

The Origins of Behavioural Public Policy

The use of behavioural science to inform policy is one of the main developments in the social sciences over the last several decades. In this book, Adam Oliver offers an accessible introduction to the development of behavioural public policy, examining how behavioural economics might be used to inform the design of a broad spectrum of policy frameworks, from nudges, to bans on certain individual behaviours, to the regulation of the commercial sector. He also considers how behavioural economics can explain and predict phenomena as a challenge to economists' assumptions around how people perceive time, utility and money. The book offers an intellectual foundation for all those concerned with behavioural public policy, from academics, undergraduate and postgraduate students with a diverse range of disciplinary perspectives, such as economics, political science, sociology and anthropology, to policy makers and practitioners working directly with behavioural public policy in their everyday working lives.

ADAM OLIVER is a Reader in the Department of Social Policy at the London School of Economics and Political Science. Dr Oliver's principal research interests focus upon behavioural economics and its applications to public and private decision making, on which he has published extensively. He is a founding editor of the journals *Health Economics, Policy and Law* and *Behavioural Public Policy*.

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*For Ketevan
Who shoved me into writing this book.*

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Preface

In 2013, Cambridge University Press published a collection of essays that I edited and to which I contributed, titled *Behavioural Public Policy*. It will be no surprise to the reader that I still believe that collection to be a useful resource and a genuine contribution to this burgeoning but still relatively new approach to public policy analysis, being comprised of chapters written by many of the leading and up-and-coming behavioural specialists in the world. However, the collection lacked a single voice, and thus I felt that there was scope for me to contribute a companion book to that collection, a book that you are now reading.

All of my degrees are in economics. My undergraduate degree was a straight economics degree, I have an MSc in health economics, and my PhD focussed on challenges to expected utility theory, which remains the dominant theory of rational choice. Therefore, I consider myself to be a behavioural economist, and practically all of the empirical research and much of the conceptual work that I have done over the years has been, I would argue, behavioural economics, more often than not applied to health.

Therefore, it is natural I think for me to approach the topic of behavioural public policy principally from the perspective of a behavioural economist rather than a behavioural scientist in the broader sense of the term; indeed, this is the only thing that I can do. I am not dismissing or downplaying any other discipline because of this. In fact, quite the contrary. The principal disciplinary inputs in the development of behavioural economics have been economics and psychology, and yet my view is that behavioural public policy ought to develop with contributions from a much broader range of disciplines, including, but not limited to, economics, psychology, anthropology, sociology, political science, philosophy, animal behaviouralism,

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history and even literature. I have tried to incorporate some ideas from most of these disciplines into this book to the extent that I am able, but as I said, my principal expertise is in behavioural economics and that will probably show.

THE TARGET AUDIENCE

... is everyone. But perhaps that is a little ambitious. When I was a PhD student, a quite well-known professor told me that a lot of his economics colleagues set out deliberately to make their writings as impenetrable as possible in order to get one over on each other, and another well-known professor informed me that most of the behavioural economics literature was written by specialists for specialists. I thought the latter piece of information a shame but probably understandable, but the former state of affairs struck me as ridiculous. I have always set out to make my own writings accessible, even though my readership has remained minuscule, and I have endeavoured to continue to do that in this book. That said, this is not a popular science book. Popular science books are often entertaining, and I suppose they serve their purpose of provoking interest in behavioural phenomena – as well as bringing riches to their authors – but if the reader wants a good, thorough understanding of the behavioural field, with one or two notable exceptions, they tend not to be very good. I have attempted to limit the use of jargon, or to explain it in plain English where it is used, and I have tried to pitch the book somewhere between popular science and a technical academic text. In terms of accessibility, I had Daniel Kahneman's *Thinking Fast and Slow* in mind, and thus I hope the book will be read by interested laypersons, students from the undergraduate level upwards – and thus it can be used as a teaching resource – a broad multidisciplinary range of academics, and policy makers. So, almost everyone.

HOW TO APPROACH THE BOOK

Ideally, I would like readers to keep policy in mind as they read the book, whether they are reading the theoretical, conceptual or more

directly policy-related parts of it. When you know what behavioural economics entails – when you are learned in the concepts presented in this book – you will see it at work everywhere, and you will notice that it is useful for designing, evaluating, critiquing and applying policy in any sector that interests you. I do not expect anyone to agree with everything that I have to say, but my intention is not to convince. It is to offer food for thought, as well as provide a teaching resource. If I provoke thought, whether or not people ultimately agree with me, then I would have done my job.

Although I have summarised a rich body of argument and evidence in the book, I do not pretend to have covered everything that is relevant to behavioural public policy. There are gaps in the knowledge presented, both in relation to the topics that are left uncovered and in relation to an incomplete coverage of many of the topics that are included. I have, however, provided a foundation on which readers can build, to fill any gaps that they identify and to develop some ideas of their own. If the reader absorbs the whole book, it is, I like to think, a solid intellectual foundation for the development of informed assertions.

NOTES ON STYLE

My main aim in the book is to pull together many of the ideas that I have been working on over the past ten years or so in order to demonstrate the interconnectedness of the issues that, at face value, might seem quite disparate within the field of behavioural public policy.

I am English, and therefore I have used British spelling throughout the book, but I have attached the \$ sign to all numerical examples that require a currency indicator, because that is the convention in modern behavioural economics. Moreover, I recognise that women are at least as important as men, but rather than writing he/she and him/her throughout the text, for brevity and consistency, when the occasion calls for it, I have used the terms he and him. She and her would work just as well. I flipped a coin to decide which to

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use, and no disrespect is intended. Furthermore, I use the terms lottery and gamble interchangeably.

Many of my policy examples in the book will lean towards health and health care, because that is where my knowledge tends to lie. However, this is a book of concepts and the arguments are essentially generic; therefore, as stated above, readers can quite readily think about how these arguments apply to any policy sector that interests them. I have deliberately chosen, for the most part, not to be didactic. Rather, I have tried to present a balanced perspective of the competing views on each topic covered. The only place where I relax this approach is in the final chapter – Chapter 10 – where I offer my own opinions and perspective on some of the issues theretofore considered. This is just to give an indication of where I stand at this point in time. I encourage – even implore – readers to take me to task.

It is perhaps worth reiterating that the book is not a systematic literature review. I have not given all of the references for every argument or piece of empirical evidence that I mention. To do so would have meant that the list of references would have exceeded the length of the main text. Enough references are, however, included to offer a good indicative account of the topics covered. I apologise in advance to anyone who feels slighted.

HOW THE BOOK IS ORGANISED

The first thing to note is that the book is intentionally short. This is to increase the chance that the wide target audience – interested laypersons, students, multidisciplinary academics, policy makers – will read the whole thing. It has taken me about ten years to collect my thoughts on the content of this book. Assuming an average of one hour per chapter, the reader can attain that knowledge in ten hours, which strikes me as a good return on investment, assuming, of course, that I have anything that is worth imparting.

To my mind, one cannot really be a good behavioural public policy analyst without some knowledge of behavioural economics, and one cannot understand behavioural economics without some

knowledge of rational choice theory, of which expected utility theory is an important component. The first three chapters of the book, in particular, provide that understanding and knowledge and, although I have attempted to write, as far as is possible, in a non-technical, accessible style, non-economists in particular will still have to work reasonably hard to get through those chapters. The effort will be worth it, as this will give the reader the grounding to speak with authority on this subject area. That said, the chapters can be read independently from one another if one wants to skip this important conceptual material – but reading the whole book will offer the reader a richer picture of how behavioural public policy emerged, and how the various developments fit together.

As intimated above, the book starts off with how behavioural economics – or behavioral economics – originated. There is some dispute as to the birth date of this discipline. Some contend that the term – and thus the discipline – surfaced in the 1980s, but I believe that a discipline can exist without a term to define it. Neolithic man drew pictures in caves. They didn't call it art, but it was art nonetheless.

I would argue that modern empirical behavioural economics was born in the early 1950s. You will learn why when you read the book. After detailing the birth and development of behavioural economics in the first three chapters, the next three chapters are devoted to single issue topics that have each presented a challenge to standard economic assumptions. These relate to perceptions relating to time, to utility and to money. Chapters 7 and 8 move on to the principal conceptual behavioural public policy frameworks that have been developed mostly by behavioural economists – the so-called nudge, shove and budge frameworks, all of which lean on the behavioural economic phenomena that you will have been exposed to earlier in the book. Chapter 9 considers a human motivational force – reciprocity – that has not received the attention that it deserves in the public policy literature, and then Chapter 10 offers an opinionated summing up of much of what has been up to that point said.

Acknowledgements

I would like to thank Bob Sugden, who, I think in 1989, was the first person to introduce me to behavioural economics, and has been a source of inspiration since. I do not always agree with him, but at the intellectual border of economics and philosophy, there are few who can match Bob.

When I think back, I have had very few good formal teachers. Almost everything I have learned, I have taught myself. That said, my informal teachers – the scholars whose works I have read, including those who I have referenced in this book – have been the best I could have hoped for. To all of them, dead or alive, I say thanks. I've enjoyed learning from you.