

From Nudging to Budging

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LSE

Libertarian paternalism

- Behavioural economists have been developing philosophical frameworks
 - E.g. Thaler and Sunstein's libertarian paternalism
 - Which informs *Nudge*
- *Libertarian* paternalism is liberty preserving
 - Does not include *regulation* or bans
- Libertarian *paternalism* wants to make choosers better off
 - As judged by their reflective selves
- Core of the approach:
 - Behavioural economic findings be used to change the choice architecture

Unconsciousness

- Nudges are meant to appeal to reflexive cognitive processes
 - The automatic versus reflective
 - Or non-deliberative versus deliberative
 - ‘humans’ versus ‘econs’
 - System 1 versus System 2
- Nudge advocates believe too much System 1 can lead to serious mistakes
 - E.g. too much emphasis on the immediate moment
- Knowledge of System 1 can inform policy design
- Does deliberative support for a goal equate to support for covert intervention?
- Is explicit government covertness acceptable?
 - Nudgers: nudges are voluntary
 - But if they are covert, how can they be?
 - Nudgers: it is legitimate for government to counter nudge the nudges of the private sector
 - But the private sector can be regulated; who can regulate government?

The original requirements

- For a 'nudge' to be a **nudge**:
 - Liberty preserving and not involve regulation or bans
 - Not significantly change economic incentives
 - Not involve overt campaigns of information and/or persuasion
 - Be informed by the findings of behavioural economics

Behavioural economics?

- No broadly accepted definition
 - But, a set of observations that systematically violate mainstream economics
 - A library of tools
- Loss aversion
 - Adam Smith: “Pain is, in almost all cases, a more pungent sensation than the opposite and corresponding pleasure. The one almost always depresses us much more below the ordinary, or what may be called the natural state of our happiness, than the other ever raises us above it.”
- Present bias
 - David Hume: “There is no quality in human nature which causes more fatal errors in our conduct than that which leads us to prefer whatever is present to the distant and remote.”
- Probability weighting
- Differential risk attitudes to gains and losses
- Preference reversals
- Fairness in ultimatum games
 - <http://www.youtube.com/watch?v=aAFQ5kUHPkY>

A nudge or not a nudge?

- Nudge has attracted interest from policy makers
- The Behavioural Insights Team is probably the foremost example
 - Health, personal energy saving, reducing tax fraud
- Changing the default (or reference point)
 - Prompted choice for organ donation, opting out of corporate pension plans
 - Possibly a nudge? Possibly not
- Further manipulation of the reference point
 - Highlighting benchmarks for good behaviour
 - Public reporting of behaviour: smart metres, tax payments
- Applications of economic incentives
 - Nintendo points for diabetic children, 'holidays' from council tax payments, *LazyTown*
 - Any behavioural economics in these?
 - And is it all too 'gimmicky'? <http://vimeo.com/29416289>

More fundamental issues

- Sugden: How to determine the directions in which it is legitimate to nudge?
- Libertarian paternalist: Seek deliberative preferences
- Sugden: No guarantee that bounds on rationality are absent from deliberation
 - Deliberative answers may just be responses to pressure
 - Best approximation of what people really want may be what they choose
 - Ought to be cautious about giving policy makers a licence to interfere in lifestyle behaviours
- So, where can government interfere?:
 - When a vital service would not be provided by the market
 - When actions cause harm to others

Budge

- Nudge is an anti-regulatory approach
 - Thaler and Sunstein (2008): “In many domains, including environmental protection, family law, and school choice, we will be arguing that better governance requires less in the way of government coercion and constraint, and more in the way of freedom to choose. If incentives and nudges replace requirements and bans, government will be both smaller and more modest.”
- Danger that ideology trumps substance
 - E.g. Public Health Responsibility Deals
 - Has Nudge become a Fudge?
- Nudge is often equated with behavioural economics
 - Many thus believe that behavioural economics is anti-regulatory
- But knowledge of behavioural economics can help inform regulation
 - Behavioural economic informed regulation: Budge

Budging the food industry

- Industries, implicitly, are behavioural economic experts
- Following Mill, we have justification to regulate against harms
- For example, regulating the food industry
 - A traffic light system of labelling has been successfully opposed
 - Responsibility deals and calorie counts instead
 - Behavioural economics would suggest that traffic lights might be effective
 - And they are
- Behavioural economics should not be used as justification for *not* regulating
- Budging industry may be more effective than nudging the citizenry