



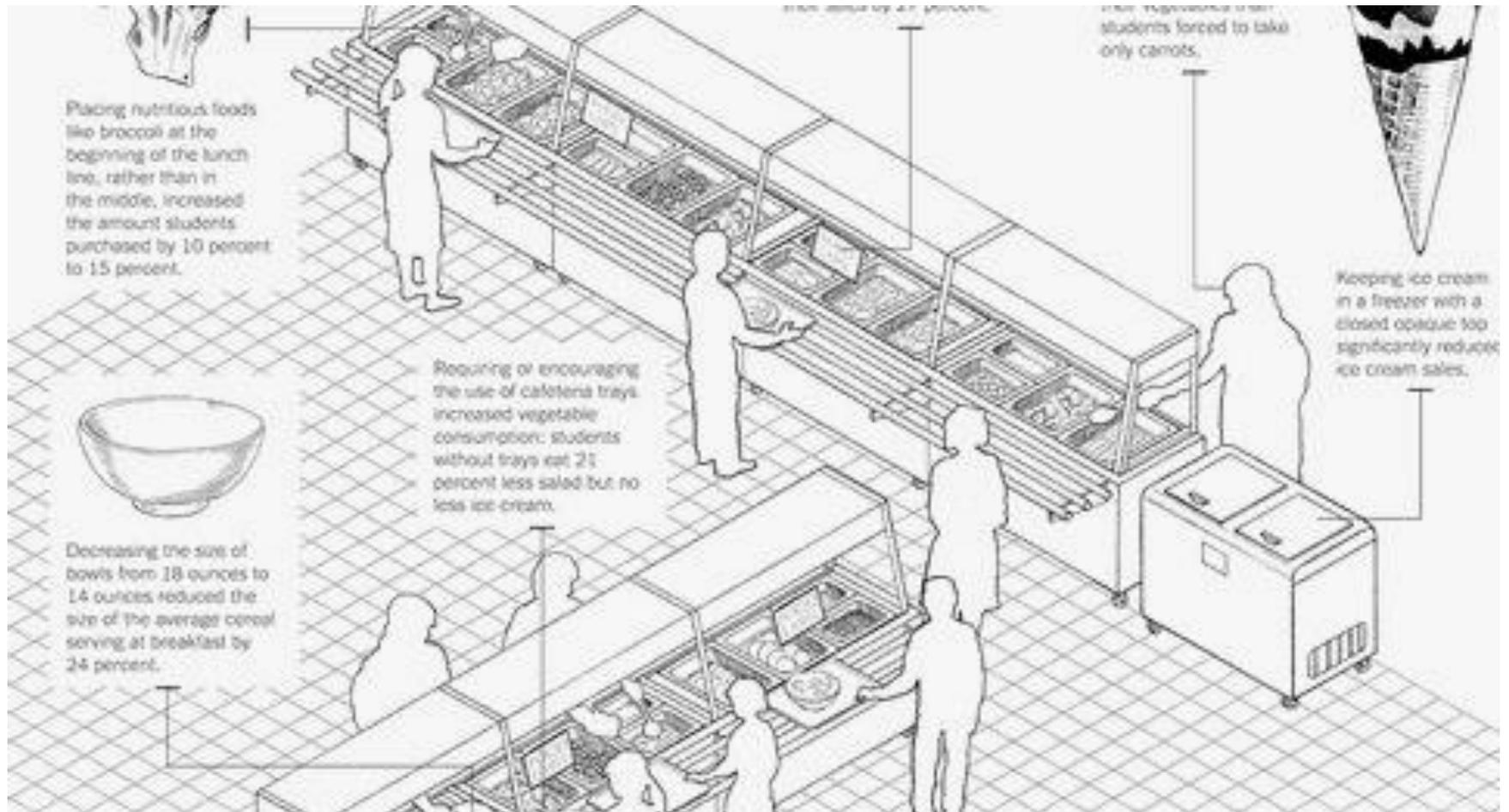
A Nudge That Went Wrong



What Is A Nudge?



What Is A Nudge?



What is a Nudge? (Without graphics)

- A feature of the social environment that affects people's choices
- without imposing coercion or any kind of material incentive.

Orientation: Ten Nudges

- 1) Default rules
(retirement, health, poverty, environment)
- 2) Simplification
(forms easier to complete/understand)
- 3) Information/disclosure
- 4) Warnings (cigarettes; distracted driving)
- 5) **Reminders*** (education and parents)
*Reminder (behavioral logic)

Ten Nudges, Continued

- 6) Increases in ease and convenience
- 7) Uses of social norms
(tax payments; energy use)
- 8) Nonmonetary rewards
(recognition of some kind)
- 9) *Active choosing/prompted choice
- 10) Precommitment strategies
(people voluntarily agree, in advance, to a certain course of conduct, eg smokers; note on data)

What is NOT a Nudge?

- A jail sentence
- A criminal sentence or a civil penalty
- A subsidy
- A tax incentive
- Note: Effect of small tax (loss aversion)

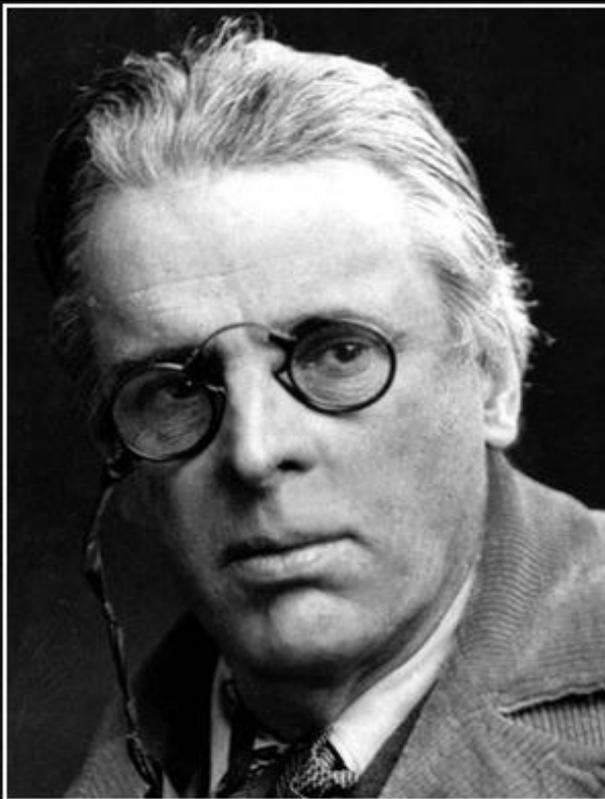
Do Nudges Work? Three Revealing Examples

- Chetty et al.: Automatic enrollment has a **much** bigger effect than significant tax incentives (Denmark) (US Gov has responded)
- Opower: Home energy report has a bigger effect on energy use than significant price increases
- FAFSA simplification – effect equivalent to a several thousand dollar education subsidy (US Ed Dept has responded; cf. new ACA application)

A Note on Scarcity

- What do lonely people, busy people, hungry people, and poor people have in common?
- The problem of bandwidth
- Some data on intelligence tests (whoa)
- Why form-filling can be really corrosive
- Why some policies are really ill-directed

Wise Words



Do not wait to strike till the iron is
hot; but make it hot by striking.

— *William Butler Yeats* —

AZ QUOTES