

Nudges: A new instrument for public policy?

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- Origin: Behavioral Economics

 - BE blends experimental evidence and psychology in a mathematical theory of strategic behavior (Camerer, 2003)

- Non standard preferences, judgments and decision rules (Della Vigna, 2012) leading to non-optimal decision-making

Non-standard preferences:

- Non stable and much broader than the objective of maximization of personal consumption
- Risk aversion in the domain of gains but risk-seeking behavior in the domain of losses, especially in the presence of uncertainty
- Limited self-control and intertemporal inconsistencies
- Image and self-esteem
- Social preferences (inequality aversion, social image)

Non-standard **beliefs and judgments**:

- Overestimation of the probability of good events and underestimation of the probability of bad events
- Overconfidence and motivated beliefs
- Myopia on future events and future preferences
- Overweighting of salient information, availability bias, representativeness bias

Non-standard **decision rules**:

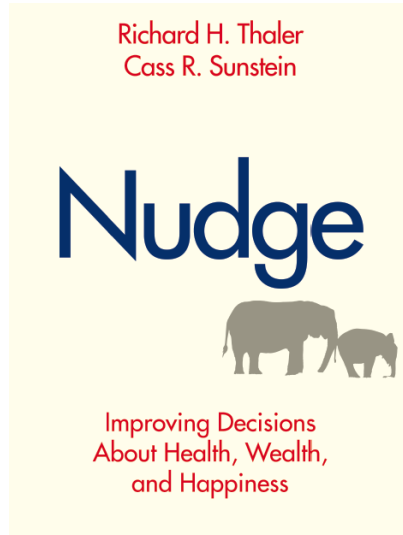
- Use of heuristics and systematic errors: system 1 (automatic) vs. system 2 (deliberative) (Kahneman, 2012)
- Reference-dependence, loss aversion and framing effects
- Limited attention and strategic ignorance
- Status-quo bias and anchoring bias limiting adjustment to new situations
- Conformity to peer pressure

Sub-optimal decisions

- Insufficient long-term saving
- Choice of inefficient insurance options
- Premature interruption of job search on the labor market
- Addictions
- Insufficient revision of beliefs about the market conditions
- ...

Nudges and libertarian paternalism

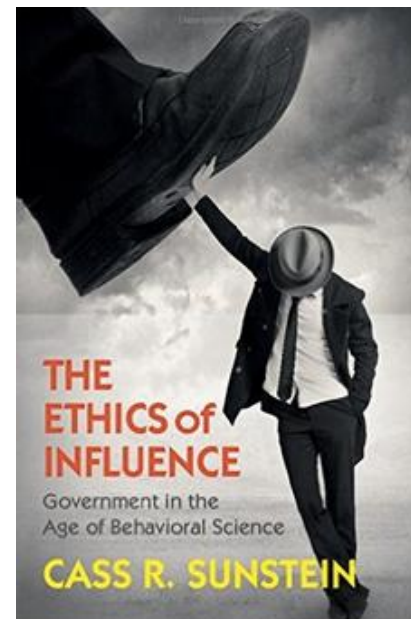
2008



Paternalism : effort of governments and institutions to help biased individuals to improve their decisions by manipulating the architecture of choices

Libertarian: measures preserving individuals' freedom of choice

2016



Institutionalization: Nudge Units', 'Nudge squad', 'Behavioral Insights Teams'

Tools

Nudge: « Any aspect of choice architecture that alters people's behavior in a predictable way without forbidding any options or significantly changing their economic incentives” (T&S)

MINDSPACE: Influencing Behaviour Through Public Policy (UK Institute for Government and the Cabinet Office)

Messenger (perceived authority)

Incentives (rewards for participation vs. fine for lack of compliance)

Norms (drawing attention to peers' behavior, social (dis)approval)

Defaults (opt-out systems)

Salience (changing frames or the features of the environment, warnings)

Priming (sub-conscious cues)

Affect (emotional associations)

Commitments (promise-keeping; reminding people about their appointments)

Ego (positive self-image)

Attractive and simple solutions

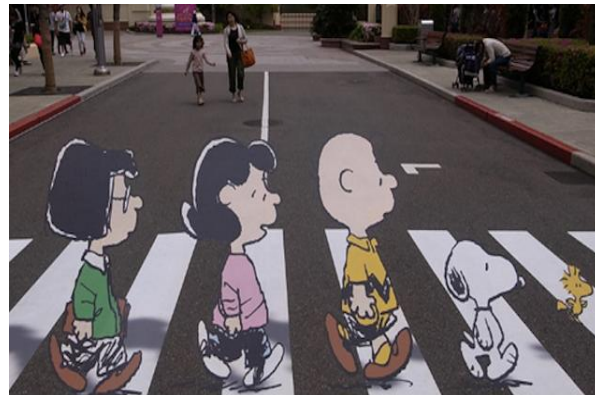
- Simple and cheap means of initiating behavioral changes by steering individual decisions in welfare-enhancing directions
- Relatively innocuous: Can they hurt?
- May involve individuals more than standards interventions
- A very active community: <http://nudges.org/>
<http://designincubationcentre.com/nudge/blog/>



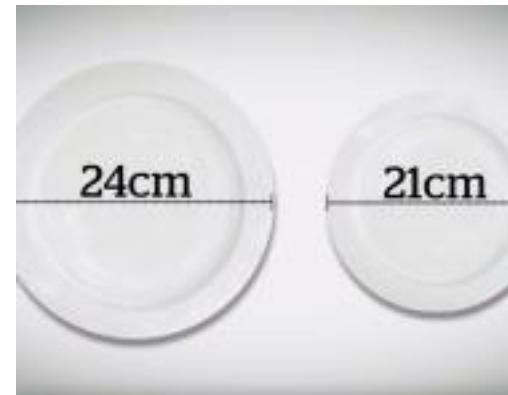
-23% consumption



Road design tricks



Slow down! Visual illusion



-22% eating



-46% littering

But many unanswered questions

- Is nudging more than marketing in the political sphere? Is it more than a fad?
- Who evaluates their efficiency, compared to what (ex.: antibiotics)? Are they able to achieve their goal in the long-term?
- Nudges assume that individuals know their preferences and that they are responsible for their situation. Is that true? Are people so autonomous?
- Why would policy-makers be less biased than individuals? Is there a danger?
- Democracy and ethics: a risk of manipulation and exploitation of individuals' weaknesses (ex.: fake bus stop in nursing home)
Legitimacy may require that there is no conflict of interest
Transparency: should people be informed?
- Risk of stigmatization of certain categories (ex. Bonus for breastfeeding)
- Nudges are different from Behavioral Economics: BE has a broader spectrum of applications, including incentives and education to empower citizens