

# **Nudging Citizens:** From Behavioral Science to Public Policy

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# Developments

- Behavioral Insights Team in UK, 2010-present
- US: White House Social and Behavioral Sciences Team, 2014-present
- New Team in Germany
- Activity in Canada, Mexico, Colombia, Italy, and many other nations
- **Behavioral Applications Without Dedicated Offices**

# World Bank, 2015 Report

- “Insights into how people make decisions can lead to new interventions that help households to save more, firms to increase productivity, communities to reduce the prevalence of diseases, parents to improve cognitive development in children, and consumers to save energy. The promise of this approach to decision making and behavior is enormous, and its scope of application is extremely wide.”

# Executive Order, Sept. 2015, from President Obama

- **“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.”**

# How Did We Get Here?



# Standard Views and Prescriptions, 1960-2000


- Human beings are rational
- They calculate probabilities and maximize “expected value”
- They respond to incentives
- Policy prescription: Improve incentives!  
(Becker)

# Relevant Behavioral Objections (starting in 1970s)

- People show “present bias” (inertia, procrastination)
- People are “loss averse”
- People do not deal well with probability
- People are unrealistically optimistic
- People have limited attention

# Availability Heuristic

## The Availability Heuristic



“assess the frequency of a class or the probability of an event by the ease with which instances or occurrences can be brought to mind” (T&K, 74: 1127)



# The Invisible Gorilla



# Loss Aversion



# Behavioral policy claims (emphasized in 2000s)

- Default rules matter
- Incentives may not always matter (much)
- Choice architecture is exceedingly important
- Choice architecture is not avoidable
- People can use a nudge
- Simplicity is VERY important (“Simpler” as a mantra)

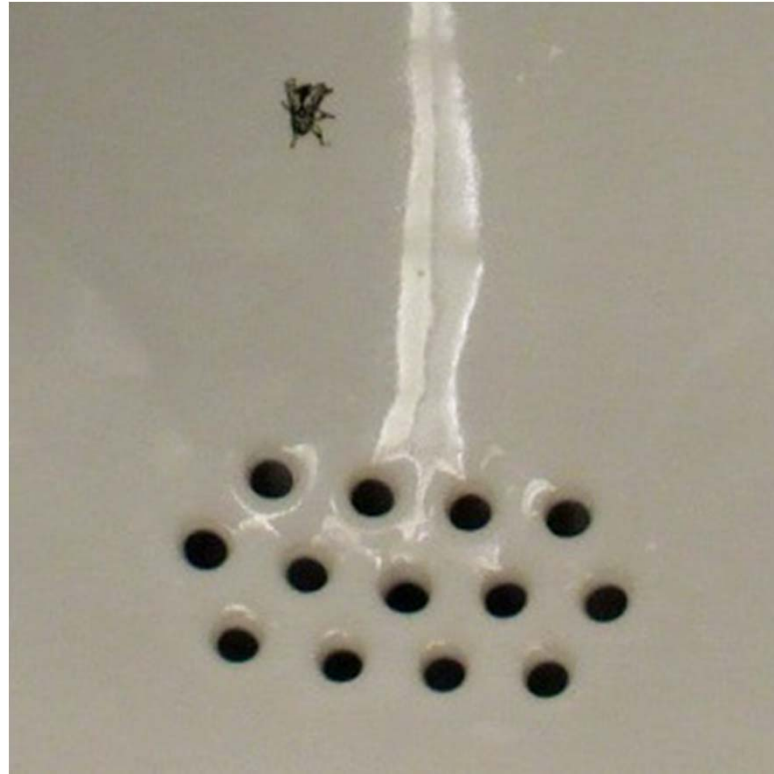
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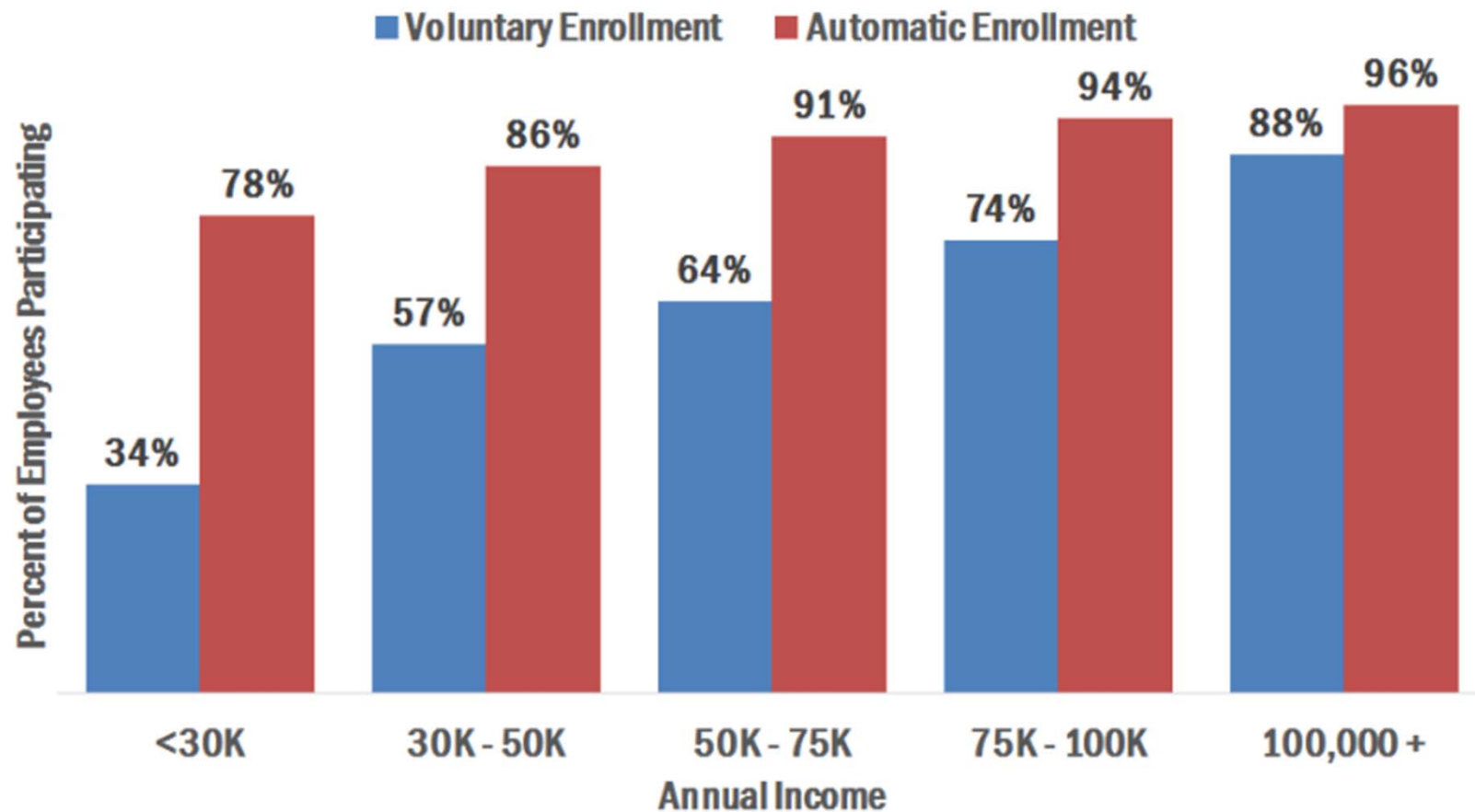




# A Nudge That Went Wrong



# Automatic Enrollment and Savings





# Automatic Enrollment and the Environment

- Single-sided, double-sided
- A randomized controlled trial in Germany that tested the impact of default rules
- Setting the default choice to more expensive 'green' energy increased purchases of such nearly tenfold.
- County-level political preference for the green party uniquely predicted behavior in the absence of the nudge – but had no effect with it

# 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. For example:
- Disclosure of information (eg, about credit cards)
- Warnings (eg, on cigarette packages)
- Portion sizes; placement of goods in a cafeteria; use of colors and noises
- Default rules\*\*
- Framing (90 percent live vs. 10 percent die)
- Drawing attention to social norms
- Reminders

# What is NOT a Nudge?

- A jail sentence
- A criminal or civil penalty or fine
- A subsidy
- A tax incentive
- Note: Hard paternalism vs. soft paternalism
- Note: Means paternalism vs. ends paternalism
- Note: Study of more free reports to universities
- Note: Effect of small tax (loss aversion)

# American Model

- Some American nudges:
  - CARD act (disclosure and default rules; cf. Federal Reserve and overdraft protection)
  - Financial reform (“know before you owe”);
  - Health care (disclosure [calorie labels etc.] and auto-enrollment);
  - Fuel economy & energy efficiency labels (and rules);
  - Education (financial aid form, for-profit education, and more);
  - Childhood obesity (norms and choice architecture)
  - Much more

# A Tale



# Children and School Meals

- “Direct certification”
- States and Local Educational Agencies directly certified 12.4 million children at the start of School Year 2013-14

# PLATE, NOT PYRAMID

## Old USDA Food Pyramid



# New USDA Food Plate





# Smart Cafeterias



# Do Nudges Work? (YES)

- Chetty et al.: Automatic enrollment has a **much** bigger effect than significant tax incentives (Denmark) (US Gov has responded)
- CARD Act – saving over \$20 billion annually, much of it through nudges
- 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)
- For many areas, a challenge (and an **opportunity**): Standard economic tools and regulation face serious economic and political obstacles

# Social and Behavioral Sciences Team

- A behaviorally informed email campaign to increase savings by service members nearly **doubled** enrollment in federal savings plans.
- Simple text messages to lower-income students, reminding them to complete required pre-matriculation tasks, increased college enrollment among those students by 5.7 percentage points.

## SBST, continued

- An outreach letter to farmers, designed to promote awareness of a loan program, produced a 22 percent increase in the proportion of farmers who ultimately obtained loans.
- A new signature box on an online form, requiring vendors to confirm the accuracy of self-reported sales, produced an additional \$1.59 million in fees collected by the government in just one quarter, apparently because the box increased honest reporting.

# Is Nudging Tyrannical? (“Libertarian” objection)

- **1) Nudging is inevitable** (what JS Mill did not quite see); choice architecture is unavoidable; active choosing is **itself a form of libertarian paternalism**)
- **2) Human errors (what Mill also missed), eg:**
  - a) neglect of the long term;
  - b) unrealistic optimism;
  - c) problems in dealing with probability;
  - d) attention (we don’t notice; gorilla)

## **Are Stronger Tools Better? (“Social democratic” objection)**

- True, coercion or economic incentives might be justified (when costs and benefits justify them)
- But one size may not fit all
- Government or business may not know best
- Choice architects may have their own agenda
- Freedom of choice is an important safeguard
- An ingredient in welfare and human dignity

# Is Nudging Manipulative? (NO)

- Examples: An energy efficiency label
- A default rule that increases participation in retirement plans or in green energy programs
- Information about credit card usage
- Information about social norms
- All of these are PUBLIC and TRANSPARENT

# Dilemmas and New Directions

- 1) Active choosing as a form of libertarian paternalism (what limits?)
- 2) Personalized default rules as a form of libertarian paternalism (what limits?)
- Continuing learning about what works (negative results!)



# What We Have Learned

- To identify behavioral market failures
- To expand the catalogue of policy tools
- To “match” failure to tool

# A Final Word

