

Nudge: The Future for Policy?

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Chair: Julian Le Grand

Welcome everybody. I'm Julian Le Grand, I have the privilege of chairing this session. My main task is to introduce our speaker: David Halpern. I'm delighted to do so; it's an honour to do so quite frankly. He is a quite remarkable individual.

He managed to combine a successful career as an academic, where he's written a number of rather important books, my personal favourite I think is 'The Hidden Wealth of Nations', but he's also worked extensively in government as a senior member of Tony Blair's team 2001-2007, and then has been a pioneer of innovative forms of government in the Coalition Government. One of which he is going to talk about which is the Behavioural Insights Team, and I think probably on that note it would be best to hand over to David to precisely that. Thank you, looking forward to it.

Dr David Halpern

Hi, it's great to be here. I should say while we have a little love-fest for a moment, I've always been a great fan of Julian - one of those rare academics who is intellectually interesting but also quite empirical in relation to social policy and there aren't that many who combine all that.

Anyway, I am just quickly going to take you through some of what we have been doing in the Behavioural Insight Team, with a few slides and examples - as that is what brought it to light and made it acceptable not just in the UK but actually increasingly in other governments too. It's quite practical results rather than high theory.

Essentially there are two main levels that I will quickly take you through. One is very nuts and bolts issues, seemingly boring details that governments weren't interested in that turn out to be really consequential; like forms and letter and details and these sorts of things, small frictional costs. No one wants to talk about that around the Cabinet table, we want to talk about how many billion we will spend on this, that or the other, or the new Green Paper or whatever it will be. No one is interested in those details historically and they turn out to be really consequential. So it has been very rich pickings for us, but they also helped establish that empirically it was an approach, and a proof of concept that works.

Actually, there's another level on which we have always worked which is applying behavioural insights to policy. The basic idea is a really simple one which is human beings are impulsive in a pretty major way and if you design policy around how actual humans make judgements, decisions and what drives their behaviour you might get better policy. Indeed, it certainly gives you different policy in a number of areas in a way that is pretty interesting. That's the map of what I'm going to try and do, and I'm going to do it fairly swiftly hopefully.

The basic idea is that most policy concerns behaviour. If you're looking to recycle, what affects that? Why would you do that? For example, you're not going to do it if you don't think any of your neighbours will do it, it turns out. You want people to save more, but what's the best way of doing it? Is it using an incentive like tax incentive or some other mechanism? You have things you want people to do less of, particularly in the UK, like eat lots of high fat food, or commit crime. Basically any kind of policy concerns behaviour if you think about it. Often we have a rather naïve idea that if we just pass a law that somehow that will affect behaviour, and it might do, but it often won't.

This stuff has been going on for a little while, and by way of backstory, when I was working for Tony Blair – Julian will remember – in fact a decade ago, we wrote a paper on 'Behaviour Change and Personal

Responsibility' – that was the title I think – and it bombed, it went down quite badly. I remember coming into the office that day and it was already on the front page of the Times so it had already been leaked. I tell you this for a reason as the politics of this also matter. And it was one of those documents we do – the Strategy Unit actually no longer exists, the PM's Strategy Unit – but on every page it said, this is not a statement of government policy. And we had a one-line reference to price instruments on food and where they would work and where they wouldn't and it was on the front page of the Times with a big pork pie, saying PM's Strategy Unit proposes fat tax. By the time this got to the tabloids it had different members of the Cabinet, with estimates of their weight, and how much fat tax they would have to pay. And the irresistible line 'how much fat tax will Prezzaer [John Prescott] pay?'

So for various reasons you can see it got into difficulty, and Tony felt compelled within a short time - with a major speech he had coming up - to say 'we would never do any of that stuff, it's too nanny state'. But interestingly the Coalition Government did want to do something with it, and two things came together. One was within the administration, so people like Gus O'Donnell had become keen and even the tail end of the Brown administration there had been growing interest in it. But politically you had people like Steve Hilton who had been wandering around the US and they had become exposed to this approach.

So you had a government that didn't have any money and an incoming administration that didn't really want a mandate – these are words from the Coalition Agreement - finding intelligent ways to encourage people to make better choices for themselves. And you had an administration, at least bits of it at the top with Gus O'Donnell being supportive, so that kind of became the mantra for what became the Behavioural Insight team: a deliberate guerrilla unit put into Downing Street and the Cabinet Office to try and use behavioural approaches to affect policy and reduce regulation.

So I'll go through two lines. We can talk more about the internal structure if you're interested – but it's actually the results that have really turned things around. In principle when you talk in abstraction about the government thinking about using this approach it can be a bit worrying, but when you look at it in real practical examples it's not very scary I think. Of course, it's all around us -it's not new in some sense.

When you came here today you didn't get run over, and that's pretty clever, it's pretty impressive how that happens, and it happens because things like white lines on roads and all these markers and indications which to a large extent are kind of nudges. In fact for a long time, when you learnt to drive you were told certain things you should do like drive on this side of the road or the other, and it's actually always advisory, it's not law at all, just an idea that you might want to do this. It turns out it is a good idea. Or a rumble strip down a motorway, it doesn't really affront your civil liberties in a profound way to have a rumble strip that just reminds you you're about to hit the central reservation. What I guess I'm saying is when you see practical examples people normally think 'well that's pretty sensible, why wouldn't you do that?'

I'll just take you through some of those that we've done. This one actually has its roots in a previous administration, which was changing the form on pensions. It's now pretty well established and everyone knows this idea but it was pretty controversial. It was controversial at the time and it was certainly controversial in this administration. It's worth just bearing in mind what's the relative efficacy. So our conventional instrument is that we use a tax subsidy to encourage you all to save more. I don't know what the efficacy is but we've been able to estimate from Danish data for every £1 or Euro of tax subsidy, how much extra saving do you get on a pension if you use that instrument? It's about 6p, it's incredibly ineffective.

In contrast, there's changing the default. If I remind you it used to be that most employers have got some pensions that the state subsidises but you have to opt into it actively – and from last year that changed, so now it's still your choice but you have to opt out. You have to say to your employer I don't want to be in the pension scheme. Does it make a difference? So this is just the data from the first block of firms that came in which we already have – this is what happens to the enrolment and amongst those who are eligible it's more than 90%. It's also pretty popular, and it also increases savings particularly amongst lower income groups and amongst the young disproportionately. So what's the marginal cost of this? It's nothing like using a tax subsidy and it's orders of magnitude more effective by just changing the default, so it brought in more than a million savers in less than a year.

This is now a famous example but illustrates a simple thing. We worked a lot early on with HMRC, so gathering tax. Not the most exciting thing but you would rather your neighbour does pay their tax so you don't pay it for them for the most part. So this was done on a block of self-assessed tax and it was very much down to a civil servant, a middle-ranking guy called Nick Down who let us do these experiments. He had 600 million of unpaid self-assessed tax, which is not very much for HMRC bear in mind. And the key change – this is already quite a short letter, it had already been refined so it was actually a good letter for government – is we add one line to it, which is just tell people something that is true 'nine out of ten people pay their tax on time'. The question is: just telling people this, will it make a difference? So let's test it. HMRC can send out millions of letters but what if we systematically vary the approach? So here's our control which is a simplified letter which you just saw (on slide), and the measure has someone paid in 23 days, and we use that measure as that is the HMRC measure when they send you a reminder letter. So adding that one line does it make a difference, and the answer is yes it does.

Now that might not seem a lot to you, but given the marginal cost is essentially nothing and you're in the business of collecting very large amounts of money, that's worth a lot. Why stop there, do other variations. So we know social norms are important, but they are even more powerful if they reflect people like you. If we say instead: 'most people in your area pay their tax on time' or 'have paid their tax on time in Oxford/Cambridge or wherever' – that's even more effective, if we turn it around and we say to Julian, 'you are one of the very few who has yet to pay your tax' it turns out even more effective. And if we say both – 'most people in your area pay their tax on time, and you are one of the very few who has yet to do so', there you go it's even more effective again.

So you can see why even if you're a bit sceptical about the gist of it, if you are in HMRC and you think this is pretty interesting you can quantify the effects. Using these kind of approaches we found that within a year we could bring forward about £200 million extra revenue across a range of areas. We can also segment, in more recent years, which we have been doing, where you say what messages work for whom? Which is an interesting question to ask.

The background for this is that – I'll show you a particular wording which actually was used in a trial in another country where they are doing a similar thing to get businesses to pay tax and to say - Julian will be horrified to hear this - telling businesses it's really important to pay your taxes as they pay for schools and hospitals and important things like that. A very clear result, is that it meant businesses paid less tax, and they lost \$90 million.

But it turns out a similar line does work with citizens in general. So we use a line like that and it works a bit, you can see, and we also try a variation, so do you express it in terms of gain like 'it's really important because you can pay for these', or 'if you don't pay it means we can't pay for the following'. I'll put this graph up because you can see it's a little bit worth doing sometimes in terms of its effect but it turns out that one group who it works really really well and you can see this is the difference this makes to their

payment, and they happen to be a really important group as they happen to owe a lot of tax, is to say 'you owe more than £30,000 of tax', this extra line is really powerful. In retrospect you can see why that might be the case because if you owe that much tax it really is like a nurse, and you can also see here the interaction between the two, so expressed in terms of loss is especially powerful if you can get the idea of it.

Here is another quick couple of simple ones. It turns out we do a lot of work on employment and growth. One of the things job centres do is say to you at the weekend, we'll put you in on Saturday as they are advertising for retail jobs and there is a little job fair, and it turns out one in ten people then turn up for those things. So could we do better? There's our control, they get a text telling them 'you've got a job fair', if we just add a name 'Julian' and then it's a text. So if I put my name as well: 'Julian, we've put you down for this thing, David' there you go 18%. If you add a line, which humanises it, as well at the end and it says 'I've booked you a place, good luck'. Not only how many more turn up but think about how you feel when you walk in the room because you got that message. So there's something about this which is just about human touch, essentially you could express it as being more personal.

One last example, you might say it's texts, letters, but sometimes it involves more elaborate process change. One thing we've done with job centres is an intervention to change the way the whole interview works. It turns out that when you go into a job centre - some of you may never have experienced this - but you have to sign a lot of documents, which is really dull but it also frames that the first thing you do in a job centre is sign a lot of documents, so we managed to get rid of most of those, so now you've got two. One of the documents - you had eight or nine you had to sign - one of which was so they had a copy of your signature - as if they didn't have enough. The key change we really made, was what we've been doing in active welfare policy for 30-40 years is we require people to show they are looking for work, and that boils down to you have to show you've looked for at least three jobs in the past two weeks. People go in with a newspaper and they ring three things. Psychologically there are lots of things wrong with that. First of all it is anchoring you to three, which is a very low number and if you want to get jobs you really should be thinking 30-40 jobs you're looking at. It's also asking you about what you did last week, to some extent who cares what you were doing last week, it's about what you are doing next week.

There's a whole body of work around implementation and intention where if you help people plan what they're going to do, they are much more likely to execute that. If you want people to vote in much larger numbers don't just say 'it's your civic duty to vote' or you can if it makes you feel good, but it won't make more people vote. Whereas if you say - make a plan basically - 'have you thought about what time you're going to go, how you're going to get to the polling stations', if you just ask those questions then people turn out in larger numbers. So that's what we do, we redesign the way the discussion occurs to get people to say 'what are you going to do next week'.

So if we do this with Julian and play this game for a minute, I would say 'Julian, I know you're looking for work, what kind of work are you looking for?'

Julian Le Grand

'I'm retired'

David Halpern

I'm going to try someone else. 'What kind of work are you looking for?'

Audience member

'Secretary'

David Halpern

'Secretary, very good, now I know you're very busy, have lots of other stuff to do, when is going to be a good time, think about next week, to look'.

Audience member

'Make a selection of companies to look at'

David Halpern

'Ok, that's very good and how are you going to look?'

Audience member

'Online'

David Halpern

'And when are you going to look, what time?'

Audience member

'Morning'

David Halpern

And you can see the gist of what I'm trying to do, it's trying to encourage the person to think about, making a plan. The more you do that in other literatures we think you're more likely to see that through. We do this and we do it with 2000 people, and there's a control group, and a measure of the benefits at 13 weeks and here's our treatment group – hey presto. Now we worried about was their contamination so we threw everything out to get rid of any contamination that had arisen and we thought there might be as there were two flaws, we controlled for everything we can, but we are still left with at least a 5% treatment effect, and we have changed people's skills and so on. This is now national policy, any job you go into in Britain is now using this new process.

Simple thing, if you want to be able to blag this when you're back at home. Think about it this way: EAST as a new mnemonic. Take it Easy, make it Attractive – catch people's attention using a name or something. Social, what are people doing around social norms. Timely – there are a lot of things that don't work but at a certain moment are quite effective. If you want people to be cycling into work or run into work or take public transport, even doing one to one interviews generally doesn't do a thing unless you've moved house in the last three months, in which case it's very effective because you haven't settled into your new routine.

So that's a headline easy stuff, now we're going to go a bit deeper about how you use it in policy. One thing that in fact is pulling many governments into this is because of how consumer markets operate. I don't

know how many of you have switched electricity suppliers in the last year? Who would do such a thing? – [Asks audience] right two, is that because the rest of you don't use electricity? Why could that be? Typically if you are going to save several hundred pounds, and yes it's about one in ten of the population switch every year and a huge chunk have never switched. Amazingly many people who do switch end up on a more expensive tariff, which is kind of interesting. Now that is not a complicated consumer choice you would think about electricity, let alone think about something like your phone.

How many phone, network, tariff combinations are there? No one is quite sure, think about 7 million the estimate is for the UK, you're probably not on the best tariff for you. You're not going to shop around. What do you do about this? One response is you just regulate and constrain tariffs, but what's happening is the electricity markets make a lot of money from the complication of it. You've got six major companies, how many tariffs? Our estimate is 500 before it's changed by intervention. So what do you do? One thing is you just reduce and simplify the tariffs, what can you do to take out the friction? If you're a behaviouralist you're obsessed with friction.

So here's one way of doing this: you add on to your bill your QR code with a summary of your data. For those of you who have switched, I don't know what your experience was like, but if you went through a switching site, and you were on a phone and they ask which is your company you probably know the answer to that, which tariff are you on – you probably don't know. Do you use more electricity at night relative to other people? Do you know the answer to that question? You ought to know it if you're going to get the best tariff. Well we can put all that information in your QR code on your bill, now all you have to do is put your phone next to it, and hey presto the switching site will tell you this is the best tariff for you, would you like to switch? Now that, instead of taking two hours and being really boring, it now is really easy and takes a few seconds. It obviously changes the way the market operates in quite a fundamental way. So that's what we're doing and later in the year you should see QR codes on all your bills.

Here's another area, a controversial one - especially in many countries - e-cigarettes. In 2010 we took a line on the basis of behavioural evidence that the government should be quite relaxed in terms of regulatory frameworks in relation to e-cigarettes, I don't know if some of you have used them. What's happened since? This actually is first NRT use, and this is the use of e-cigarettes by smokers trying to quit. What you really want to know is this: the percentage of adult smokers who quit in the last 12 months. It was drifting down until 2010, we're now up at 8.5/9%, what does this mean by numbers? This is being driven by this line, that's about 400-500,000 extra smokers quitting a year because we've made available that channel. It's much easier to substitute to another behaviour, particularly when you've got an addictive behaviour, than it is to quit. Yet in many countries they are illegal.

Another one, which I know Julian is interested in, and which I've always been passionate about is the agenda of people helping people: people's desire to reciprocate is a very powerful force. It's an old example but actually there's some great new ones coming through. If you've got a friend or relative in a hospital and you say can I spend time, can I stay there, you will generally be directed to 'the visiting hours are the following', or if you're very persuasive you might get 'oh there's an armchair in the corner which you can stay in that, just don't tell the doctor.' Here's the contrast, here's a shot from the Lund Patient Hotel, which is basically part of the hospital in Lund. You can see there are two beds in the room, it's not complicated, and people are actively encouraged to stay with their child, their partner, or whatever. What do we see? We see better clinical outcomes, higher patient satisfaction, lower cost. So instead of turning our back on this capacity and desire to help each other, designing services to make that possible. We are fostering a number of these similar examples in the UK context.

Finally, we do think about well-being, actually in the subtitle of 'Nudge' is wealth, health and well-being. Actually Richard Taylor who's really a Chicago economist doesn't really believe in the well-being bit, I think his publisher wanted it there, but many people who work on this are interested in well-being, partly because the same effects that shape whether we pay our tax on time or lots of other things also affect big decisions we make in life as well in terms of where we live and who we marry and so on.

This is just a plot of GDP per capita against life satisfaction and you can see it's nice to know there is a relationship between the two but what's interesting is that given level of wealth there's quite a spread. So the UK is a bit above Germany, not labelled there, but Australia and Canada are substantially way above us and the Danes are preposterously satisfied with their lives. And that's being driven by things like 'do you know your neighbours' and 'do you have access to green space' and all these other kinds of factors.

We've been doing work on that at least to see what it is you could do to facilitate it. At a rudimentary level, we're gathering data on it now and one of the things we put out with the recent O'Donnell report, is this is just rehashing some of the UK data so that it looks at levels of occupations, this is your salary, and this is life satisfaction. It just seems like a reasonable thing if you're seventeen trying to decide what to do with your life - to use that original phrase - you might find that not only this, but also some sense of this. Now, notice the clergy is doing really well, publicans it turns out are doing worse, now it's not literally the case that the person who would have become a publican would have made a great vicar, but nonetheless it's kind of interesting to know and to inform your choices about where you might live and what you might do.

In conclusion, when we started doing this in 2010 people were pretty sceptical. Not a huge amount of negative headlines but people certainly in Whitehall had similar views about this. But pretty rapidly when people saw the kind of results I've just shown you a few of, the headlines became much more positive. And for us the pivotal moment was about eight months in presenting the early results to Permanent Secretaries in Whitehall and you could just see them click to 'actually, we should do this'.

In sum, you can use it for very nuts and bolts processes, tax letters, call centre scripts, and that's not to be sniffed at. You can also use it in terms of policy design, because it takes you to different places about how you think about regulation and so on. For those who want to go there, it certainly raises more fundamental questions about what the objectives are of policy and what we might do about it. Finally, the more boring is the methods it has brought into government. I can say with some confidence that more randomised controlled trials in the Behavioural Insight Team, than probably all of central government in Britain has ever done, period. And it's shown ministers that a randomised control trial doesn't have to take ten years and cost ten million quid, but you can build policy deliberately in ways that has this variation built in it.