



Australian Government

Department of the Prime Minister and Cabinet

BEHAVIOURAL ECONOMICS TEAM OF THE AUSTRALIAN GOVERNMENT

BETA

Behavioural Economics and Public Policy 21 March 2017

Professor Michael Hiscox
Harvard University
Director – Behavioural Economics Team

Who We Are

BETA is the Australian Government's first central unit dedicated to the application of behavioural economics to policy, programme, and administrative design.

BETA is hosted by the Department of the Prime Minister & Cabinet, but is a joint initiative of 19 agencies across the Australian Public Service.



Australian Public Service Commission



Our Mission

Build behavioural economics capability across the APS and drive its use in policy design and delivery, using randomised control trials to test what works. To do this we will:

- Apply behavioural economics expertise to improve policies and programs working with our partners on specific projects
- Build capability via training courses and secondments from partners
- Establish links between the APS and the behavioural economics research communities in academia here and overseas

Why –The Science

- Traditional economic models of perfectly rational decision-makers maximizing personal material rewards



- Implication is that we should try to influence behavior with financial incentives (taxes, subsidies) and information (education, disclosure)

Why –The Science

- Modern behavioral economics has improved our understanding of the ways in which humans are “predictably irrational”. We can allow for ...
 - human cognitive limitations & biases
 - imperfect self-regulation
 - multiple motivations, social norms & altruism

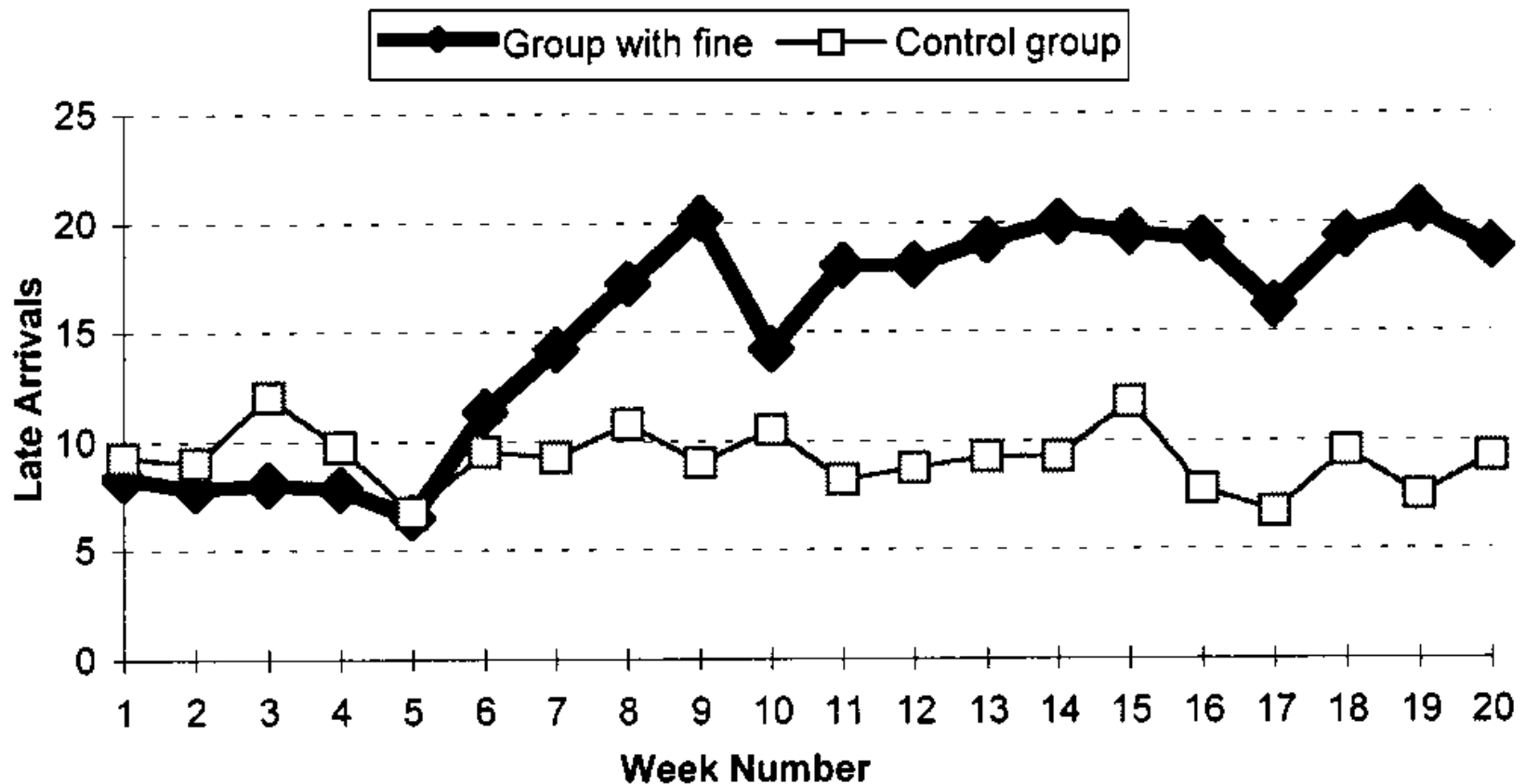


- To influence behavior, we target the psychological roots of behavior



Israeli daycare centres had a problem with parents arriving late to collect their children, forcing teachers to stay after closing time.

They introduced a monetary fine for late-coming parents ...



In daycares where the fine was introduced, parents immediately started showing up late; lateness levelled out at twice the pre-fine level.

Introducing a fine caused twice as many parents to show up late

Behavioural Insights

Humans are ... human (limited, biased, emotional, social)

Present bias – underweight the future in favor of present

Loss aversion – care more about potential losses than gains

Status quo bias – tend to continue doing the same thing

Cognitive limits – forget things and delay decisions

Self control – tempted to make bad choices when aroused

Implicit bias – allow irrelevant characteristics to affect choice

Social norms – care about fitting in with others

Altruism – care about others

Applied Behavioural Insights

Some human tendencies & targeted BI interventions:

Present bias – e.g., commitments & planning prompts

Loss aversion – e.g., focus messaging on costs

Status quo bias – e.g., improve defaults & allow opt-outs

Cognitive limits – e.g., reminders, checklists, advice

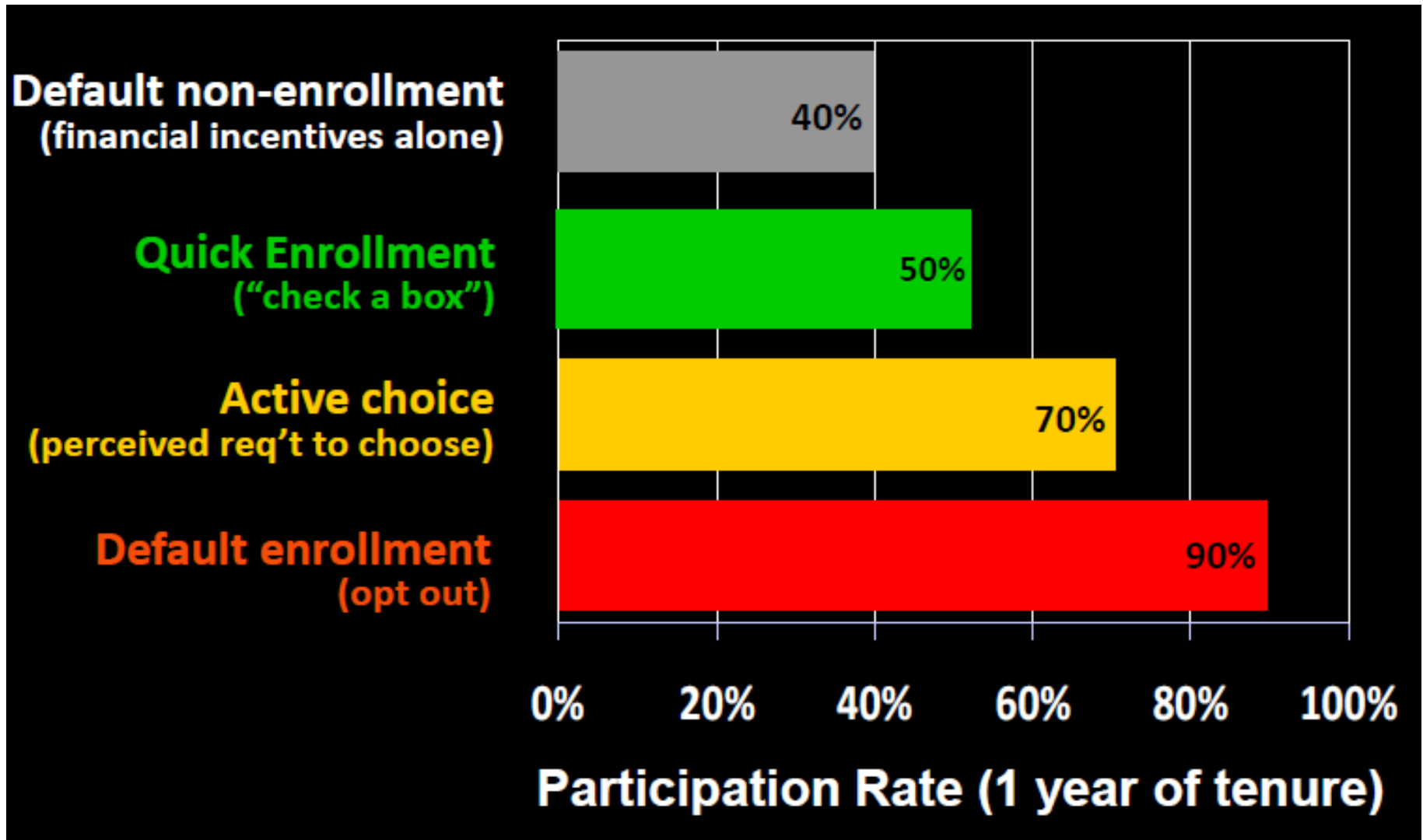
Self-control – e.g., lock-boxes

Implicit bias – e.g., blind reviews

Social norms – e.g., reference points & rankings

Altruism – e.g., focus on impacts for others

Retirement Savings



Immunization

This **FLU SHOT** reminder brought to you by:

HEALTHY HABITS are always in season.

David D. Sample
10200 Oak Rd.



JUST THE FACTS:

- The single most effective way to protect yourself from the flu is to get vaccinated every year.
- October or November is the best time to get vaccinated.
- Each year, about 36,000 people in the U.S. die from the flu.

EVEN BEFORE the leaves start to change color, there are little things that just tell you it's autumn. You watch the new fall TV shows while bundled up in a favorite sweater. The grill tools – well, at least some of them – get put away, and out comes the chili pot. Maybe you're even lucky enough to make it out to the apple orchard or the pumpkin patch one Saturday afternoon.

Another sign of the changing season? Your yearly flu shot. It sure doesn't sound as heartwarming as woolly clothing or as mouth-watering as five-alarm chili, but it's far more protective and nourishing than either one of those things. After all, it's your single best bet for fighting against the flu all fall and winter long. And the sooner you roll up that woolly sleeve and get it, the better chance it has to protect you.

There are long, serene autumn sunsets ahead, and months of cozy snow days and family dinners scattered across the calendar pages. Keep those special times in mind by making a healthy choice today. This one's easy.

[Company Name] IS HOLDING A FREE FLU SHOT CLINIC.

Flu shots will be available on site at the **[location of relevant free flu shot clinic]** at the following times:

Monday, October 26th	7:00 am – 3:30 pm
Wednesday, October 28th	7:00 am – 3:30 pm
Friday, October 30th	7:00 am – 3:30 pm
Tuesday, November 3rd	7:00 am – 3:30 pm
Thursday, November 5th	7:00 am – 3:30 pm

Control

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[Company Name] IS HOLDING A FREE FLU SHOT CLINIC.

Many people find it helpful to **make a plan** for getting their shot. You can write yours here:

, at
 (day of the week) (month) (day) (time)

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Planning
prompt

Control Condition

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**Employees informed
of the dates/times of
workplace flu clinics**

Planning Prompt Condition

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Many people find it helpful to **make a plan** for getting their shot. You can write yours here:

	,				at	
(day of the week)		(month)		(day)		(time)

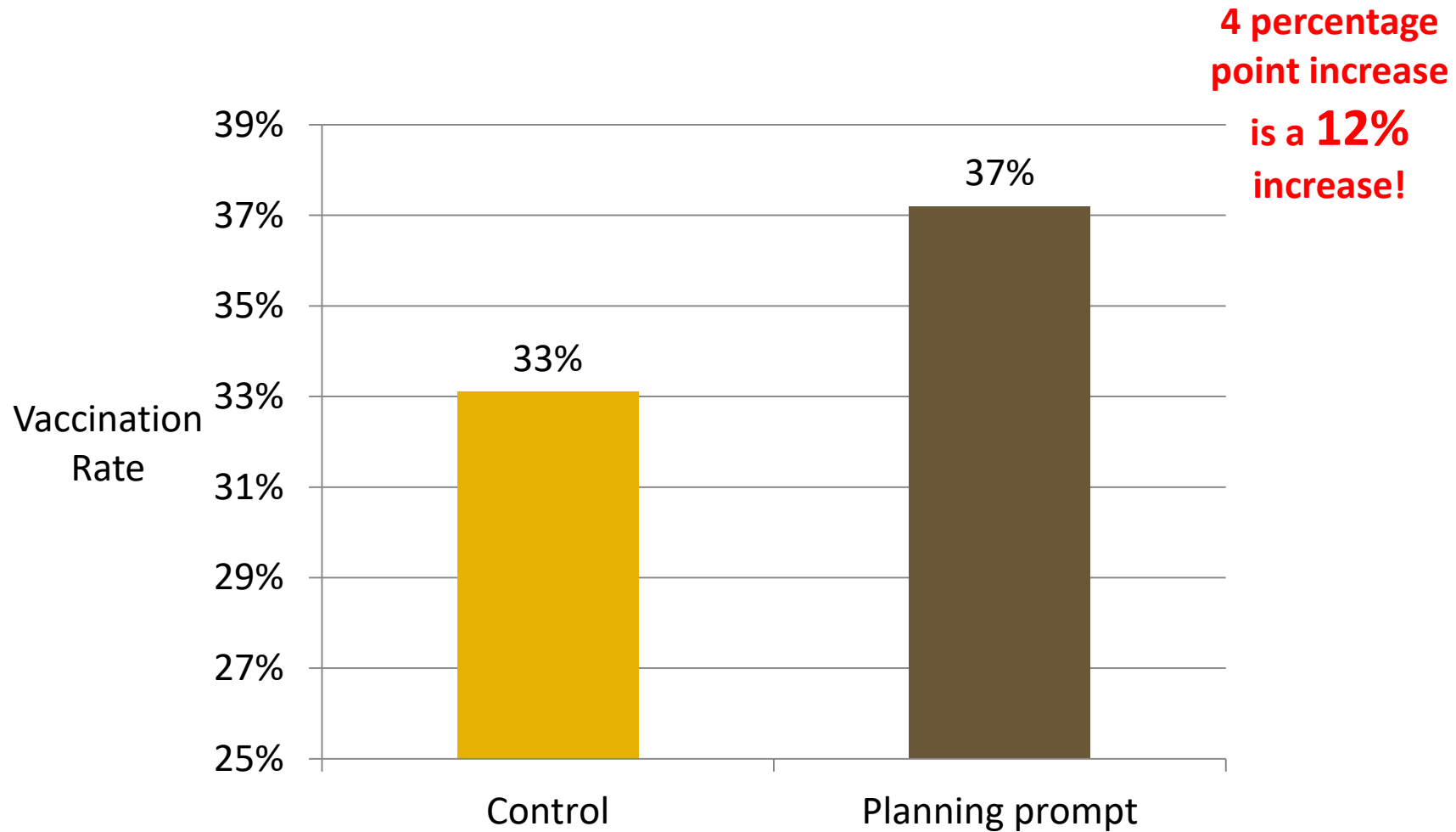
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Employees invited to choose a concrete DATE AND TIME for getting a flu vaccine

Employees informed of the dates/times of workplace flu clinics

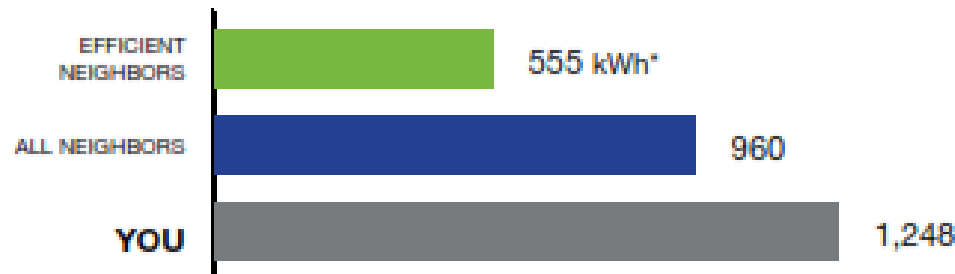
Immunization



Energy Conservation

Last Month Neighbor Comparison

You used **30% MORE** electricity than your neighbors.



* kWh: A 100-Watt bulb burning for 10 hours uses 1 kilowatt-hour.

HOW YOU'RE DOING:

You used more
than average

Turn the report over
to find ways to save

- ~8 Million US households
- 1.9% to 3.0% reduction in energy consumption
- Equivalent to 18-31% price increase

Hiring and promotion





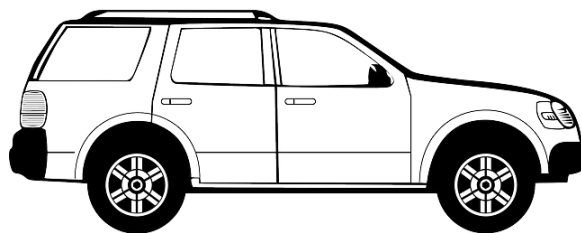
Applying Behavioural Insights – “Nudging”

- Think hard about the “choice architecture” we present to individuals – the procedures, options, information
- Re-design this architecture to allow for human limitations and biases and sociality – make it more “human friendly”
- Make good choices easier for people

Good intentions



Good choices



Common Objections to Nudging

Nudging is manipulative and paternalistic, and perhaps a slippery slope towards more intrusive interventions and bad nudges that actually harm citizens

Response:

- It is unavoidable – there is always some choice architecture
- So we should be responsible and smart about it
- Transparency is the critical safeguard – the “publicity principle”: only do things you are willing to defend publicly to citizens

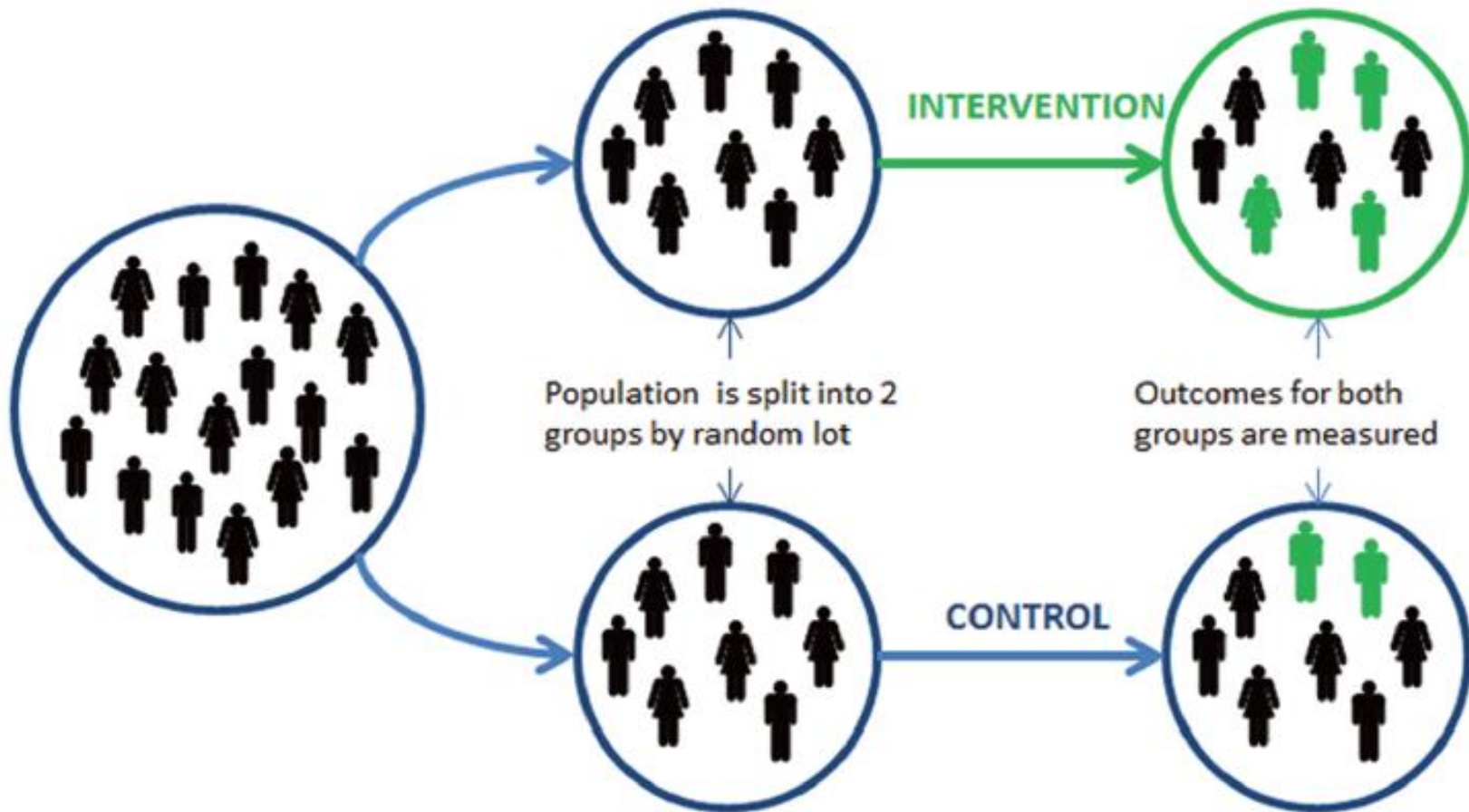
Early Adopters

Policymakers throughout the world are now using behavioural insights to design more effective public policies and services.

- In 2010 the UK set up the Behavioural Insights Team in the Cabinet office.
- In 2013 NSW set up a Behavioural Insights Unit in the Department of the Premier and Cabinet (as an offshoot of the UK BIT).
- In 2014 the US set up the Social and Behavioural Sciences Team in the White House -- in 2015 the President issued an Executive Order urging all agencies to apply behavioural insights and consult the SBST).

How BETA works

- BETA's work incorporates analysis of data on behaviour, development of design options, and rigorous testing of new approaches using randomized control trials.
- BETA projects fall across a broad spectrum of policy areas, including the financial sector, taxation, employment, social services, health services, education, industry and innovation, communications, environmental programs, and foreign aid.
- Some 32 trials completed, in the field, or about to launch



Why Run a Randomized Control Trial?

- Randomisation ensures that treatment and control groups are identical in all ways (observable and unobservable).
- Any difference in outcomes between the groups can only be due to the intervention.
- Traditional approaches to evaluation, without randomized assignment, are unreliable. Simply comparing outcomes before an intervention to outcomes afterwards is misleading.





Our trials – some examples

- Reducing unconscious bias in hiring in the Public Service (APSC + 14)
- Helping people make choices for managing retirement income (Treasury)
- Improving energy rating labels on appliances (Environment)
- Increasing business compliance with wages laws (FWO)
- Improving transparency in government application processes (DHS)
- Helping people avoid suspension of welfare payments (DHS)
- Increasing compliance with claiming tax deductions (ATO)
- Helping people manage credit card debt (Treasury)
- Reducing unnecessary prescriptions for antibiotics (Health)
- Increasing cancer screening (Health)

BETA partner agencies

Department of Education and Training	Department of the Prime Minister and Cabinet	Department of the Environment
Department of Industry	Department of Health	Office of the Fair Work Ombudsman
Department of Foreign Affairs and Trade	Treasury	National Disability Insurance Agency
Department of Communications	Department of Human Services	Australian Taxation Office
Department of Social Services	Department of Employment	Australian Public Service Commission
Department of Infrastructure and Regional Development	Department of Agriculture and Water Resources	Attorney General's Department

Summary

Behavioural economics explains why good intentions often fail to produce good choices (and outcomes) – people often fail to act in their own best interests

Simple interventions and improvements to the choice architecture can make policies more human friendly, reduce self-defeating behavior and improve outcomes.

We also cannot avoid setting the choice architecture – the issue is not whether or not to “nudge”, the issue is whether to be responsible and smart about it, and build policy design based on rigorous evidence.

BETA can help!

Questions?

For more information:

www.pmc.gov.au/beta

Follow us on Twitter:

@beta_gov_au

Extra slides



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Objections to Nudging

Nudging is too weak and is a poor replacement for real regulations that mandate certain behaviors and ensure good outcomes.

Response:

- One size may not fit all and it can be difficult to get the regulations exactly right
- Freedom of choice is a safeguard against regulatory errors that lead to unanticipated (bad) outcomes

Behavioral insights – other biases

Humans are ... human (limited, biased, emotional, social)

- Planning fallacy – unrealistic optimism about time needed to complete a project
- Anchoring – tend to use a readily available number as starting point to make a choice
- Availability bias – assess likelihood of event by how readily examples come to mind
- Overconfidence – overestimate abilities (especially in young males)
- Mindless choosing – tend to act on “auto-pilot” or follow routine
- Mental accounting – assign money for different purposes (rather than using it wherever it is best used)
- Self-serving bias – tend to attribute successes to our own character or effort but blame failures on others or outside forces
- Fundamental attribution error – tend to over-emphasize personal character rather than situational factors in explaining actions of others