



## Nudging citizens? Prospects and pitfalls confronting a new heuristic

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### ABSTRACT

New insights from psychology and behavioural economics have encouraged a paradigm shift in policy debates towards a focus on 'Nudge' strategies that are influenced by an understanding of the cognitive, social and even moral factors driving human decision making. In areas such as environmental policy Nudging holds considerable potential as a tool of government to help change citizen and corporate behaviour. This article notes the strong evidence base for Nudge strategies drawn from the extensive social science literature on how citizens make decisions. It shows, however, that translating behavioural insights into viable policy interventions is far from straightforward and that the powerful insights embedded within Nudge heuristics will be lost if advocates of Nudge fail to address the complexities and challenges entailed in their project.

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### 1. Introduction

Our starting point is the emerging argument that policy makers have to develop new insights about how to approach citizens or perhaps re-emphasize ways of understanding that have been neglected. In an era where the state led, and citizens followed, command and incentive based interventions were for much of the time good enough. But when seeking to develop a capacity for behaviour change among citizens in modern, atomized and non-deferential societies, not only are different tools required but also a different way of thinking: a sea change in our understanding of the micro-foundations of human behaviour. This message is at the heart of a book entitled *Nudge* by Thaler and Sunstein (2008). Another factor driving interest in new tools of intervention is the impact of economic downturn and austerity. The UK's Institute for Government in an enthusiastic report about this new way of thinking and acting comments:

'For policy-makers facing policy challenges such as crime, obesity, or environmental sustainability, behavioural approaches offer a potentially powerful new set of tools. Applying these tools can lead to low cost, low pain ways of 'nudging' citizens - or ourselves - into new ways of acting by going with the grain of how we think and act. This is an important idea at any time, but is especially relevant in a period of fiscal constraint' (Dolan et al., 2010, p. 7).

Dolan et al. (2010) argue that a revolution in thinking is already well on the way and that policy-makers need to continue to move beyond the traditional tools of regulation, law and financial incentives.

We start by noting how Nudge thinking challenges some of the traditional presumptions of public administration and public policy. We continue by showing that there is a solid social science evidence base for such insights but in addition we argue that the implications for policy makers are not as straightforward as some Nudge advocates suggest. Turning Nudge insights into effective interventions requires a deep understanding of the political and social challenges involved. We argue that Nudges designed top-down by 'smart' experts may be of limited value and that there is a need for a more bottom-up process in translating Nudge insights into practice on the ground.

### 2. The emergence of the Nudge paradigm

The assumption underlying much of classical public policy and administration is that individuals are rational in that they are capable of reason and applying logic in their decisions and choices, and that they act to achieve their self-interest. Jackson (2005) comments in his review of understandings held by policy makers about how to change consumer and citizen behaviour that the rational actor model 'is so widespread and so deeply entrenched in the institutions and structures of modern (Western) society, that it tends to have an immediate familiarity to us' (Jackson, 2005, p. 27).

Thaler and Sunstein's *Nudge* (2008) challenges the rationalist framing of human behaviour and has at its core a call for a heuristic sea-change. Policy makers need a new rule of thumb that sees citizens not as 'homo economicus' but rather as 'homo sapiens',

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as 'Humans' rather than 'Econs' (Thaler and Sunstein, 2008, p. 7). The need is to move beyond 'the textbook picture of human beings offered by economists' (Thaler and Sunstein, 2008, p. 7) as rational, calculating and effective information processors to an understanding that draws on cognitive science, psychology and behavioural economics and recognizes people as less than perfect decision-makers driven by cognitive short-cuts and social norms and pressures. Others add the idea that decision-makers may have a moral dimension to their decision making (Frey and Goette, 1999; Frey and Jegen, 2001; Frey, 2007). Of course these are not entirely new ideas to social scientists or to policy makers, as the core work of Nobel Prize winner Herbert Simon testifies (Simon, 1947). Indeed Simon's concept of bounded rationality successfully challenged the pure rationalist actor model dominant in public policy analysis and public administration, and subsequent models acknowledge that decision-makers are only rational within limits, using heuristics or shortcuts which lead them to take the best possible course of action within their available time, information and resources.

The starting point for Nudge is less that citizens lack knowledge or information and more that they lack the ability to process *all* of the complex and multiple information sources being thrown at them. How they select what to pay attention to, and therefore what to respond to, is an important insight for policymakers to have. Through Thaler and Sunstein's intervention these ideas are finding an increasingly strong grip on policy thinking and practice. However Thaler and Sunstein are not alone in pushing for a more nuanced approach to understanding individual behaviour and decision making.

A number of other reviews, books and pamphlets offer policy lessons drawing on insights from behavioural economics, social marketing and cognitive psychology, and corresponding programmes of policy activity are underway at the local and national level both in the UK and elsewhere (McKenzie-Mohr, 2000; Andreasen, 2002; Halpern et al., 2004; Cialdini, 2007; Knott et al., 2007; Dolan et al., 2010). There are competing paradigms around that also challenge policy makers to approach citizens in different ways. One is social marketing which seeks to effect behaviour change amongst citizens through targeted and segmented campaigns which increase the acceptability of certain ideas and provoke action and behaviour in tune with those ideas (Andreasen, 2002). These kinds of campaigns have been most widespread in public health and include for example those aimed at getting citizens' to respond to the symptoms of cold and flu appropriately, and smoking cessation programmes.

The UK Government has taken up Nudge insights in particular, with the Cameron-led coalition establishing in 2010 the Cabinet Office's Behavioural Insight Team advised by Richard Thaler while in the United States Cass Sunstein was in 2009 appointed in the first term Obama administration as Administrator of the Office of Information and Regulatory Affairs.

Nudge challenges rational choice's dominance as a stylized heuristic, the main microfoundational crutch used by policy makers. What is emerging in the world of policy making is a framework of thinking that rejects rational choice as the lead heuristic for understanding human decision making and which looks to evidence from across the social sciences that gives a more rounded account of how cognitive pathways, social norms and moral convictions influence thinking and behaviour. The Nudge claim is not that people are irrational but that their reasoning processes are based on cognitive short cuts, social processes and motivations that stretch beyond the purely instrumental. We are left with three questions: is this shift in thinking supported by evidence on how people make decisions; can this shift in thinking find application through effective policy tools; and does the new paradigm sweep away all the obstacles to effective intervention? Our answers to these questions, developed below, are respectively yes, maybe and no.

### 3. Evidence from social science about human decision making in relation to Nudge

In this section we outline some of the social science findings that policy makers are turning towards as key themes emerge from literature in cognitive psychology and behavioural economics in particular, on which the Nudge approach is substantially based.

#### 3.1. Cognitive pathways

In psychology a cognitive revolution has occurred over the last few decades and insights have been taken up by political science, sociology and most particularly economics (see Simon et al., 1992; Jones, 2001). The essential argument is that we are decision-makers constrained by bounded rationality because we have a fundamental human problem in processing information, understanding a situation and determining consequences, given the limits of our cognitive capacities and the complexities of the world in which we operate. Our cognitive inner world helps us to focus on some things and ignore others and it is driven by habits of thought, rules of thumb, and emotions. Rationality is bounded by this framing role of the human mind. Four influential theories of decision making from behavioural economics and psychology, some of which have been taken up by Nudge enthusiasts, serve to illustrate the thrust of this line of thinking.

The first of these is prospect theory (Kahneman and Tversky, 1979; Thaler, 1980) which utilizes the concept of the endowment effect. This suggests that decision makers tend to value goods already in their possession more highly than those that they do not yet possess. Experimental research backs up this theory and demonstrates that ownership matters in people's valuation of a good, with owners placing higher value on the traded good than sellers (Kahneman et al., 1990). Some psychologists suggest that the endowment effect is itself caused by the phenomenon of loss aversion, which refers to the idea that we weight more substantially than equivalent objective gains (Kahneman et al., 1990).

In public policy the combination of loss aversion and the endowment effect and their impact on decision making behaviour suggests that behavioural change strategies should emphasize losses to goods that people already possess rather than new gains. Where people feel that they have something to lose, they may be more inclined to do something to prevent the loss occurring. For instance, smoking cessation policies which highlight life years lost through smoking have been found to be more effective than those highlighting life years gained by quitting (Wilson et al., 1987, 1988, see also O'Keefe and Jensen, 2009 for a meta-analysis which suggests that loss-framed messages are marginally more advantageous than gain-framed messages for encouraging disease detection behaviours). In a similar way, fines are likely to be a more powerful motivator for changing behaviour than financial rewards (Dawson and Shah, 2005).

A second aspect of our cognitive architecture which can have implications for public policy design is our use of psychological discounting (Frederick et al., 2002). This theory suggests that we place more weight on the short term than on the long term effects of either threats or opportunities. If we are to gain something, we would rather do so now than later. Conversely if we have to feel pain, we would rather experience it in the distant future than today. Discounting is a feature of analysis used by conventional economists but the behavioural economics literature tells us that we tend to discount in a less consistent and rational way than conventional economists suggest. In particular behavioural economists argue that 'hyperbolic discounting' leads us to place a 'high discount rate over short horizons and a relatively low discount rate over long horizons' (Laibson, 1997, p. 445). Hyperbolic discounting results in us overweighting short term consumption while discounting the

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