

Comment: Varun Gauri

Nudging Goes Global

All over the world, policy making is being nudged. A partial list of governments that have begun, systematically, to use behavioral economics in their policies and programs comprises the United Kingdom, the United States, Chicago, New York, Washington, DC, Rio de Janeiro, New South Wales, New Zealand, the Western Cape, Guatemala, the Netherlands, France, Peru, Canada, Denmark, Indonesia, Lebanon, the UAE, Poland, Latvia, Moldova, Japan, Germany, Singapore, and India. World Bank teams, including the Mind, Behavior, and Development Unit (eMBeD), are involved in dozens of ongoing projects that incorporate social and behavioral insights. Cass Sunstein's work, crystallized in his book *Nudge* with Richard Thaler, has been seminal; it has genuinely changed policy making the world over.

As the use of behavioral economics has moved from the periphery to the mainstream, it is worth reflecting on some of the outstanding questions and criticisms that confront the practice. Sunstein's essay in this volume is, like his work more broadly, not only thorough (in the sense that it successfully organizes a wide range of theory and evidence), but also thoughtful (in the sense that it rewards close reading). In what follows, I use excerpts from Sunstein's essay as a point of departure to raise, in a preliminary way, four issues related to the behavioral economics and policy making agenda. It is also the case, as I will make clear, that Sunstein's own work has anticipated the pathways through which one can make advances on some of these questions.

For Which People Are Nudges Liberty Preserving?

Suppose, for example, that a particular default rule would place a strong majority of the relevant population in the situation that they would favor if they made an informed choice. If so, there is a legitimate decision reason to adopt that default rule (with the understanding that for those who differ from the majority, it remains possible to opt out).

—Cass Sunstein, (forthcoming)

Because most people are myopic and/or otherwise inattentive, because they view default savings plans as authorized or as important reference points, automatic enrollment in a retirement savings plan increases mean retirement savings. Subsequently allowing people to opt out preserves their liberty to make significant choices regarding their own lives. Because there must be a default rule of some sort—either individuals are not enrolled and can opt in, or they are enrolled and can opt out—why not choose the default rule that increases savings? This is the logic of libertarian paternalism.

Notice, however, that the formulation trades on two different understandings of liberty: positive and negative (Berlin 1969). Automatic enrollment appeals to positive liberty: Myopia and inattention are external sources of “control or interference,” to use Berlin’s language, that affect what people do. Automatic enrollment helps them achieve their true objectives. But the power to opt out, once one is automatically enrolled, is a negative liberty: Factors external to the will, such as myopia or inattention, still limit the capacity of an automatically enrolled saver to opt out. These enrolled savers are free in the negative sense that they can choose to disenroll without any obstruction by other persons.

Although space is insufficient to spell out the argument in detail, it seems to be the case, then, that automatic retirement savings is not “liberty preserving” in a simple way. Elsewhere, Sunstein (2012) comes to a similar conclusion by referencing a continuum between soft and hard paternalism, which is scaled by the sum of material and psychic costs imposed. He describes most “nudges” as a kind of soft (if not entirely liberty-preserving) paternalism and argues that most people in fact opt out of defaults that are welfare-decreasing (Beshears et al. 2010).

But the paternalism challenge to the long-term “nudge” agenda, particularly in developing countries, will require further elaboration on the part

of those of us engaged in it. To take up just two points. First, it will not be enough to say that most people opt out of bad defaults. We also need to know who opts out, and much more about how the capacity to identify welfare-improving choices and take advantage of information disclosure is related to poverty (Mani et al. 2013), as well as to gender and other normatively important social categories.

Second, as nudging goes global and begins to work in cultural environments very different from the United States and the United Kingdom, where it began, it may be that in many contexts, what is ethically salient is not the extent to which a behavioral intervention constrains liberty, understood as the sum of material and psychic costs imposed by a policy, but the intrinsic ethical value of the program itself. Indeed, informal conversations suggest that policy makers in many countries are not particularly troubled by the paternalism question, because liberalism is not the assumed background of ethical evaluation. Other goals—such as “development” or “harmony” or “social justice”—are often more prominent. Indeed, it might be helpful if policy makers were more troubled than they are by nudging policies. Those working in the field might make a contribution to democratic policy making around the world by insisting that nudgers disclose and debate their nudge policies.

How Social Norms Change

Consider as well the problem of distracted driving. On October 1, 2009, the president issued an executive order that bans federal employees from texting while driving. Such steps can help promote a social norm against texting while driving, thus reducing risks.

—Cass Sunstein, (forthcoming)

We know that social norms are crucial drivers of behavior, but how can policy makers shift them? One approach has been to activate existing social norms, particularly empirical knowledge or expectations regarding modal behavior in a group. Interventions in that vein have reduced road accidents (Habyarimana and Jack 2011), increased tax compliance (Hallsworth et al. 2014), and successfully promoted energy conservation (Allcott and Rogers 2014).

Sunstein’s interpretation of the White House order on texting while driving, however, is more ambitious. It is about creating a new social norm,

not merely activating an existing one. One analogy in developing countries is a law requiring candidates for village council elections in Haryana, India, to have a functioning toilet in their homes.¹ The idea, as in the texting law, is that public officials can serve as role models or otherwise inspire a shift in the behavior in the general population. But social norms operate in reference groups, and if public officials are not in the reference group of the target population, their behavior might not motivate people to behave differently, or may even even backfire. For instance, villagers in Haryana might come to think that toilets are just for government workers and other important people, not for ordinary folk.

Another analogy is early legislation in American states that made it illegal for anyone who had engaged in a duel from holding public office (Lessig 1995). Those laws, though not successfully enforced, were intended to allow a gentleman to decline a challenge to a duel by appealing to, rather than shrinking from, the honor code—he could say that because honor required him to serve the public, and dueling would make public service impossible, he had no choice but to decline.

The target of the antidueling rules was elite behavior, but duels were highly visible events, so it was possible that their disappearance would promote democratic sensibilities and the ethos of nonviolence more generally. In contrast, texting is not easily observed; even if public officials stop texting, the general public may not realize it.

The general point is that scholars have taught us some things about social norms (Sunstein 1996), and policy makers are coming to recognize the value of activating them. But we know much more about the comparative statics of social norms, and about norm unraveling through bandwagon effects and pluralistic ignorance, than about norm emergence and creation.

1. The law also requires minimum educational qualifications, not having defaulted in cooperative loans or having outstanding dues on rural domestic electricity connections, and not having been charged by a court for a grave criminal offense. The Supreme Court of India upheld the law in December 2015. See <http://www.livemint.com/Politics/KTRLWs6xYd6OIhSKC3SRHL/Supreme-Court-upholds-Haryana-law-on-Panchayat-polls.html>.

Outcomes

If people learn that they are using more energy than similarly situated others, their energy use may decline—saving money while also reducing pollution.

—Cass Sunstein, (forthcoming)

A full assessment of the effects of home energy reports includes, in addition to lower pollution and savings, the expenditures associated with efficiency-improving capital investments (as when a homeowner purchases new appliances or windows) and, to the extent it can be accurately measured, the hedonic cost of tolerating a hotter or colder living environment in the home (Allcott and Kessler 2015). Although everyone might agree that in theory, those factors should also be included when evaluating the overall effects of a behavioral intervention, they are not usually included in practice. Too often, evaluations of behavioral policies focus almost exclusively on the intended behavioral change. When possible, assessments of behavioral policies should focus on the effects on overall well-being, and not just on behavior itself. Similarly, although there are good reasons to think that some behavioral interventions can have long-term impact (Madrian and Shea 2001; Yeager and Walton 2011), practitioners would like to know more about the kinds of interventions and circumstances under which long-term as opposed to ephemeral effects are achieved.

Nudging the Nudgers

It should not be necessary to emphasize that public officials are subject to error as well.

—Cass Sunstein, this volume

Although the potential value of behavioral insights in developing countries is substantial (World Bank 2014), one concern is that the successful formulation and implementation of all policies, behaviorally informed or not, requires the capacity to recruit, motivate, and supervise an effective bureaucracy. Opt-out retirement savings plans, for example, are built on financial, regulatory, and informational infrastructure that cannot be taken for granted in many countries. More generally, few now question the negative impact of government failure—and not just market failure—on economic

development (Bardhan 2015). Bureaucrats are subject to many of the cognitive biases that everyone else is, including sunk cost bias, cultural cognition, and inaccurate assessment of risks (Banuri, Dercon, and Gauri 2016). Can social and behavioral insights improve governance? Some preliminary evidence suggests that they can. For instance, unexpected payments can motivate workers, even if the money is not tied to performance (Hossain and List 2012); peer effects seem to improve productivity (Mas and Moretti, 2009); and social recognition can improve performance (Ashraf, Bandiera, and Lee 2014).

There remains to be developed an extremely interesting and potentially very useful agenda related to the use of social and behavioral insights to promote professional norms, bureaucratic identities, impartial and sound decision making, and productivity in the public sector. As elsewhere, Sunstein's writings have anticipated this line of research (Sunstein and Hastie 2015). With luck, this commentary will nudge him to expand it.

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