# The evidence shows that nudge effects disappear when incentives are short term; 'deposit contracts' may provide the answer to changing people's behaviour

*Effective policies that aim to nudge people to alter their behaviour to become more healthy have been increasingly under the spotlight. Taking the example of stopping smoking,* **Adam Oliver** *argues that conventional nudge initiatives are rarely successful in the long term. Instead, he argues, policy makers should take a closer look at 'deposit contracts', which would give people a real financial incentive to change their behaviour.*

Over recent years, the idea of paying people to engage in healthier lifestyle behaviours has been a topical point of discussion in health policy circles. The basic initiative is informed directly by one of the core principles of standard economic theory – i.e. the relative price mechanism, or, in other words, the notion that if you pay someone to do something, then they are more likely to do it. Initiatives that pay people to engage in healthier behaviour fall within the canon of libertarian paternalism, the philosophical approach that underlies the nudge agenda. That is, policy makers might choose to 'nudge' people in certain directions (e.g. to stop smoking), but whether or not one wishes to engage in these initiatives is entirely voluntary. This is quite interesting, as it demonstrates that initiatives informed by standard economic theory – and not just those that are directly informed by behavioural economics – fall within the nudge remit.

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Leaving philosophy aside, and with respect to smoking cessation, do these initiatives work? Most of the evidence suggests a resounding 'no'. In 2008, for example, Cahill and Perera reported a systematic review of this area that identified seventeen studies, only one of which demonstrated significantly higher smoking cessation rates for those offered incentives compared to those in control groups beyond six months from the start of the intervention. It seems, from this evidence, that any early success with relatively short term incentives dissipates when the incentives are no longer offered.

Now, one of the problems with these studies is that the incentives are invariably small, and another problem is that they tend to be offered on a relatively short term basis. They are therefore likely to be insufficiently powered to be habit changing. Is there a way of making them more powerful without committing far more resources to them? This is where behavioural economics might prove useful. Requiring participants to commit their own money, with the intention of them receiving the money back if they achieve the target behaviour, is known as a 'deposit contract'. In the behavioural economics literature, it has been observed that losses loom larger than gains. Given this general observation of 'loss aversion', we might expect the loss associated with giving up money in deposit contracts to make these contracts more effective than the conventional practice of simply giving people money if they meet their target behaviours. The Behavioural Insights Team in the UK Cabinet Office have proposed some piloting along these lines, which seems to be a potentially worthwhile endeavour.

It is important to note, however, that many people have raised objections to the use of financial incentives to change lifestyle behaviours. For example, George Szmukler has argued that 'money' and 'health-related behaviours' are incommensurable, and some are concerned that people may temporarily initiate smoking so as to receive a payment for quitting. Others see financial incentives as coercive (even though participation in these interventions is entirely voluntary), and it may be the case that the general public will resent general tax revenues being used to reward people for doing (or not doing) what the majority believe they should be doing (or not doing) anyway. There is also the view that external rewards may crowd out people's intrinsic motivation to act in particular ways, and, moreover, attempts to change people's lifestyle choices could be viewed as patronizing and condescending to the 'beneficiaries'.

I feel a little uneasy with the whole notion of paying people to change their lifestyle choices, because, despite being a behavioural economist and recognizing that we all suffer from bounded rationality, I have a nagging thought that these interventions, although voluntary, may strain the extent to which governments should be allowed to interfere with individual agency. But then I realise that deposit contracts, unlike the conventional payments, sidestep many of the above stated objections; I also think, if these interventions serve to extend the lives of a significant number of people at low cost, and at the same time save health care resources, who am I to object anyway?