

An Application of Behavioral Economics in Public Policy: Review of Nudge Theory

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Abstract

In current scenario, the causes, trends and the effects of changing human behaviour have been the subject of extensive debate around the world. That's why Policy makers around the world are giving due care to the concept of 'behaviour change'. And, the studies of behavioural and social sciences are playing a prominent role in the public policy design and its implementation. So, policy makers are continuously generating the new edges to bring behavioural science into public sector. The nudge theory (an outlook of how behavioural science can be applied to public policy formulation) is the primary focus of the insights into the formulation of public policy. Around the world, insights from behavioural sciences are being increasingly used to nudge people to make better decisions. This paper aims to offer a theoretical analysis of how nudge theory can be used to shape citizens' behaviour and illustrates the development of nudge theory as a tool for policy making and its significance in relation to policy initiatives.

Keywords: Behavioural Sciences, Public Policy, Human Behaviour, Nudge Theory, Policy Initiatives.

Introduction

Behavioral sciences or the scientific means of studying human behavior is an interdisciplinary approach that combines the elements of sociology, psychology, behavioral economics and multiple branches of neurosciences. The term behavioral science has found its roots from the World War II era, but it became popular in 1950s, when the Ford Foundation (an American private foundation) brought it into vogue. One center for advanced study in behavioral sciences was incorporated by the Ford Foundation in 1952 at Palo Alto, California (Luthans, 1977).

The goal of behavioral sciences is to study more about the human behavior and the key forces driving it. Cognitive (behavioral) sciences have made it possible to create rules and responses that are more suitable to public interest by illuminating how people actually make decisions (Di Porto and Rangone, 2014). The most significant ways in which behavioral sciences have influenced the public policy is through the principle of Nudge.

Nudge

The concept of nudge was introduced by the lawyer Richard Thaler and the behavioral economist Cass Sustein in their 2008 book "Nudge : Improving Decisions About Health Wealth And Happiness".

The notion of nudging people to adopt new behavioral patterns is based on insights of behavioral economics that people behave irrationally in their routine life. Nudge is "any form of choice architecture that alters people's behavior in a predictable way without restricting options or significantly changing their economic incentives" (Thaler and Sustein, 2008)

The core idea behind nudge theory is that people's choices can be influenced by altering the way options are presented to them, without restricting their freedom of choice. By designing the choice architecture in a certain way, policymakers and organizations can nudge people towards making better decisions that align with their long-term goals and overall wellbeing.

Thus, this article is intended to present a viewpoint (or perspective) that emphasizes the current requirement for giving due care to the discipline of behavioral sciences while formulating public policies. As policies are formulated for people and people are the ultimate focus of study in behavioral sciences.

Figure 1. <https://drvidyiahattangadi.com/what-is-nudge-theory/>



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Applications of Behavioural Sciences

Behavioral science lays out a realistic understanding of human behavior – why do humans do what they do. It can be applied in several different areas like:

- Product design marketing.
- Risk assessment
- Human resource management.
- Strategic planning.
- Data science
- Customer management.
- Management decisions and leadership behaviors.

Need for this Study

Conventionally, many public policies were formulated on the presumption that people behave rationally. But the new insights on behavioral economics shows that people actually behave non-rationally in daily life. And many recent empirical findings suggest that behavioral science can significantly influence how public policies are formulated. Behavioral science-based policies make use of knowledge about how people behave and make decisions to encourage the creation of novel interventions that result in better outcomes (www.unssc.org.) Because by understanding what drives people's decisions, some of the most important issues can be effectively solved.

Objective of the Study

The objective of this study is to explore the role played by behavioral sciences in the public policy formulation. More specifically this study analyses the role of nudge theory (a concept of behavioral science) in public policy design and its implementation on the basis of reviewing already available literature.

Literature Review

Lades et al. (2022) asserted that government and other organizations all over the world are increasingly using insights from behavioral sciences to “nudge” people into making better decisions. They introduced and talk about FORGOOD, an ethical framework that distils the ethical discussion surrounding nudge into a simple acronym. It advises nudgers to take into account following fundamental principles: openness, respect, fairness, goals, opinions and delegating authority. The framework is made to be accessible for usage in a variety of public policy situations and to encapsulate the main arguments in the philosophical discussion of persuading people to change their behavior.

Krawiec et al., (2021) suggested that nudge interventions as well as boost interventions shall be used effectively for policy shaping. Government should apply legal interventions, along with nudges or boosts for achieving the objectives of public policy. Traditional policy making tools can be supported by behavioural tools in certain situations while both shall

remain independent in some other situations of regulatory interventions. An intersection between psychology, law-nudge and rules for public policy making will make it easier for the people to interpret and follow such policies.

Ewert et.al (2021) investigated the impact of nudge from behavioral sciences on public policy and administration. They created a behaviorally informed, unified conceptual model of the policy procedures that includes individual viewpoint and behavior both at the middle and macro level. The study summarises that by going beyond the validation of individual behavior change, lessons from behavioral research can be more meaningfully used if applied on public sector.

John peter (2018) asserted the nudge or behavioral public policy agenda as a wave of innovation and changes that has been sweeping numerous nations since 2000s. In nudge, behavioral insights are developed to address difficult policy issues such as obesity, unemployment and the environment as well as to improve the delivery of policies and to explore the potential application of nudge more broadly in policy formulation.. The author concluded that nudging can have a transformative future if its adopted as a more bottom up strategy that involves close collaboration with citizens.

Lepenies et. al (2018) asserted about the role of behavioral sciences in public policy formulation. They explored three basic elements of behavioral public policy. Firstly they explored that policymakers can employ behavioural tools like nudge to employ citizens'behaviour. secondally, organisations that are not directly subject to democratic control usually employ behavioral public policies through administrative discretion. Third, behavioral public policies currently relies on a constrained and incomplete understanding of behavioral sciences and pays little attention to value judgements that are already present in the data it uses.

Sanders et. al (2018) conducted a study on the behavioral insights team(BIT) of the U.K. They formed two clusters developed on the basis of their work at BIT. The first cluster focuses on the issues that behavioral public policy is currently facing like the long-term effects of interventions, repeated exposure effects, issues with proxy measures and the replication crisis. The second cluster focuses on opportunities: changing how government acts, expanding interventions, spreading social change, nudge organizations, and tackling complex issues. They concluded that In order for behavioral public policy to reach its full potential, the field must confront these issues and seize these opportunities.

Halpern and sanders (2016) conducted a study to examine the advancements in the field of behavioral sciences and its growing application by governmental bodies and other institutions to make an educated guess about the number of government-sponsored randomized controlled trials (RCTs) that specifically aims to apply knowledge from these domains into different areas. The study relied particularly on the behavioral insights team (BIT) of the U.K. government and concluded that the use of behavioral techniques in policymaking has evolved from being a novel concept to a common practice.

Bavel et.al (2013) explored that a better understanding of human behavior can greatly aid in the creation of policies. The idea that people are “rational” has frequently been held. However, it has been demonstrated that this assumption is irrational, which may explain the limited effectiveness of public policies in the past and by producing the evidence needed to improve policies, well-designed behavioral studies have provided policy-makers with insightful information. Greater understanding of how people are likely to behave should be helpful to policy makers whether they are trying to alter behavior or create better regulations.

Research Design

The present study is conducted using descriptive research design where the main aim of the researchers is to describe the things “as it as”.

Data Collection Method

Secondary sources of data collection are used in this study. Mainly, the data is collected from research articles and websites.

Conclusion and Suggestions

The present study concluded that behavioral sciences are playing a prominent role in policy formulation. It provides insights for policy makers, researchers and practitioners interested in leveraging behavioral insights to improve decision making and shape individual behavior for the benefit of society as a whole. Some of the studies spoke about the challenges that behavioral sciences are facing today while others explained about the significant impact of behavioral sciences on public policy. The only need is to make the nudge more grounded for having its close collaboration with citizens. And the policymakers who are applying the behavioral sciences must have the necessary skills and abilities to do that. Because more information about how people actually behaves will be helpful to policy makers for creating better rules and regulations. It is also important to note that while nudge model can be an effective and efficient tool, its implementation should be as transparent, accountable and grounded as possible in evidence-based research.

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