Nudging in public policy: the raise of Insight Teams

Shaping practices of policy-making

Policy-making consists in:

designing the proper incentive scheme
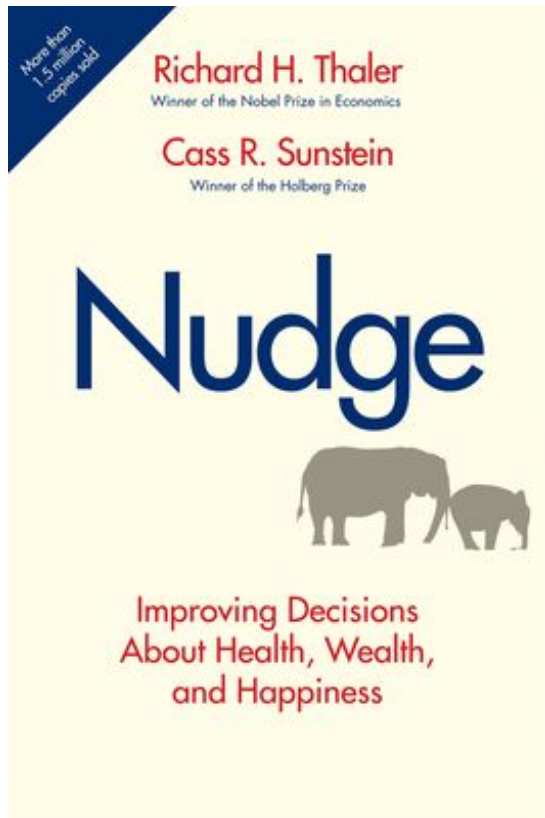
vs.

designing the best choice architecture

Shaping practices of policy-making

Nudging as implementing a political agenda of
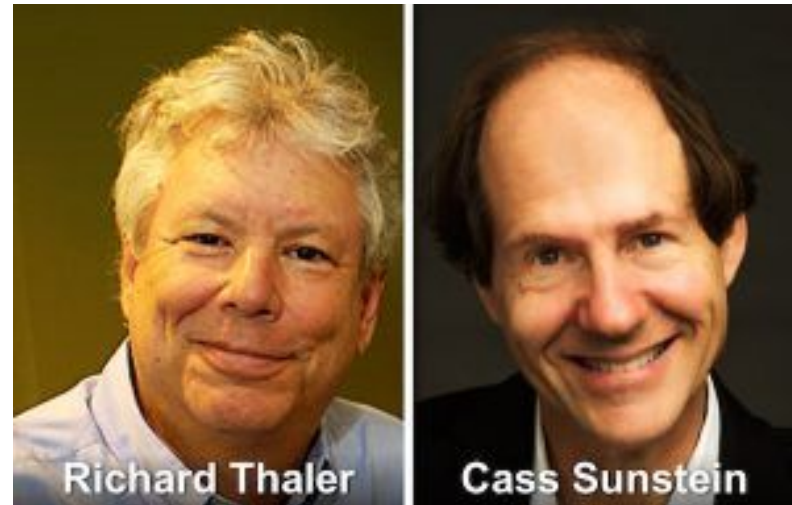
Libertarian Paternalism

Let people choose, but do provide a choice architecture that lead them to make the best choice *for themselves.*

The book

Richard H. Thaler — Winner of the Nobel Prize in Economics
Cass R. Sunstein — Winner of the Holberg Prize

Nudge

Improving Decisions About Health, Wealth, and Happiness

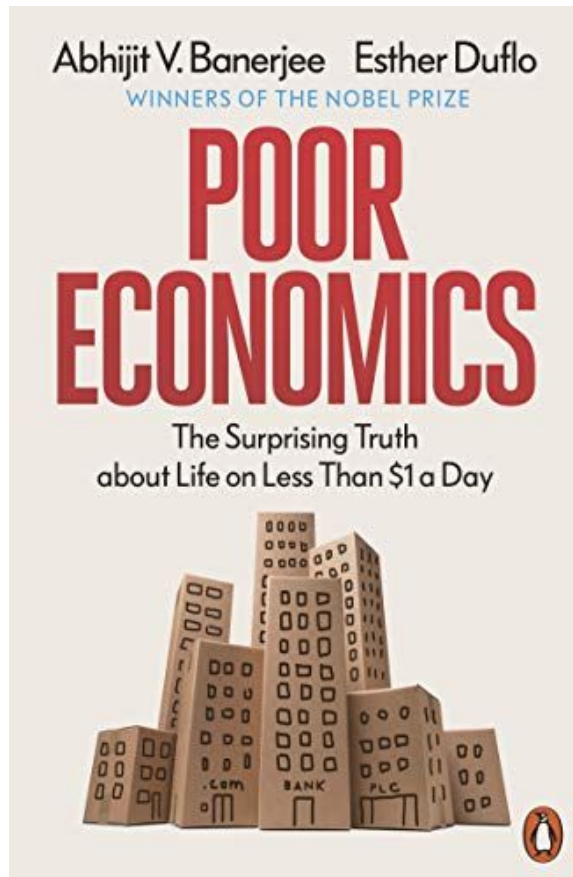Richard Thaler   Cass Sunstein

Published: 2008
Cited: > 25000

Thaler: Nobel prize winner in 2017

Sunstein: most cited legal scholar, administrator of the Office of Information and Regulatory affair

Nudges in policy-making

- Cass Sunstein: 2008, becomes head of the Office of Information and Regulatory Affairs, USA. Social and Behavioral Science Team at the White house.
- Behavioural Insight team:
  Originally set up as a small group at the heart of the UK government [...] The organization is now global with projects in over 15 countries and offices in London, Sydney and New York. We work across a wide range of government policy areas around the world, ranging from health and education to policing and energy …
  https://www.bi.team/
- OECD publishes "Behavioral Insights and Public Policy: lessons from around the world", with 300 pages of cases.
  https://read.oecd-ilibrary.org/governance/behavioural-insights-and-public-policy_9789264270480-en#page1
- Richard Thaler wins the 2017 economic prize in honour of Nobel

Nudges in developing countries

Abhijit V. Banerjee   Esther Duflo
WINNERS OF THE NOBEL PRIZE

POOR ECONOMICS

The Surprising Truth
about Life on Less Than $1 a Day

"We tend to be patronizing about the poor in a very specific sense, which is that we tend to think, 'Why don't they take more responsibility for their lives?' And what we are forgetting is that the richer you are the less responsibility you need to take for your own life because everything is taken care for you. And the poorer you are the more you have to be responsible for everything about your life….My lesson is to stop berating people for not being responsible and start to think of ways instead of providing the poor with the luxury that we all have, which is that a lot of decisions are taken for us. If we do nothing, we are on the right track. For most of the poor, if they do nothing, they are on the wrong track."

Esther Duflo

Self-nudging

Rosy dreams

- Nudge paternalism

- Nudging socially valuable goals

Consequentialist problems

- Slippery slopes
- Who controls the 'nudgers'
- The knowledge problem
- Nefarious aims

Deontological problems

- Nudging circumvents rational decision-making: it consists of manipulating citizens

- Sometimes nudging shapes preferences

Efficiency issues

- Is Nudging the most efficiency to stir behaviour?
- When is it the case, when is it not?
- How can we assess and compare the efficiency of nudging policies?

The theory of rational choice:
what it is and why it is (still) useful

What is a rational decision?

<u>The basic idea</u>

Specify what choices will most likely lead to desired outcomes

→ Decision procedures (vs. actual choice)

→ Maximize your expected utility

- CHOICE A: get 10 euros

- CHOICE B: get 5 euros

- CHOICE A: get 10 euros and spend the next hour solving math equations

- CHOICE B: get 5 euros and spend the next hour strolling in Vienna

- CHOICE A: get 10 euros if the dice falls on 1, 2, 3, 4, or 5; get zero euros otherwise
- CHOICE B: get 5 euros if the dice falls on 6; get zero otherwise

- CHOICE A: get 10 euros if the dice falls on 1 or 2; get zero euros otherwise
- CHOICE B: get 5 euros if the dice falls on 3, 4, 5 or 6; get zero otherwise

- CHOICE A: get 10 euros in six months

- CHOICE B: get 5 euros tomorrow

Decisions: cost and benefits

Marry

Children—(if it Please God) [14] — Constant companion, (& friend in old age) who will feel interested in one,— object to be beloved & played with.— —better than a dog anyhow.— [15] Home, & someone to take care of house— Charms of music & female chit-chat.— These things good for one's health.— [16] *but terrible loss of time.* —

My[17] God, it is intolerable to think of spending ones whole life, like a neuter bee, working, working, & nothing after all.— No, no won't do.— Imagine living all one's day solitarily in smoky dirty London House.— Only picture to yourself a nice soft wife on a sofa with good fire, & books & music perhaps— Compare this vision with the dingy reality of Grt. Marlbro' St. Marry—Mary—Marry Q.E.D.,

Not Marry[18]

Freedom to go where one liked— choice of Society & *little of it.* — Conversation of clever men at clubs— Not forced to visit relatives, & to bend in every trifle.— to have the expense & anxiety of children— perhaps quarelling— **Loss of time**. — cannot read in the Evenings— fatness & idleness— Anxiety & responsibility— less money for books &c— if many children forced to gain one's bread.— (But then it is very bad for ones health[19] to work too much)

Perhaps my wife wont like London; then the sentence is banishment & degradation into indolent, idle fool—

It being proved necessary to Marry

When? Soon or Late[20]

Decisions ... under uncertainty

C. Columbus: to sail or not to sail

	Geographical hypothesis true	There is some other land westwards	There is no land westwards
Sail westwards	Rich and famous	Famous but not rich	Dead
Do not	Status quo	Status quo	Status quo

Expected utility

	1/2	1/4	1/4
a_1	$49	$25	$25
a_2	$36	$100	$0
a_3	$81	$0	$0

Expected utility

- Utility

characterizes the comparative desirability of possible outcomes on a ratio scale

- Expected

take risks into account

- Maximising:
  - Evaluate all possible outcomes pondered by their likelihood
  - Take the decision that lead to the best expected outcome.

With rational choice theory, I'm up and ready to take the *best* decisions

Four reasons why RCT is useful

1. It is a powerful and predictive model for designing incentive schemes

   (and predict unintended effects)

2. It is the traditional model relied upon by policy-maker.

   (You'd better know it, if you want to criticise it)

3. It provides the benchmark for justifying the claim that humans are predictably irrational

4. It might describe something true about human cognition

Four reasons why RCT is useful

1. It is a powerful and predictive model for designing incentive schemes
2. It is the traditional model relied upon by policy-maker.
3. It provides the benchmark for justifying the claim that humans are predictably irrational

4. It might describe something true about human cognition:
   a. Alternative notions of rationality (bounded, ecological, adaptive)
   b. Two system theory of human cognition

Use and misuse of RCT

RCT is useful for at least the above four reasons.

It is misused when:

- It justifies some policy on the basis of false assumptions about human nature
- It blinds policy-maker, who then neglect working on the design of choice architectures