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BEHAVIOURAL GOVERNANCE IN EUROPE

Holger Strassheim and Rebecca-Lea Korinek

“We post a signpost: no deep thinking here. Things are bad enough already.” What John Rawls once wrote in an unpublished footnote¹ could qualify as the motto of the behavioural movement in public policy across Europe and elsewhere. Behavioural experts are not getting tired of emphasising the beauty of simplicity. Cass Sunstein, Professor of Law at Harvard and former ‘regulatory czar’ heading the White House Office of Information and Regulatory Affairs, even argues that the future of government depends on it.²

Indeed, there are good reasons for declaring simplicity the mantra of modern government. Behavioural studies have shown that simplifying messages and reducing complexity may have large effects on people’s behaviour. For example, making registration forms or information letters clearer, and options more salient, can move decisions in desired directions, e.g. by encouraging people to enrol into pension schemes or change energy providers. Even if these ‘nudges’³ do not work, proponents argue that their costs are extremely low and they cause no harm. Just like signposts.

In its most recent World Development Report, *Mind, Society and Behavior*,⁴ the World Bank discusses the advantages and challenges of behavioural governance. While highlighting that behavioural insights and interventions can improve the design and implementation of development policies, the report also points to the complexities of the approach: multiple cognitive, socio-cultural and policy factors have to be taken into account to make behavioural governance work. The uncertainties and unintended side effects related to these factors are not fully understood. Moreover, behavioural experts and policymakers need to account for cultural influences on their own choices, critically re-examining the normative implications and unquestioned certainties of behavioural approaches. Paraphrasing the proverb well known to economists: there ain’t no such thing as a free nudge.

A world of choices

Behavioural governance is understood here as every mode of governing which is informed, designed or implemented by focusing on psychological as well as cognitive mechanisms of behaviour, in both individuals and collectives. There is a behavioural element to public governance when policymakers seek to change people's behaviour – e.g. in non-smoking policies or food safety – or when people's behaviour affects the effectiveness of certain policies. Behavioural governance is based on two core insights:

Firstly, when situations are complex or ambiguous the behaviour of individuals is influenced by heuristics and biases. In contrast to standard models of rational choice, people often use mental shortcuts and simple solutions even if this means acting against their own interest. In their seminal studies on decision-making under uncertainty, Tversky and Kahneman identified three central heuristic principles – representativeness, availability and anchoring – that have formed the basis of behavioural approaches until today.⁵ According to their research, people trying to predict the future intuitively rely on similarities and stereotypes (representativeness); the probability of risks is assessed by the ease with which instances or occurrences can be brought to mind (availability); and in many situations, estimates are biased by an initial value or a starting point that works as a default (anchoring). People may ignore the fact that they do not know enough, or fail to learn from new information. When consumers' decisions in credit markets, for example, are influenced by such mental shortcuts, they may resort to borrowing at extremely high interest rates, while in the aftermath of an earthquake, more people are likely to purchase insurance. Heuristics shape the ways risks are perceived.⁶ More information rarely solves the problem; it can just add to the existing amount of information, while increasing uncertainty.

Secondly, the social environment in which people make decisions may trigger some of these heuristics and inhibit others. The way books in a bookstore are presented, or the order of the items on a restaurant menu, make certain decisions easier than others. Everyday action is embedded in informational infrastructures that simplify the presentation of options, evoke certain associations or make certain options more visible than others. In their popular book *Nudge*, Sunstein and Thaler speak of “*choice architectures*”. Choice architectures are ubiquitous: the order of traffic

lights, the display of food in a cafeteria, the design of a web page, all shape the salience of options and the likelihood of certain choices. Since choice architectures are inevitable, policymakers are advised to actively engage in designing arrangements that support desirable policy goals and reduce behaviour seen as suboptimal. This is the core argument of behavioural approaches: avoiding pre-structured contexts is not an option. Following this line of thought, both policymakers and experts should seek to become choice architects.

Simplicity and its (side) effects

One of the most prominent examples of designing choice architecture at the European level is the EU ban on pre-ticked boxes for online purchases. Orthodox economics predicts that decisions should not be influenced by a pre-selection with respect to certain products or add-on components, e.g. in travel insurances. By contrast, behavioural economics has shown that defaults significantly increase the probability of specific purchasing behaviour. As of 13 June 2014, the EU Directive on Consumer Rights prohibits pre-ticking, targeting problems connected to anchoring heuristics. In this case, simplification simply means removing defaults.

There are multiple other examples of actively setting choice architectures. Sunstein and Thaler famously call them nudges, defined as interventions that do not force anyone and preserve freedom of choice, but still have the potential of promoting welfare. Indeed, recent studies on evidence from randomised controlled studies suggest that some of them are working well: text message reminders to bank account holders to save money increased savings balances by 6 percent; emails to homeowners comparing their electricity bill with that of their neighbours and rating them ('great', 'good' or 'below average') led to reductions in power consumption equivalent to energy price reductions of 11–20 per cent; and automatically enrolling people in pension plans dramatically increased participation and retention.⁷

Unfortunately, we do not know much about the side effects and unintended consequences of nudges. As simple as they may sound, they still intervene in a complex environment. For example, a recent Swiss–US study on a behavioural energy conservation campaign found that giving people feedback on their water use successfully reduced water consumption, but this coincided with an overall increase in electricity use. An explanation

for this unforeseen outcome is what researchers call the ‘moral licensing effect’: the people who saved water felt entitled to be wasteful in another area.⁸ Moral licensing is well known in many areas of behavioural governance such as obesity policies or fitness campaigns. It is just one of the cognitive factors that form part of the complexities which behavioural interventions are confronted with.

Mental models and policy mix

The recent World Bank report points to a second set of factors that might influence how behavioural governance works.⁹ Anthropologists and ethnographers have demonstrated that cultural contexts have an effect on the formation and expression of heuristics and biases. Mental models, the interrelated schemes of meaning that people use when they act and make choices, are shaped by economic relationships, religious affiliations and national contexts. This needs to be recognised when designing nudges, so that they are communicable in different communities.

On a more basic level, cultural context may also influence certain behavioural heuristics. Experiments based on a classical vignette from behavioural economics among representative samples in capital cities around the world revealed significant differences in choices depending primarily on the economic status (not nationality) of respondents. The choices of poor people in Jakarta or Lima mirrored the choices of poor people in the USA. Cultural stereotypes may work similarly. During an experiment in India, high-caste and low-caste boys were randomly assigned to groups that varied the salience of caste identities. When their caste was not revealed, the performance of high-caste and low-caste boys in certain problem-solving tasks was statistically indistinguishable. Making caste salient to the individuals changed their problem-solving capacity significantly, triggering a vicious circle of competence loss and confirmation of stereotypes. Thus, economic status and cultural mind maps exert a strong influence on individual behaviour, suggesting caution when making assumptions about decisions in different contexts.

A third set of factors is related to the embeddedness of nudges in a wider mix of policy instruments. More often than not, behavioural interventions are interwoven with classical policy instruments such as prohibitions,

standards or tax incentives. The US CARD Act, signed into law by President Obama in 2009, is an example. It was designed to counter practices by US credit card companies that took advantage of self-damaging consumer decisions, as described by behavioural economists. (Evidence suggests that consumers ignore future costs when considering immediate purchases; are overly optimistic when assessing fees that they may incur; and tend to anchor repayments to information on minimum payments.) The Act bans certain types of hidden fees, and mandates lenders to include an explicit calculation on bills that compares minimum repayments and the costs of repaying over 36 months. As a combination of hard regulations and nudging, it is especially difficult to evaluate. While a first study seems to be encouraging, there is not enough evidence to fully assess its impact.¹⁰

Of course, the difficulties of appraising the dynamics and effects of mixed policy instruments are well known to evaluation researchers; this is not a specific problem of nudges. It does, however, shed some light on the limits of simplification. All in all, much more research is needed to get a better understanding of the cognitive, socio-cultural and policy-related factors influencing how behavioural governance works. The complexity of these factors also explains the current insistence on simplification. While nudges may work in carefully orchestrated and isolated settings, it is difficult to know how they behave in the real world.

Changing ecosystems of expertise in Europe

While the design of behavioural interventions and their complexities have become important topics in current discussions, there is one aspect that has received less attention: the factors influencing the choices of behavioural architects themselves. A recent report by the European Commission's Joint Research Centre (JRC)¹¹ makes it clear that applying behavioural approaches to EU policymaking requires a better understanding of the ways expertise and evidence can be used in policy processes. In order to incorporate the findings of behavioural science, policymakers need to be aware of political as well as methodological limitations. The timing of the application of behavioural studies within the policy process is just as important as knowledge about the pros and cons of different types of studies (e.g. experiments, randomised controlled trials, surveys and qualitative research studies). The authors conclude that behavioural study *"will not offer a silver bullet to solve policy problems"*.

Indeed, the rise of behavioural economics is already changing the “*ecosystems of expertise*”¹² in Europe and beyond. In the UK, it is associated with the Behavioural Insights Team (BIT), an organisation that has gained both national and international influence by experimentally developing and disseminating behavioural interventions.¹³ BIT conducts experimental trials, designs behavioural interventions and advises other organisations on how to apply behavioural insight in the public domain. It has become a paradigmatic example, inspiring the creation of similar project units in other countries, e.g. the Social and Behavioural Sciences Team at the White House’s Office of Science and Technology Policy (OSTP) and, most recently, the project group *Wirksam Regieren* (governing effectively) at the German chancellery.¹⁴

In contrast, Scandinavian approaches to behavioural governance are characterised by bottom-up networks such as *iNudgeyou* in Denmark and *GreeNudge* in Norway.¹⁵ Situated at the interface of applied behavioural science, public institutions, NGOs and private stakeholders, these initiatives engage in research projects focused mainly, but not exclusively, on environmental policy and public health (e.g. reducing food waste, litter or smoking). As experiments in ‘guerrilla research’ they seem to point to certain problems with simplification, namely that it favours simple solutions designed by behavioural experts over more complex questions asked by consumer groups, environmental activists or lay people. While there are no studies of the organisation of behavioural expertise yet, it is plausible to assume that the modes by which behavioural findings are translated into nudges also determine the criteria by which desirable behaviour is distinguished from suboptimal decision-making.

There ain’t no such thing as a free nudge

The diversifying dynamics of behavioural expertise in Europe provide an important lesson: there is no best practice to incorporate behavioural findings into policymaking. In each country, science–policy interactions are structured by cultures of expertise: the more or less unquestioned ways in which public knowledge claims are validated and perceived as politically relevant. These cultural preferences may affect the resilience and receptiveness of knowledge production, influencing the ability to learn from mistakes and decide accordingly.¹⁶ At the same time, advisory systems have a choice architecture of their own, including certain heuristics and biases.

When implementing behavioural governance in Europe, both experts and policymakers need to critically re-examine the unquestioned certainties and normative implications of behaviourally informed policies.

This should include a reassessment of the role of social sciences in understanding decision-making under uncertainty. As the World Bank report shows, human society adds a layer of complexity to the analysis of individual behaviour. The structures of social norms and institutions heavily influence both individual decisions and the organisation of choice architectures. Considering them is essential to making behavioural approaches work and preventing unintended consequences and side effects. This could mean that nudging is much more time-consuming and costly than some of its proponents insinuate. The effort, however, might be worthwhile if it helps to redesign public policy beyond rational choice models, by cautiously taking into account the human factor.

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Endnotes

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12. See Doubleday, R. and Wilsdon, J. (2013) 'Future Directions for Scientific Advice in Whitehall.' See <http://www.csap.cam.ac.uk/media/uploads/files/1/fdsaw.pdf>
13. Formerly situated at the Cabinet Office, BIT was 'mutualised' in 2014 as a company owned by its employees, the UK government and NESTA, a charity organisation.
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