

# Behavioral policy and its stakeholders

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## Abstract

The present special issue examines the promise and risks of translating behavioral research insights into public and business policy using a stakeholder perspective. In this editorial we identify four groups of stakeholders, the general population, the public and private sectors as well as the scientific community. We sketch the threats and opportunities of behavioral policy for each in general terms to serve as the backdrop for the articles in the issue, which we briefly summarize.

## Keywords

Behavioral Policy — Nudge — Stakeholder Perspective

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## Introduction

Coincidence has it that this special issue is being finalized the morning after Richard Thaler, one of the fathers of behavioral nudges, was awarded the 2017 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. The Nobel Prize is the bellwether of economics (Carmignani 2017) and tells the profession what has become part of the paradigm, and where we are headed. In a sense nudging is the logical conclusion of behavioral economics. As Thaler suggested, once we accept people are human, the question is how we deal with that fact.

These insight have been years in the making. When the New York Times spoke of a “Behavioral Revolution” in 2008 (Brooks 2008) the times were right. The Global Financial Crisis had convinced many that people are not rational maximizers after all, and that, for this reason, economists make poor predictors of the future (Shiller 2010). But with behavioral economics, the application of psychology to economic phenomena, the economics profession could get its mojo back.

The sudden public appetite for behavioral insight was such that the fruits of decades of research found their way onto airport bookstore shelves and bestseller lists. Together with Cass Sunstein, Thaler (2008) summed up the excitement in their term *nudge*, the opportunity for adept policy makers in the public and private spheres to subtly influence people into making the “right” decisions. Researchers started to moonlight as behavioral business consultants, government behavioral insights units (BIUs) were formed in several countries to translate the research into public policy. Research funding for and academic publications by behavioral economists soared (Holt 2007). Behavioral economics courses and executive training to nudge customers and competitors flourished.

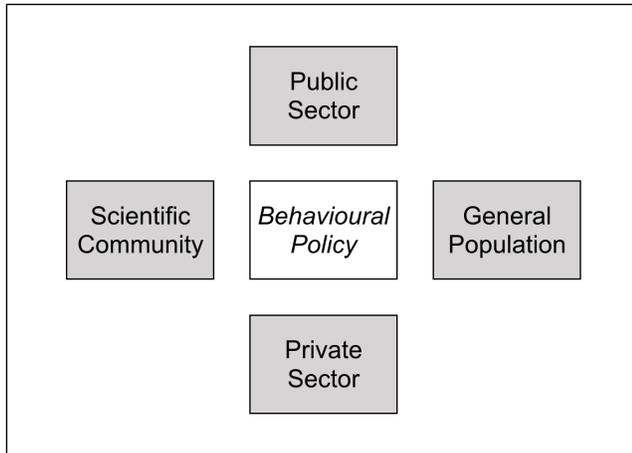
While economics became relevant again, the danger of overkill was there from the beginning. The success of the

nudge agenda led many to question what they saw as the second coming of the paternalist state (Thaler and Sunstein 2003, Glaeser 2006, Sunstein 2014, Gigerenzer 2015). Not everyone thought nudges are as innocuous as a route suggested by your GPS system, the example Thaler used in a recent interview with the BBC. Others balked at the prospect of profit maximizing businesses deploying sophisticated nudge tools against their humanly frail customers. In the scientific community, concerns were raised about hype and overselling research results (Harrison 2008) and the integrity of certain research practices (Rubinstein 2001, Rubinstein 2006, Ortmann 2015).

The debate over the pros and cons of behavioral policy motivates the current special issue in the Journal of Behavioral Economics for Policy. While the application of behavioral research to policy holds great promise, the prospects for and obstacles to its realization are less clear. Conversely, what are the risks of this application? How can they be mitigated? These questions deserve thoughtful analysis. The various protagonists in the behavioral policy universe now have sufficient expertise and sample size that such a stocktaking seems timely.

The intention behind this special issue is to cast the net beyond the existing debate over liberal paternalism. The following contributions examine behavioral policy in terms of the effect of four distinct stakeholder groups (figure 1). These emerge from the vertical chain of behavioral policy. Academic research is produced by the scientific community; practitioners in the private and public sector translate research results into policies and implement these. While business and public policies are created with very different objectives in mind, their object is the same: members of the general population whose behavior and decisions are to be influenced.

The four stakeholder groups provide a systematic framework to assess behavioral policy. The following articles con-



**Figure 1.** Behavioral Policy Stakeholders.

tribute to the discussion of each of the four stakeholder groups. They are written by researchers and practitioners who have a wealth of personal experience of different parts of the process and effects of adapting behavioral research for policy use.

### The scientific community

Three contributions (a target article, a comment and a rejoinder) examine the effects that collaborations with government insights units have on the first stakeholder, the scientific community. Here, researchers both within and outside of behavioral science are affected by its recent popularity. Behavioral researchers obviously have much to gain from the upsurge in public interest in their work. In the increasingly market-based university sector, an edge in the competition for grant money and journal space is an immediate return. Better student recruitment is another. For example, a number of authors suggested how behavioral research can rescue the ailing economics degree (Castilla 2014, O’Donoghue 2015, Sarnikar 2015) to turn around a looming recruitment crisis (Webber and Mearman 2012, Lodewijks and Stokes 2014). In the medium term, the successful application of behavioral research can enhance the perceived relevance of social science in a time when it is increasingly on the defensive (Round and Shanahan 2010, Pfeffer and Fong 2002, Millmow 2006, Rethinking Economics 2015). Also, universities and governments are increasingly urged to invest in the public understanding of social science to provide inoculation against conspiracy theories and demagoguery (Bernard 2013, Wren-Lewis 2016). Popular behavioral science books that explain how people make systematic costly mistakes (Belsky and Gilovich 2000), acquire random beliefs (Shermer 2002), get hoodwinked by others (Cialdini 1988) or themselves (Haidt 2012) can serve an important purpose in this regard.

There is also the fundamental consideration of how behavioral research affects scientific integrity and progress. Behavioral science specifically (and psychological approaches more generally) has been proposed in different quarters as the basis on which to unify the disparate social sciences (Gin-

tis 2007). Even though Adam Smith hailed the division of labor (and presaged it in science), incompatible methodologies and lacking knowledge transfer between entrenched and separate disciplines harm scientific progress (Swann 2006). Behavioral principles regarding the human psychology can be the common foundation on which to develop applications to different arenas of social life (Barkow, Cosmides, and Tooby 1992, Gintis 2007, Mesoudi 2011).

On the other hand, its application to policy harbors certain risks for the integrity of behavioral science. In this issue, **Bolton and Newell** discuss these based on their experience as psychologists working with government behavioral policy units. From this perspective they identify five threats associated with the political world that commissions behavioral policy: An ill-fitting institutional setup, unrealistic timelines, undue influence, lacking peer scrutiny and practical obstacles to research.

Bolton and Newell’s intention is to find the “Goldilocks zone”, i.e. a sensible balance between the needs of science and government. But the question arises who is Goldilocks, and who are the three bears in this tale. In a comment, **Soon** re-tells it from the BIU perspective. Who has been sitting in the policy maker’s chair and yet complained about its size? His strategy is Zen-like in that he turns Bolton and Newell’s threats into advantages: Embedded BIU scientists can improve the governmental institutions, stop scientific procrastination, provide legitimate research oversight in the taxpayer interest, greater scrutiny through the application of behavioral research and new, innovative research processes. The story has a happy end in the conciliatory reply by **Bolton and Newell**. There are many complementary points and we find both parties seeking to make their interactions more fruitful rather than to sever them.

### The public sector

Soon’s reply illustrates that the public sector also stands to gain from the success of the nudge project. Ultimately, influencing behavior (by hook or crook) is the *raison d’être* for governments (North 1989). On the other hand people tend to resent draconian or micromanaging interventions into their lives. Here nudges promise an elegant solution: Policy either to seduce or to sleepwalk people into behaviors from which they themselves ultimately benefit may be more effective, cheaper to implement yet also more palatable. Behavioral nudges can sweeten the bitter policy medicine. In addition, behavioral science can also help public policy makers reach the the much-touted goal of evidence-based policy (Pawson 2006).

These considerations may be the motivation for the emergence of BIU unit across the globe (OECD 2017). **Ball, Hiscox and Oliver** provide a first-hand account of the development of one such unit, the Australian Government’s Behavioural Economics Team. As their analysis shows, the decision to establish behavioral insights units is not only economically but also potentially politically costly. Much alliance

building and compromise are necessary. The authors identify three resulting trade offs such initiatives need to negotiate in a bureaucratic environment: Top-down or bottom-up support within government, quick wins versus long-term sustainability and scientific rigor versus practical payoffs.

### The private sector

Three further contributions to the special issue address the potential behavioral policy holds for private sector organizations. The business calculus obviously differs from the scientific or public one. Behavioral business policy makes business sense. In the days before corporate social responsibility at least, businesses were largely unencumbered by ethical concerns over nudging. Today's marketing research is essentially nudge design (Graves 2013). On the other hand, the returns to behavioral policy are also more measurable and need to stack up compared to the costs.

These returns are predicated on successful behavior change, the ultimate goal of behavioral economics according to **Markey-Towler**. Under what condition can business nudging work? His paper sets out to identify a checklist of necessary conditions including knowledge of the desired action, the willingness to adopt it and removing obstacles from the decision's context. **Tagliabue, Sandaker and Ree** suggest that behavior change is only the beginning of successful nudging. The new behavior then needs to be maintained both in the original and other contexts. One way is to provide a conducive choice environment that reinforces the desired behavior. An example are Chinese fiscal authorities that positively reinforced business invoicing and, thereby, raised tax compliance. Here the private sector can be the object rather than the proponent of behavioral policy.

While Markey-Towler's analysis of behavioral business policy looks outward to customers, the focus of **Espín, Reyes-Pereira and Ciria** is inward. These authors argue that behavioral research allows business organizations to measure those preferences and proclivities of their employees that make them susceptible or resistant to organizational policies. The idea here is that incentive-compatible behavioral economics tasks can be used to reliably assess employees in order to design better performance measurement or incentive schemes. This approach is doubly behavioral in that it not only acknowledges people's human psychology but also concedes that there are individual differences between them that effective policy making needs to factor in. The latter idea is still somewhat outside the mainstream even in psychology (Chamorro-Premuzic 2014).

### The general population

Whether the nudge comes from businesses or government agencies, the targeted undesirable behaviors most frequently belong to members of the general public who may lack the power of will or processing, or the information to make the

right decisions even for themselves. **Berg and Davidson** examine nudge as the public policy response to "agent failure" (Horwitz 2016) just as government intervention addresses standard market failure. If the analogy works then the discussion of government failures that come next in any standard economics text can tell us about the pitfalls of behavioral public policy. Paternalism is one such government failure, but these authors pick another, namely lack of information. In market failure theory, increasingly technical and complex markets mean that governments struggle to design effective interventions due poor knowledge and lacking expertise. The authors suggest that nudge architects may similarly fail because they do not know individuals' preferences and constraints sufficiently well. Of course the argument depends on whether and how individual preferences matter to the economist or policy maker (cue demerit goods and negative consumption externalities) which brings the debate back to market failure and paternalism.

### Concluding remarks

These articles thus contribute to the debate over behavioral policy for the four groups of stakeholders. The reader will notice that their authors' underlying attitudes to nudge differs markedly. Clearly these articles were written from the particular perspectives and experiences of their authors and should be read in that light. Their coverage is also selective. There was no editorial policy to address all the issues involved in the present volume. Rather, we must rely on further contributions to balance the debate.

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