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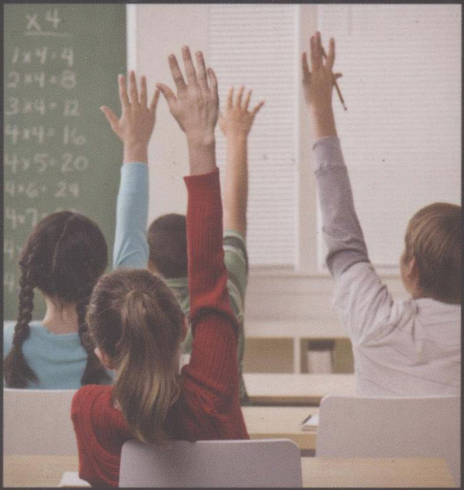

The Behavioral Foundations of Public Policy

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The Behavioral Foundations of Public Policy

Foreword

DANIEL KAHNEMAN

There are no established churches in the Woodrow Wilson School of Public and International Affairs at Princeton, but there have always been established disciplines. Originally there were two: economics and politics (elsewhere known as political science). In 1999, psychology was formally introduced as the third discipline, and granted the intimidating responsibility for a semester-long compulsory class to all students working toward the degree of master of public affairs. We[1] had to find answers to some difficult questions: What does psychology have to offer to students who prepare for a career of public service? What gaps existed in our students' training that we should fill? What biases in their training should we aim to correct?

The question about biases was the easiest to answer. We observed that the students in the master's program offered by the School were exposed to a steady diet of economics courses that invoked the standard assumption of agents who are invariably rational, driven by self-interest, and motivated by tangible incentives. In the eyes of a psychologist, these propositions are not viable even as a crude approximation. The tension between psychology and the assumptions of economic theory provided a natural focus for the course we designed. Accordingly, our course emphasized errors of judgment, oddities of choice, the power of framing effects, and the intense and universal concern of people with their social group and their standing within it. We wanted our students to know that the assumptions of the rational agent model, although adequate for predicting the outcomes in many markets, are not at all adequate for predicting how individuals will actually behave in most situations. The policy-relevant situations we explored extended beyond purely economic circumstances, to issues ranging from voting and negotiations, to health behaviors, labor relations, education, and the law.

So why focus on economics in a course on psychology and policy, or in the foreword of a book about that subject? Like it or not, it is a fact of life that economics is the only social science that is generally recognized as relevant and useful by policy makers. Given their monopoly, economists have become gatekeepers, and their analyses and conclusions have enormous weight even in domains in which they do not seem to have any particular comparative advantage, such as health care and education. An obvious asymmetry in the distribution of competence contributes to the elevated status of economics: there are important policy questions that only economists are qualified to answer, but hardly any data of other social sciences that they cannot evaluate. In particular, economists have more statistical tools at their disposal than most other social scientists do. Even more important, they are native to the universal language of policy, which is money. Finally, their reputation for hard-headed objectivity gives them a significant credibility advantage over more tender-hearted practitioners of the social sciences, whom I have heard casually dismissed as "social workers."

We considered our Princeton policy students as future policy makers, who would be exposed to economic approaches to all fields of social policy. Our intent was to sensitize them to the potential pitfalls of basing policy on the standard assumptions of the rational agent model. We also mentioned to them that a growing minority of economists—behavioral economists—were engaged in attempts to develop an economic science that is based on more realistic psychological assumptions. Behavioral economics was at the time clearly defined as a distinctive approach to economics, with no particular applications to policy.

The landscape changed radically during the first decade of the new century. Behavioral economists began to address the world at large, and the boundary between behavioral economics and applied social psychology blurred, creating a new set of problems and opportunities for psychologists interested in policy. In 2001 Richard Thaler and Shlomo Benartzi reported on the success of their now famous Save More Tomorrow method for increasing workers' willingness to save from their salary. They identified three psychological obstacles to saving: loss aversion, hyperbolic discounting, and status quo bias. Save More Tomorrow was an offer to workers that bypassed these obstacles, leading them to save more. The same year, Bridget Madrian and Dennis Shea published a paper showing that an even simpler procedure—merely changing the default—can help increase enrollments in savings plans. Now, a decade later, automatic enrollment and automatic escalation (a generic form of Save More Tomorrow) are affecting the lives and savings decisions of millions of people around the world.

A social psychologist will recognize both these strategies as brilliant reinventions of the classic Lewinian proposal for inducing behavioral change, which favors reducing the "restraining forces" over increasing the "driving forces." To follow the Lewinian approach one begins by asking "why don't people already do what I wish they would do?" This question evokes a list of restraining forces, which the agent of change then works to reduce or eliminate. The idea is transparently correct when you are exposed to it, but it is also deeply counterintuitive. The standard tools that most of us use to change others' behavior are arguments, promises, and threats. It is much less natural to look for ways of making it easier for the other person to do the right thing. Thaler and Benartzi developed a procedure that made it easy for the worker to commit to a higher saving rate in the future, which would start automatically at an auspicious time (upon receiving a salary raise). Ending the commitment, in contrast, would require a deliberate decision and a modest effort.

In subsequent articles and in their international best seller, *Nudge*, Thaler and Cass Sunstein described an approach to policy that they called "libertarian paternalism." The central idea is that it is legitimate for institutions of society to consider the best interests of individuals in structuring the choices that these individuals make—for example, about retirement saving. The goal is to make it easy and natural for casual decision makers to make sensible choices, while ensuring their complete freedom to choose as they will. This was read by all as a manifesto of the approach of behavioral economics to policy. It is founded on the ideas that the rational agent model is unrealistic, that many decisions are made with little thought, and that it is appropriate to create a "choice architecture" that reduces the incidence of foolish decisions without reducing freedom.

We have known for a long time that the role of economics in formulating policy has significant consequences. During the heyday of the rational agent model, policies were sometimes formulated that assumed rationality as a psychological fact. For example, the assumption that criminals are rational agents implies that they can be deterred by the expected disutility of being caught and punished. The probability of being caught and the severity of punishment have equivalent weights in this model, but not in reality: empirical research suggests that increasing the probability of punishment is far more effective in deterring crime than a corresponding increase of severity. In other situations, the rational agent model implies that agents need no protection against their own bad choices: choices freely made by rational agents deserve complete respect. To the surprise of most noneconomists, complete respect is often extended to awful choices, such as those that lead to addiction to noxious substances, or to lives of destitution after retirement. Because psychologists are not trained to assume that humans are rational, they are likely to find this position unattractive and even bizarre—but they recognize the risk that paternalism poses to the ideal of liberty. *Nudge* showed a way out of this dilemma: simple procedures that tend to bias people toward sensible and socially desirable choices without in any way abridging their freedom.

Nudge relied on psychology to highlight another objective that would be pointless if humans were fully rational in the role of consumers. Everyone recognizes that consumers need protection against predatory behavior, and there are many laws that are designed to provide such protection. However, the authors of *Nudge* documented many ways in which firms may take advantage of the psychological limitations of lazy and boundedly rational consumers. The book, along with work by several other researchers, showed how simple regulations can constrain predatory (though not illegal) behaviors, such as formulating truthful contracts in impenetrable language and printing them in painfully small print.

The publication of *Nudge* was immediately recognized as an important event. Sunstein became Director of the Office of Information and Regulatory Affairs (aka the "regulation czar") under President Obama, and Thaler became an advisor to a Behavioral Insight Team (colloquially known as the "Nudge Unit") established by the coalition government led by David Cameron in the UK. Other nudge units are popping up elsewhere around the world with the goal of establishing policies to help people make decisions that serve their best interest, and to protect them from exploitation in the market. The success of this enterprise can be counted as one of the major achievements of applied behavioral science in general, and of applied social and cognitive psychology in particular.

Unfortunately, because the two authors of *Nudge* were an economist and a jurist, respectively the intellectual leaders of behavioral economics and of behavioral law and economics, not only the ideas they produced themselves but also many of the contributions of cognitive and social psychology on which they had relied were labeled "behavioral economics" in the press.[2] And so it came to pass that many applications of social and cognitive psychology came to be called behavioral economics, and many psychologists discovered that the name of their trade had changed even if its content had not. Quite a few of the authors of chapters in this book would be incorrectly described in the press as behavioral economists, because what they do is develop some of the fundamental theories and document some of the central findings on which *Nudge*, and related writings, have relied. This is not the outcome that most researchers, including the authors of *Nudge*, encouraged or viewed as desirable. Richard Thaler has always insisted on a narrow definition of behavioral economics as a distinctive approach of economics, and he would prefer to see "nudges" described as applications of behavioral science.

Labels matter, and the mislabeling of applied behavioral science as behavioral economics has consequences. Some are positive; behavioral economics has retained the cachet of economics, so psychologists who are considered behavioral economists gain some credibility in the policy and business worlds. But the cost is that the important contributions of psychology to public policy are not being recognized as such, and there is the very real worry that young psychologists will be put off from doing policy-related work because they do not consider themselves economists, even with the modifier "behavioral" as a prefix. It is regrettable that the discipline of psychology gets no credit for the most consequential applications of psychological wisdom, and that students of psychology, who ought to take greater pride in their profession, are left to wonder about the contributions of their discipline to society.

In fact, there is a lot to be done. Nudges are an effective way to use psychological insight in the design of policies that might generate greater welfare. But some policy issues will need a greater rethinking: a questioning of the fundamental assumptions, rather than nuanced design. When it comes to the memories of eyewitnesses, or to employers' ability to avoid discrimination, or to the budgeting challenges of the poor, behavioral research presents the serious possibility that we may want to rethink some fundamental concepts and question the basic assumptions of current policies—in other words, do more than merely nudge.

I hope this book helps steer us in the right direction in giving behavioral scientists a greater role in policy making around the world. The chapters of this book, written predominantly by psychologists, illustrate how much psychology has to offer to policy. An important conclusion that readers should draw from it is that modern psychology has agreed on some important aspects of both human nature and the human condition. Recent years have seen a convergence of views on the roles of cognitive and emotional factors as determinants of behavior—and therefore as targets for policy interventions that are proposed to modify people's circumstances or their actions. There is also a growing recognition of the role of social and cultural drivers of behavior, though many social scientists will still complain that psychology is insufficiently attuned to issues of culture and identity. The recognition of the huge power of situation, context, priming, and construal is common ground. We are all Lewinians now, and in the context of policy behavioral economists are Lewinian as well.

The relationship between psychology and economics in the domain of policy was a central issue when psychology became one of the core disciplines in the Woodrow Wilson School at Princeton. In a very different way it is still a dilemma, not because the disciplines are so alien, but rather because they are so close. The overlap of interests and methods is much greater than it was fifteen years ago. Indeed there are several domains in which members of the different tribes deal with similar problems in similar ways. The study of happiness is one of these domains, the study of inequality and poverty may be another. And there will be more. We need a common label for our shared activities. "Behavioral economics" is not a good label, simply because psychologists are not economists and are not trained to think about markets. "Social psychology" would cause similar difficulties to the economists, lawyers, and physicians who engage in Lewinian practice. A descriptively correct label is "applied behavioral science." I would be proud to be called an applied behavioral scientist, and I believe most of the authors of this book would also be happy to be counted as members of this club. This book is a fine illustration of the potential contribution of applied behavioral science to policy.

Notes

1. "We" refers to myself, Eldar Shafir, and Rob McCoun, who came to help us from the Goldman School of Public Policy at Berkeley.

2. Not only in the popular press. I am on record as describing *Nudge* as "the major accomplishment of behavioral economics." I was quite slow to recognize the problem that I address in this foreword.

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Introduction

ELDAR SHAFIR

If you look in the dictionary under *policy*, *public policy*, or *social policy*, you find definitions that amount to the following: a system of regulatory measures, laws, principles, funding priorities, guidelines and interventions promulgated by a person, group, or government for the changing, maintenance or creation of living conditions that are conducive to human welfare. Mostly what these measures, laws, principles, and interventions are intended to do is to shape society in desirable ways: to promote behaviors that yield outcomes conducive to human welfare. Successful policy, therefore, must depend on a thorough understanding of human behavior. What motivates and incentivizes people when they snap into action as opposed to procrastinate, obey or disobey the law, understand or misunderstand, act or fail to act on their intentions, care or do not care, attend or get distracted? How do they perceive their decisions and the options at their disposal? How do they think about what others are doing? These are all questions that must be addressed for the design and implementation of policies to prove successful.

In light of the centrality of behavioral assumptions to policy, it is remarkable how small a role the attempt to understand human behavior has played in policy circles, as well as in the social sciences more generally. It is particularly remarkable because, as we have now come to understand, much of our intuition about human behavior fails to predict what people will do. And policies based on bad intuitive psychology are less likely to succeed and can often prove hurtful. As the economist John Maurice Clark pointed out nearly a century ago, if the policy maker does not seriously study psychology, "he will not thereby avoid psychology. Rather, he will force himself to make his own, and it will be bad psychology" (*Journal of Political Economy*, 1918).

Bad psychology comes in many forms. A naive understanding of incentives, for example, might suggest that paying people some small amount (rather than nothing) to perform a societally desirable act could only increase instances of that act; instead, it turns out that the loss of the "psychic" benefit of having been a good citizen (which is largely neutralized by the monetary remuneration) can, in fact, reduce take-up. Alternatively, presenting lineups (where suspects are observed concurrently) versus show-ups (where they are seen one at a time) may appear normatively indistinguishable, but we now know that the former leads to more false identifications than the latter. Similarly, having workers opt out of, rather than opt into, retirement savings accounts, looks like an immaterial nuance, except that the former, for predictable reasons and for what amounts to very little cost, generates many more happy retirees than the latter.

A careful consideration of the role of psychology in public policy took many years to develop even after Clark's warning about the dangers of bad psychological assumptions. An important turning point was the behavioral critique of the economic assumptions underlying individual decision making begun by cognitive and social psychologists in the 1970s. This was eventually reinforced by the economic profession's gradual, even if reluctant, acceptance of the behavioral critique and led to increased research applying behavioral insights to studies of choice and judgment in everyday life. Now, almost a half century after the emergence of the modern critique, the behavioral perspective occupies a respectable and increasingly popular niche in many graduate programs in economics, business, law, policy, and the social sciences more generally. And thus we have arrived at a point where it is only natural to explore how best to incorporate elements of the behavioral perspective into policy thinking.

The behavioral findings provide an alternative view of the human agent. Many aspects of decision making that the normative analysis assumes do not matter (such as how the options are described, as long as the same information is given) prove highly consequential behaviorally, and other factors that are normatively assumed to be of great importance (such as whether an intervention will help save 1,000 birds or 10,000 birds) are, instead, intuitively largely ignored. At the most general level, a couple of deep lessons have emerged that are of great potential relevance to policy makers: the relevance of context and the unavoidability of construal.