The ‘nudge’ agenda is at the forefront of contemporary economic debate for good reason, but it is not yet clear that it can be applied in straightforward way in all circumstances

blogs.lse.ac.uk/politicsandpolicy/nudging-individual-and-its-limits/

2/28/2014

*Behavioural economists from LSE and elsewhere have recently examined the ‘nudge’ research agenda and its limits in a special journal issue. Here, **Joan Costa-Font**, **David Just**, **Barbara Fasolo** and **Nick Powdthavee**, argue that, although appealing and policy relevant, more research is required.*

Behavioural economics has passed the stage of having to convince other economists of its value. Today, it is a branch of mainstream economics with a clear applied focus and obvious policy inclination. Economic analysis of public policy, even when heavily theoretically based, no longer describes individuals as ‘rational optimisers’ who seek to achieve fixed goals on the basis of motivations shaped by the social environment they are embedded in. When economists talk of ‘incentives’, they are generally referring to mechanisms that prompt a desired behavioural reaction. Hence, relevant microeconomics research should be first about understanding the motivations of behaviour so that it can be translated into effective policy and regulation. This endeavour is far from trivial but only recently has become a priority in economic research.

Governments are therefore beginning to recognise that they cannot look at individuals in a vacuum when designing policy. On the contrary they need to identify cognitive and social constraints to behavior that are often group or environment specific. Individual decisions can be more complex than they are portrayed by social planners, and government interventions need to focus on modifying constraints to behaviour that limit individual choice.

In a recent special issue behavioural economists from LSE and elsewhere examined the question of ‘nudge’, the idea of influencing people’s behaviour in positive directions, and its limits. Specifically, how to shape nudges effectively for a specific context, whether the desired effects of these nudges can overcome potential side effects, and the socio-economic and policy consequences of those nudges.

The question of how best to nudge a given behaviour is a complex one. To nudge individuals efficiently would require a large amount of information about the constraints to behaviour, such as defaults, collectively set social norms (which we refer here as ‘nudging ourselves’), and the ability to properly process risk information.

Moreover, by creating defaults that nudge individuals into certain courses of action, we have to account for how loss averse individuals are, the goals individuals aspire to in public and private life, and, more generally, how effectively individuals adjust their behaviour to meet their goals. Tweaking the options and information available to individuals for paternalistic reasons is appealing but not the easiest endeavour. This explains why the ‘nudge’ research agenda, although appealing and policy relevant, still calls for more research.

For instance, we know people save more in their pensions accounts, and are more likely to donate organs if they are opted-in for organ donation as a default. But can we apply the same rationale to behaviours or choices that are more complex than the dichotomous “donate or not donate” decision? Would innovation rates suffer if people were constrained by defaults? There are numerous significant questions that emerge from the nudge literature that deserve attention.

Some important evidence from the papers of the special issue suggests that policy intervention can be effective. Specifically, it contributes to the debate on ‘nudge’ as a ‘soft paternalistic’ way of intervening in economic and social life. Furthermore, it identifies some of the key behavioural mechanisms that influence food consumption and its health-related consequences such as obesity. Health-related behaviour has to confront issues concerning the limits of consumer sovereignty and need to explain where preferences come from, and whether we can do something to change them, in which case we should understand the ‘preference over preferences’.

Although the ‘nudge’ agenda is at the forefront of contemporary economic debate for good reason, it is not yet clear that it can be applied in straightforward way in all circumstances. Hence, we would be ‘nudging ourselves’ if we were to accept the ‘nudge agenda’ without further insights on its limits and side effects.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting.

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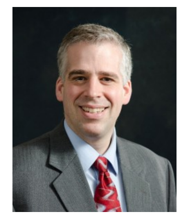

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