

<Why Has 'Nudge Theory' Been A Popular Policy Tool for Some Governments in Recent Years, and What Might Be Its Drawbacks? >

<Word Count = 1981>

Skylight Scribbles

Introduction.....3

Essay body3

 Nudge theory in behavioural economics 3

 Nudge theory in the policy discourse 4

 The popularity of Nudge theory in the UK and Australian policy framework..... 5

 Potential drawbacks of nudge theory..... 6

Conclusion7

References.....8

Skylight Scribbles

Introduction

Nudge theory or nudging has been observed as a useful and popular policy paradigm all across the globe. This theory is centred on the theme that rather than forcing people to make important choices and decisions, the decision environment should be shaped in such a manner that influences the choices people make, influence their thinking and behaviour, but without taking away the power to choose (Thaler & Sunstein, 2009). Nudge theory is quicker, cheaper and less controversial than applying ‘budes’ or ‘shoves’ in the shape of fines, taxes, and other regulations. Nudges allow people to willingly and voluntarily do those things beneficial to them, as well as the wellbeing of the society as a whole. This essay intends to critically analyse why ‘Nudge Theory’ has been a popular policy tool for some governments in recent years, and what might be its drawbacks. The essay sets out with a literary explanation of nudge theory in behavioural economics followed by the importance of nudge theory in policy discourse. Then the essay explores the popularity of nudge theory in governments such as the United Kingdom and Australia. Lastly, the essay critically analyses the potential drawbacks of nudge theory.

Essay body

Nudge theory in behavioural economics

Nudge theory is a modern and flexible concept in behavioural economics to: understand the thinking process of people, how they make decisions and how they behave. Scholars argue that the decision environment of citizens can be constructed in such a way that it permits or instigates them to make those choices that are desirable (Thaler & Sunstein, 2009; Hollands et al., 2013). This is where *nudge theory* or *nudging* comes in handy, particularly in policymaking discourse because nudge theory helps to create such an environment. From the perspective of policymaking, the environment created by nudge theory allows the government to make little to no intervention contrary to other traditional tools of policymaking such as applying regulations and taxations, etc. Thaler and Sunstein published their book titled *Nudge: Improving Decisions about Health, Wealth and Happiness* (‘Nudge’) in 2008. The Economist and Financial Times entitled it the Best Book of the Year, 2008 in which the central focus was based on the potential for more innovative and less coercive interventions by the government to shape the behaviour of people (Kosters & Van

Der Heijden, 2015). The idea of nudge theory emerged because people are susceptible to a broad set of biases, thus when they make the most important choices and decisions, they have a high probability to make bad choices. In this context, apparently subtle and small nudges (without limiting their freedom of choice) can provide the people with advantageous outcomes.

Nudge theory in the policy discourse

Notably, in traditional economics, it is generally assumed that people are rational decision-makers who make rational decisions by focusing on self-interests so as to maximize their welfare. On the contrary, behavioural economics stresses that in the policy analysis discourse, people are not to be assumed as rational decisionmakers. This means it is wrong to presume that people always make decisions based on rationality. Liu et al. (2014) highlight that humans tend to stress those benefits that are immediate relative to those benefits that are delayed. This indicates that people have the inclination to go against their best and rational interests. As a whole, this situation raises concerns that in policymaking discourse, if policymakers presume that people make rational decisions and they (policymakers) construct policies considering this factor, then the policies might not be able to obtain the desired outcomes. This implies that nudge theory can be taken as an essential element in policymaking so that nudging moves people in the desired direction. Bekker et al. (2015) identify that nudges can be applied through information networks so that information is used to direct citizens towards a particular policy objective. The policymaking can be altered in this manner to change societal behaviour on a large scale. Rodriguez-Arias & Morgan (2016) provide an example of nudge theory in the organ donation policy discourse by making easier the 'right' choices. The authors state that in Europe, the most common type of organ donation revolves around presumed consent that is written as the "opt-out" model. Opt-out is a type of nudge in which organ donation is prescribed as a default option to instigate people to become organ donors. Mackay & Robinson (2016) highlight that this type of organ donation takes the advantage of the tendency of people to prefer the status quo. At least 20 European countries implemented this nudge policy in 2008 (Rithalia et al., 2009). This happened as the turning point when the opt-in system in policies of many countries (in which individuals make choices to register themselves as potential donors) was changed to the opt-out system including the United Kingdom.

The popularity of Nudge theory in the UK and Australian policy framework

In the United Kingdom, nudging or nudge theory has been utilised in the context of the Big Society policy framework (Lister, 2015; Manzi, 2015). The main purpose of nudging in this policy framework is to empower local communities and people by creating an environment of subtle nudging via policymaking. To make it possible, the UK enacted a ‘Nudged unit’ by the name *Behavioural Insights Team* (BIT) in 2010 (Team, 2011; Kuehnhanss, 2019). The members of BIT were encouraged to invoke many reforms by using behavioural insights. The other policy areas for which BIT operates include but not limited to vehicles licensing, smoking cessation and other charitable domains. For example, the unit worked in the *Driver and Vehicle Licensing Agency* (DVLA) so that when the driving license is to be renewed, citizens are influenced whether they would donate their organs in the event of their death (Manzano & Pawson, 2014). The other departments in which BIT uses nudge theory to change consumer empowerment strategy are the *Department of Energy and Climate Change* (DECC) and the *Department for Business Innovation and Skills* (BIS). BIT enthusiastically uses the nudge theory to such a degree that the central focus of their operations revolves around nudge theory.

The nudged theory is not only limited to the UK. The chief of BIT David Halpern had greatly encouraged the utilisation of nudging policy in behavioural insights, thereby extending the BIT in Sydney, Singapore, New York, Manchester and London (Ball et al., 2017). In this context, the *Behavioural Economics Team of the Australian Government* (BETA) was also established in Australia. The birth of BETA has encouraged less complications in paying taxes for Australian citizens by introducing streamlined online portals and pre-population forms. All those measures in policy discourse not only shows that nudge theory has been extended in many countries, but it also shows the popularity of nudge theory in other countries across the globe.

In the UK public policy framework, many programs have been initiated to provide citizens with community rewards against restaurant bills-based charity pounds, nudging for household efficiency and improvements, and ATM-machines-based charity donations. It has been observed that in the United Kingdom, nudging has been a great success (Kosters and Dee Heijden, 2015). The authors highlight that the differences in recent donation choices in the UK were 270% (highly positive). Secondly, opt-out and opt-in kind of nudging in the UK’s charitable giving was increased 43%. Personalised information nudging via repayment of court fines led to a 30% increase. 30%

increase was observed by applying nudging-based simplified letters to pay outstanding tax liabilities in the UK. 10% of the positive difference was observed by applying nudging type of close peer's vs distant peers in the domain of household tax payments. The nudging information of food waste recycling had a 3% increase in the food waste domain. 1% of the increase was observed by applying the nudging type of message design in organ donation. All these facts corroborate that nudging theory has been successfully applied in the UK policy framework and positive results have been achieved in terms of changing the perception and attitude of people in society. It can be said that the overall behaviour of British citizens is changed by applying the nudging theory. The citizens actively participate in the policy domain rather than being passively awaiting the directives of policy to be sent from the central government.

Potential drawbacks of nudge theory

The very first potential drawback of nudge theory in policy discourse relates to the behavioural issue. This is because more research might be needed in terms of changing the behaviour of citizens on a larger scale. It is observed that the level of expertise and intervention in changing the behaviour of citizens is somewhat patchy and inadequate since only a few innovator authorities and organisations are involved in this process (John and Richardson, 2012). Thus, only a moderate change is expected in citizens' behaviour. This might be because a precise association between government actions, citizens' behaviours and effective public outcomes is difficult to establish. Because citizens do not necessarily and quickly come forward as per historical trends, a clear framework of the policies of behaviour change might be needed in nudging.

When critically analysing nudge theory and the emergence of organisations such as BIT, this essay perceives that BIT is not given full independence because it operates under the central government as a delivery agency service organisation. This means the power of central government is still enforced on this organisation with only a few flexibilities provided to the BIT. This might go against the desired outcomes of nudging theory in the policy discourse because, in the name of public authority, BIT might work as a secondary governmental organisation per se. Thirdly, it is commonly assumed that every person can take the option to opt out of the status of consent policies relating to organ donation (MacKay & Robinson, 2016). However, Rithalia et al. (2009) identify that in the countries such as Croatia, Norway and Spain that are known as opt-out European countries, people cannot refuse by using refusal registers or standard card. This is

contrary to the main requirement of the ‘nudge theory’ that liberty must be given to the people so that they have the power to select against the default status quo.

Lastly, it is reported that the nature of nudge theory or nudging revolves around its capability to volunteer people and organisations (Kosters & Van der Heijden, 2015). However, the literature also suggests that in some cases, volunteering rates will decline if people are offered payments (Moseley & Stoker, 2013). This essay perceives that more care is needed in nudging-related voluntary works when payments are offered. For example, if people are paid for the voluntary works, then this voluntary nature of work can be exploited and people might lose their interest in doing voluntary work because they are given payments despite the voluntary nature of works. This voluntary nature of nudging is also vulnerable because many countries have unequal socio-economic circumstances and it might be possible that people volunteer only for their own wellbeing and self-interest rather than working generously for the wellbeing of others.

Conclusion

The essay acknowledges that in behavioural economics, nudge theory is a flexible and modern concept that constructs the decision environment of people in such a manner that influences the thinking and decision-making of people without compromising on their freedom of choice. In the policy discourse, nudge theory has been utilised as a successful policy tool and an essential element in policymaking that can potentially direct people towards a particular policy objective. The popularity of nudge theory across the globe in different governments is undeniable and many programs have been initiated by different governments such as the *Behavioural Insights Team* (BIT) in the United Kingdom and the *Behavioural Economics Team of the Australian Government* (BETA) in Australia. There are many potential drawbacks of nudge theory such as behavioural issue, the power issue of the central government and the voluntary nature of the works involved in nudging.

References

- Ball, S., Hiscox, M. and Oliver, T. (2017). Starting a behavioural insights team: Three lessons from the Behavioural Economics Team of the Australian Government. *Journal of Behavioral Economics for Policy*, 1(Special Issue), pp.21-26.
- Bekker, V., Tummers, L. and Van Leeuwen, M. (2015). Nudge' as an innovative policy instrument: a public administration perspective
- Hollands, G.J., Shemilt, I., Marteau, T.M., Jebb, S.A., Kelly, M.P., Nakamura, R., Suhrcke, M. and Ogilvie, D. (2013). Altering micro-environments to change population health behaviour: towards an evidence base for choice architecture interventions. *BMC public health*, 13(1), pp.1-6.
- John, P. and Richardson, L. (2012). Nudging citizens towards localism. In *The British Academy*.
- Kosters, M. and Van der Heijden, J. (2015). From mechanism to virtue: Evaluating Nudge theory. *Evaluation*, 21(3), pp.276-291.
- Kuehnhanss, C.R. (2019). The challenges of behavioural insights for effective policy design. *Policy and Society*, 38(1), pp.14-40.
- Lister, M. (2015). Citizens, doing it for themselves? The Big Society and government through community. *Parliamentary Affairs*, 68(2), pp.352-370.
- Liu, P.J., Wisdom, J., Roberto, C.A., Liu, L.J. and Ubel, P.A. (2014). Using behavioral economics to design more effective food policies to address obesity. *Applied Economic Perspectives and Policy*, 36(1), pp.6-24.
- MacKay, D. and Robinson, A. (2016). The ethics of organ donor registration policies: nudges and respect for autonomy. *The American Journal of Bioethics*, 16(11), pp.3-12.
- Manzano, A. and Pawson, R. (2014). Evaluating deceased organ donation: a programme theory approach. *Journal of Health Organization and Management*.
- Manzi, T. (2015). The Big Society and the conjunction of crises: justifying welfare reform and undermining social housing. *Housing, Theory and Society*, 32(1), pp.9-24.
- Moseley, A. and Stoker, G. (2013). Nudging citizens? Prospects and pitfalls confronting a new heuristic. *Resources, Conservation and Recycling*, 79, pp.4-10.
- Rithalia, A., McDaid, C., Suekarran, S., Norman, G., Myers, L. and Sowden, A. (2009). A systematic review of presumed consent systems for deceased organ donation. *Health Technol Assess*, 13(26), pp.1-95.

Rodríguez-Arias, D. and Morgan, M. (2016). “Nudging” Deceased Donation Through an Opt-Out System: A Libertarian Approach or Manipulation? *The American Journal of Bioethics*, 16(11), pp.25-28.

Team, B.I. (2011). Behavioural Insights Team Annual Update 2010–11. *Cabinet Office: London, UK*, pp.1-30.

Thaler, R.H. and Sunstein, C.R. (2009). *Nudge: Improving decisions about health, wealth, and happiness*. Penguin.

Skylight Scribbles