

## **Nudging India: Using Behavioural Economics In Public Policy**

**By Anusha Sinha in Business and Economy, Society, Staff Picks**

**13th August, 2019**

### **HOMO ECONOMICUS: AN OUTDATED IDEA?**

In 2017, Richard Thaler, an economist, won the Nobel Prize for his work on something incredibly complex and yet highly intuitive—the idea that human beings do not always behave rationally. He theorized that individuals are instead subject to numerous biases and use the information at hand to pick options. Further, even the way the choices are presented can affect decision-making.

Initially, his work met with resistance from more traditional economists who had built their theories around the idea of the Homo Economicus, or the rational man. Gradually, Thaler’s ideas gained more acceptance and along with Daniel Kahneman and Dan Ariely’s work, have popularized the related field of study known as behavioural economics.

Although Thaler’s work brought about a radical change in how economists, marketers, and policymakers viewed their work, the fundamental ideas presented in his research had some precedents. In 1759, Adam Smith argued in his work ‘The Theory of Moral Sentiments’ that our decisions and actions are guided by our values and psychology more so than reason in real-life situations.

While some of the behaviours that irrational thinking might lead to are relatively harmless, these same irrationalities can also lead to more severe consequences. For example, individuals often put-off important decisions like opting for pension plans or filing tax due to the cognitive load involved. However, simple changes like opt-in being the default for pension or pre-filled tax forms were seen to increase compliance.

As Thaler's ideas gained traction, governments set up 'nudge units' which use behavioural insights to improve public policies. Many challenges faced by public policymakers like climate change or rising costs of health infrastructure can be addressed by nudges which change the behaviour of individual actors, thus benefiting society as a whole.

### **Applying Nudge Theory in Public Policy**

One such team is The World Bank's behavioural sciences team, The Mind, Behaviour, and Development Unit (eMBeD). Its objective is to guide governments in creating and executing 'behaviourally informed policy'. Their success stories include an increase in Peruvian students' growth mindset through positive messaging and increased financial literacy in Tanzania through text messages.

eMBeD's counterpart in the UK is the Cabinet Office's Behavioural Insights Team (BIT) which conducts experiments to collect evidence on the impact of behavioural interventions. The team's past projects have included an attempt to understand the effectiveness of the Get Out the Vote campaign in 2005 and the result of recognition for charitable donations. David Halpern, the CEO of the BIT, found that in India, workers save more when they were paid in two installments, preferably in envelopes with pictures of their children on it. This tactic would probably make the worker think twice before withdrawing money for frivolous expenses and keep the needs of their children at top-of-mind.

### **Why Does India Need Nudging?**

The appeal of nudge units lies in the fact that these interventions are cost-effective and do not require additional resources, but instead draw their power from a fundamental paradigm shift in the way policymakers view human behaviour. In India, where state intervention is vital, and the resource-starved state machinery faces numerous challenges in addressing the needs of the population, nudge units could help optimize the impact of public policies if used effectively.

The Government of India (henceforth GOI) has recognized the relevance of nudge theory in the latest Economic Survey released on 4 July 2019. Its chapter on ‘Policy for Homo Sapiens...’ describes how the government has used behavioural insights in the implementation of schemes like Swacch Bharat Abhiyan and Beti Bachao Beti Padhao. Also, it makes a strong case for setting up a nudge unit in the NITI Aayog. However, promises of a nudge unit in India were first made way back in 2016, perhaps in response to similar teams in the U.K., the U.S., Singapore, and Australia. Three years hence, it is high time that the government executes the idea in a sustainable and scalable manner.

### **How Should India Implement Nudge Theory?**

As nudge units are highly experimental, starting small would be advisable. Zeina Afif, a social scientist, writing for the World Bank Group, advises nudge units staffed with two to four members to demonstrate the impact of interventions on select policies in a short trial period. A pilot would help understand how to scale up operations and bring diverse stakeholders on board.

In the economic survey, the Chief Economic Officer stressed the importance of understanding the social and cultural norms governing India. In a diverse country like India, an agile and adaptable network of nudge units across ministries and levels of government would be better placed to suggest nudges than a centralized body. GOI could take a cue from the Netherlands in this regard, where each ministry has its behavioural team, and the Ministry of Economic Affairs merely provides oversight.

### **What Can Go Wrong?**

An underlying assumption in nudge theory is that the citizen does not understand what is best for them and hence the government must exercise its power in prodding them towards goals that are beneficial for them and the larger society. However, this means that the government

has the power to restrict individual freedoms to serve the greater common good.

Public support can be mobilized for proposed changes through public consultation. This can prevent the implementation of nudge theory seeming like coercive state action. For example, the GOI could test a sample of the public's reaction to the proposed BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi) campaign before a full-scale launch.

Nudge units place great importance in the power of out-thinking the irrationality presented by everyday human behaviours. However, it would be dangerous to assume that all negative actions can be accounted for and reduced by the power of a nudge; nudge theory can never be a panacea for everything that is wrong with society. Moreover, it cannot be a replacement for shoddily-designed public policies and can only be used to augment the impact of well thought out policies.

Besides, policymakers themselves might be subject to similar biases, being no different from citizens in that respect. One way to curtail the effects of no oversight over the key decision-makers would be to decentralize authority, giving nudge units the power to develop policies at a local level.

## **Conclusion**

In summary, the question is not whether India needs a nudge unit, but rather how and where to implement one. It is not too late to implement nudge theory, and the Indian nudge unit can learn from the successes and failures of similar teams. In the great tradition of naming public policies after localized concepts in India, the nudge unit could be named Prabhaav, a Hindi word which translates to 'influence'. Through a combination of an understanding of the Indian people and human behaviour, Prabhaav units could be a potent enabler of change!