Applying Behavioural Economics to Public Policy in Canada

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Many decisions in life involve uncertain long-term benefits and immediate costs

- dieting / exercise / quitting smoking
- saving
- insurance
- using sun-screen
- homework / school
- practice (e.g. playing a musical instrument)
When making long/short-term trade-offs:

People often:
- are myopic
- have self-control problems
- have difficulty making decisions greater choice
- use easily-manipulated reference points
- procrastinate
- follow the default through inaction

Mistakes more frequent under stress (e.g. financial, time) and with greater uncertainty
We tend to focus on the immediate present:
Sample of extremely thirsty undergrads: McClure et al. (07)

Choose between
1 sip of juice in 20 minutes (30%)
2 sips of juice in 25 minutes (70%)

Choose between
1 sip of juice now (60%)
2 sips of juice in 5 minutes (30%)

Different parts of brain involved in immediate versus later decisions
What is behavioural economics?

BE applies psychological foundations of individual decision making to improve explanatory power of economics and generate better public policy.

Does not imply wholesale rejection of neoclassical economics, but rather provides theories for why sometimes individuals make decisions that are not in their best long-term interests.
What is a 'nudge'

BE suggests room for cost effective policies that help minimize mistakes while preserving individual's freedom to choose.

Nudge: any aspect of setting up choice options that alter people's behaviour in a predictable way without removing options or significantly changing economic incentives.
Today's talk

present examples of policy nudges to provide sense as to opportunities out there

Growing use in the U.S. and UK. Canada should get more involved

Low lying fruit and opportunities to test impacts
Opt-in

Action Required

UNDESIRED BEHAVIOR: Non-participation

START HERE

DESIRED BEHAVIOR: participation
Opt-out

Change default to Opt-out

Desired Behavior: participation

Start here

Undesired Behavior: Non-participation
Example 1: Organ donation

Effective consent rates, by country.
Effective consent rates, by country. Explicit consent (opt-in, gold) and presumed consent (opt-out, blue).
Example 2: retirement savings

- Out of every 100 surveyed employees, 68 self-report saving too little.
- 24 plan to raise savings rate in next 2 months.
- 3 actually follow through

Choi, Laibson, Madrian, Metrick (2002)
Making automatic enrollment the default: Example

- Welcome to the company

- If you don’t do anything
  - You are automatically enrolled in the 401(k)
  - You save 2% of your pay
  - Your contributions go into a default fund

- Call this phone number to opt out of enrollment or change your investment allocations
President Obama, decrying the fact that millions of Americans do not have enough savings to cover their retirement, announced a package of new initiatives on Saturday to spur increased savings... all of which are based on new behavioral research on ways to encourage people to save in a systematic way.

Under the new initiative, the Labor Department will publish new guidance for small businesses on how to implement automatic enrollment for the simplified plans. It will also encourage employers to institute an automatic step up, which increases a person's saving rate each year or each time the person gets a raise.

In a second move, Mr. Obama said the Internal Revenue Service will allow people to check a box on their tax returns and receive their tax refunds in the form of United States savings bonds. White House officials said about 100 million families get tax refunds each year, and the average refund is about $2,000.
Example 3: automatic RESP account setup

Only half of all eligible households and only 20% of low-income eligible households use RESPs. $2,000 Canada Learning Bond available for without any contributions yet few aware. Sign-up procedure requires SIN for child, appointment with bank. Automatic RESP account at birth, with reminders and easy ways to deposit would increase takeup.
Active Choice

**DESIRED BEHAVIOR:**
participation

Must choose for oneself

**UNDESIRED BEHAVIOR:**
Non-participation
Example 3: Prescription Drug Home Delivery (Beshears et al., 2012)

Home delivery cheaper than retail pharmacy pick-up for many drugs

Individual saves time and perhaps improves adherence

Beshears et al. (2012) look at active choice policy that requires employees receiving chronic medication to choose between home delivery or pharmacy pick-up (default prior to program was pharmacy pick-up)
per capital direct savings $47/yr, total savings $1.2 million
UK now requires active choice about organ donation to complete online driving license application

Apply for a provisional licence

Further information

Organ donation

DVLA working with the NHS to encourage organ donation and save lives

Almost everyone supports organ donation and over 3000 lives a year are saved through the generosity of donors. But still, every day, three people needing a transplant die because of shortage of donated organs.

By registering their wish to be an organ donor, over 18 million people have already bought hope for those waiting for a transplant and many thousands more sign up each week.

You too can make a real difference by joining the NHS Organ Donor Register today.

• Yes I would like to register
• I do not wish to answer this question now
• I am already registered on the NHS Organ Donor Register
Simplification

UNDESIRED BEHAVIOR: Non-participation

START HERE

DESIRED BEHAVIOR: participation
Example 4: School Choice

Parents offered school choice and sent 100 page booklet on description of schools, with website on each school

Hasings and Weinstein (2008) randomly sent 'summary' sheet as part of mailing

School choice and test scores increased
Example 5: Flu Shots

Enhanced pharmacist services in Ontario a win-win for all

Your local pharmacist has become better equipped to serve you. The provincial government has announced it will immediately approve regulations to give pharmacists the ability to offer services that previously only doctors could: renew and adapt non-narcotic prescriptions, administer the flu shot and prescribe drugs to help quit smoking.

It's about time Ontario caught up to the rest of the country. Across Canada, these highly trained medical professionals have long been able to offer such services — and more. In British Columbia, pharmacists can adapt and change the dose of a prescription within the same class of drugs based on side effects or risks. In Saskatchewan, pharmacists can prescribe for minor ailments like skin rashes or eye infections. Alberta expanded pharmacy services five years ago, and this year followed up with a billing plan for pharmacists offering the additional care.

Using pharmacists "to the full scope of their practice" was also one of the recommendations in the provincial Drummond Report last February. The province is optimistic that pharmacists involved in administering the flu shot will improve dismal inoculation rates across Ontario.
Social Norms or Salience

UNDESIRED BEHAVIOR: Non-participation
START HERE

DESIRED BEHAVIOR:
Participation
Example 6: tax collection

some UK small business owners and individuals fail to pay taxes on time (not automatic deductions)

Previously, letter sent asking for payment within six weeks, after which sterner, more expensive measures taken

Pilot project randomly added one statement to letter: e.g. "9 out of 10 people in Exeter pay their taxes on time"

15 percentage point increase payment within 6 weeks

$60 million in estimated savings
Personal Assistance (or 'hand-holding')

UNDESIRED BEHAVIOR:
Non-participation

START HERE

DESIR ED BEHAVIOR:
participation
Example 7: Form Filling
H&R Block invited proposals of interventions that would benefit low-income families, have national scalability, and inform policy in 2006.

We proposed integrating their tax-interview and software with the FAFSA application process to make it possible for FAFSA completion (or near completion) within minutes after completing the tax form.
Summary Results for Dependent Sample
Summary Results for Independent Sample
Welcome to LIFE afterhighschool

make it matter

Login

Email / Username:

Password:

Login

Create an account
Lost my password

- financial aid calculator
- about us
LifeAfterHighSchool Project

In-class personal assistance with:

choosing PSE programs of interest

applying (for free)

applying for financial aid
The Behavioural Insights Team

The Behavioural Insights Team was set up in July 2010 with a remit to find innovative ways of encouraging, enabling and supporting people to make better choices for themselves[1].

The Team’s work draws on insights from the growing body of academic research in the fields of behavioural economics and psychology which show how often subtle changes to the way in which decisions are framed can have big impacts on how people respond to them.

The Team’s remit is to apply these insights to public policy making in the UK. Since the team was set up, the team has worked with almost every department across a very wide range of policy areas.

It has also published several papers that that show how the team is applying behavioural insights to the following policy areas:

http://www.cabinetoffice.gov.uk/behavioural-insights-team
At the Office of Management & Budget, Orszag, 41, created a team of like-minded adherents, including Cass R. Sunstein, Obama's regulatory czar and the co-author of *Nudge*, a behavioralist manifesto. They have quietly established a beachhead, influencing major sections of the health-care reform law and the financial regulation overhaul Congress is about to complete. Their handiwork can be seen in proposed rules ranging from mine safety to retirement savings, tire durability, and food labels.
At the heart of the world's toughest problems are human behaviors. Our expertise in behavioral science allows us to see these problems differently. We notice the overlooked details that make the bigger picture. We invent fresh solutions because we know the power details have to nudge us in different directions. We're out to improve tens of millions of lives decision by decision.
Conclusions

we are inherently prone to making mistakes that affect our long-run wellbeing

Many effective ways to nudge people towards more desirable activities without denying alternative options

Many BE policies can be easily tested

Canadian governments should follow U.S. and UK leads and explore opportunities