Evidence, Not Intuitions
“The guy’s an athlete, Bill,” the old scout says. “There’s a lot of upside there.”

“He can’t hit,” says Billy.

“He’s not that bad a hitter,” says the old scout.

Paul reads the player’s college batting statistics. They contain a conspicuous lack of extra base hits and walks.

“My only question,” says Billy, “if he’s that good a hitter why doesn’t he hit better?”

Over and over the old scouts will say, “The guy has a great body,” or “This guy may be the best body in the draft.” And every time they do, Billy will say, “We’re not selling jeans here,” and deposit yet another highly touted player, beloved by the scouts, onto his [bad] list.
Four Concepts

• **Nudge**: libertarian paternalism. Influences choices but let people go as they see fit. Cafeteria design (Lesson: small changes can have big effects)

• **Choice architecture**: All of our choices have architecture behind them. (Same lesson)

• **Simpler**: Complexity is surprisingly harmful (for both private and public sectors) (Lesson: make it easy and intuitive)

• **Human errors**: a) present bias b) optimism, c) attention (we don’t notice; gorilla) (Lesson: Help people focus on long-term and make salient) (Hint: Loss aversion)
What is a Nudge (1)? A GPS is. Also and similarly:
Nudges in the USA: Some Examples

- Distinctive US approach: using behavioral findings
- Credit Card statute (default rules, disclosure)
- Retirement policy (automatic enrollment)
- Affordable Care Act (default rules, disclosure)
- Financial reform (“know before you owe”; simplification; Federal Reserve Board rule)
- Fuel economy and energy efficiency labels
- Education policy (simplification)
- Childhood obesity (choice architecture)
- Much more, and note: $90 billion in net benefits
What is a Nudge (2)?
What is a Nudge (3)?

Virtual Ageing Simulation

A: Actual photo of First Author
B: Non-aged Digital Avatar
C: Aged Digital Avatar
What is a Nudge, (4)?
(for diabetics)

Red - Drink Rarely, If At All
- Regular sodas
- Energy or sports drinks
- Fruit drinks

Yellow - Drink Occasionally
- Diet soda
- Low-calorie, low-sugar drinks
- 100% juice
What is a Nudge (5)?

- A 2-Phase Study (Thorndike et al., 2012)
- Color labeling: red (unhealthy), yellow (less healthy), green (healthy) (Phase 1)
- Choice architecture: increase visibility and convenience (Phase 2)
- Biggest changes among beverages.
  - Green up by 9.6 percent in Phase 1 and up 9.6 percent in Phase 2!
  - Decrease down by 16.5 percent in Phase 1 and then again by 11.4 percent in Phase 2
What is a Nudge (6)? (Definition)

- Any feature of the social environment that affects people’s choices without coercion or any material incentive:
  - Disclosure of information (e.g., about calories)
  - Warnings
  - Portion sizes; order effects in cafeteria; colors; menu ordering (items at top and bottom are more likely to be chosen!)
  - Pre-ordering (healthier choices)
  - Default rules (portion sizes)
  - Framing (90 percent live vs. 10 percent die)
  - Drawing attention to social norms (“I’ll have what she’s having”)
- Note: Informational cascades (seatbelt buckling, smoking)
Why Nudge?

- What John Stuart Mill missed:
  1) Nudging is inevitable (green wrappers; where we sign; cafeteria design)
  2) Human error

- Very recent example, FDA: “Changes in labeling may also assist consumers by making the long-term health consequences of consumer food choices more salient and by providing contextual cues of food consumption. We note that the behavioral economics literature suggests that distortions internal to consumers (or internalities) due to time-inconsistent preferences, myopia or present-biased preferences, visceral factors (e.g., hunger), or lack of self-control, can also create the potential for policy intervention to improve consumer welfare.”
Do Nudges Work? (YES)

- Chetty et al.: Automatic enrollment has a much bigger effect than significant tax incentives (Denmark) (US Gov has responded)
- CARD Act – saving over $20 billion annually, some of it through nudges
- Opower: Home energy report has an effect energy use equivalent to significant price increases
- FAFSA simplification – effect equivalent to a several thousand dollar education subsidy (US Ed Dept has responded; cf. new ACA application)
- For many areas, a challenge (and an opportunity)
The Power of Default Rules
(imagination welcome)

- Bean sprouts and soy cheese sandwiches
- Savings defaults
- One sided vs. two sided defaults for printing
- Green energy defaults
- Privacy
- Taxi tips! (cf. portion sizes)
- Compare the importance of repeated exposure: kids exposed for 10-12 weeks to eating vegetables ended up liking them more and eating more (familiarity can increase liking)
PLATE, NOT PYRAMID

Old USDA Food Pyramid
New USDA Food Plate

ChooseMyPlate.gov
Executive Order 13563: “Mini-Constitution”

• Predecessors: Reagan, Clinton
• 1) Cost-benefit analysis; maximize net benefits
• 2) Low-cost tools: “each agency shall identify and consider regulatory approaches that reduce burdens and maintain flexibility and freedom of choice for the public. These approaches include warnings, appropriate default rules, and disclosure requirements as well as provision of information to the public in a form that is clear and intelligible.”
Simplification Is A Nudge

• Basic finding: **Complexity can have serious adverse effects**, defeating goals. (What seems to be resistance may be a response to ambiguity!)

• Financial Aid for College Reform – enabling large numbers of students to attend college.

• Prescription Drug Plans

• Call to all agencies to simplify requirements, especially on small business and participants in federal programs

• Form Simplification Project
Social Norms Are Nudges

• Energy use: levels decrease when people learn that they are spending more money than their neighbors
• Increase in usage of seatbelts, prompted in part by changing norms
• “Compliance without enforcement” with restrictions on smoking
• Let’s Move campaign: Walmart has committed to reformulating thousands of everyday packaged food items by 2015 by reducing sodium 25 percent and added sugars 10 percent, and by removing all remaining industrially produced trans fats.
• A number of companies, including Kraft Foods, General Mills, Coca-Cola, Pepsi, and Kellogg, have pledged to remove 1.5 trillion calories from their products by 2015, to combat childhood obesity.
• Distracted driving initiatives
• Note: Deaths on highway at lowest level in recorded history
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Simpler: Regulatory Lookback

Executive Order 13563, Sec. 6(b)

“Within 120 days of the date of this order, each agency shall develop and submit to the Office of Information and Regulatory Affairs a preliminary plan . . . under which the agency will periodically review its existing significant regulations to determine whether any such regulations should be modified, streamlined, expanded, or repealed . . . .”
Lookback Results

• Over two dozen agencies have released reform plans, including over 580 initiatives. The release was preceded by public comment.

• A small fraction of those initiatives, already finalized or formally proposed to the public, are saving billions of dollars in the near future.

• The Department of Health and Human Services has removed unnecessary requirements now imposed on hospitals and other healthcare providers, with anticipated five-year savings in excess of $5 billion.

• Over 100 million hours of paperwork burdens are going or gone.
Future Directions

• Greater simplification and ease (FAFSA and far beyond)
• Ramping up empirical assessments of human consequences (randomized controlled trials)
• Retrospective analysis (crucial for private and public sectors)
• Cumulative burdens (for government to assess)
• Nudges by private sector: doing good and doing well (cf. cascade effects)
• The tale of the FCC and “bill shock”