Applying Behavioral Insights to Regulation and Public Policy

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WORLD BANK GROUP

DEVELOPMENT RESEARCH

Mind, Society, and Behavior

Word Development Report 2015

worldbank.org/wdr2015

World Development Report in One Slide

Development policy is ready for a redesign based on a more realistic understanding of how humans:

Think

Behave

Decide

Standard Approach to Public Policy

Role of the Policy Maker:

Set up institutions and facilitate markets

Provide resources

Create rules

Affect prices through taxes and subsidies

Then step back and let people navigate their own decisions

How Do We Make Decisions?

Maximize utility functions subject to some constraints

Optimally allocate time to its best use

Optimally spend resources and effort where reward is maximized

But!

Does this happen in real life?

ASIANA AIRLINES
unicef
WE SUPPORT UNICEF

DISPLAYS
EMERG POWER
ANTI ICE HTR
HYDRAULIC CONTROL
UTILITY PUMP
FMS1
FMS2
BRAKES
NO SMOKING
FUEL COCK

Analogy to Public Policy

Think about poverty:

People face multiple, often unpredictable constraints

People have multiple, often unpredictable resources

→ *High stakes environment with high potential for mistakes*

All Policy Rests on Assumptions of Why We Do What We Do

Development policy 1.0:

Humans make decisions deliberatively, independently, and on the basis of consistent and self-interested preferences.

All Policy Rests on Assumptions of Why We Do What We Do

Development policy 2.0:

People think automatically: when deciding, we usually draw on what comes to mind effortlessly

People think socially: social norms guide much of behavior, and people are conditional cooperators

People think with mental models: what we perceive and how we interpret depends on concepts and world-views drawn from our societies and shared histories

We Think Automatically

This gives us a partial view of the world.

Thinking Automatically

Add 3 to the following numbers:

4351

7684

9274

2507

2819

5142

Thinking Hard Takes Biological Energy

Heart Rate has increased by 7 beats per minute

Pupils have dilated 50%

Blood pressure has gone up

This Leads to Mistakes

Procrastination

Time Inconsistency

Limited Attention

Adherence to Defaults

Anchoring

Example of Automatic Thinking

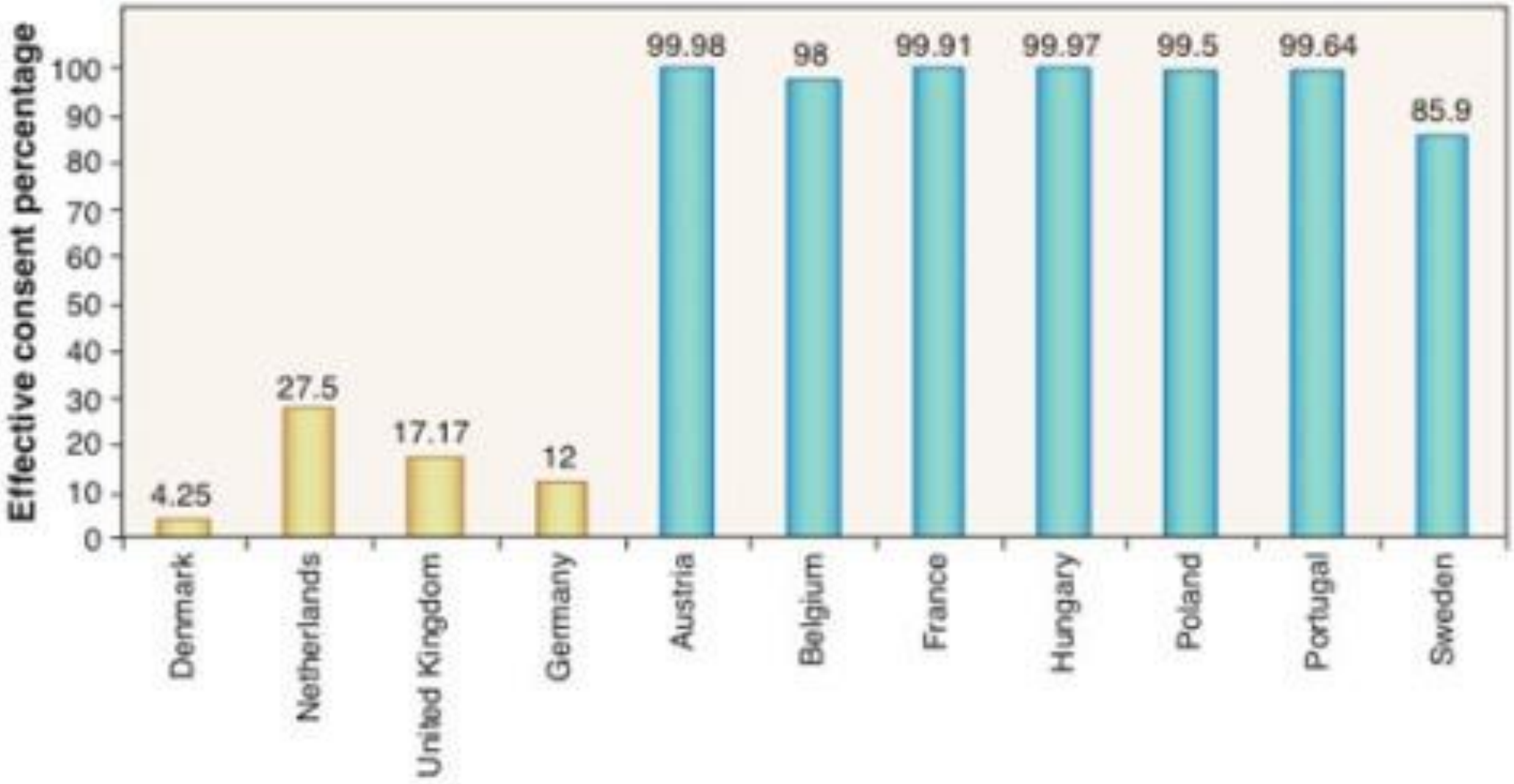
1 x 2 x 3 x 4 x 5 x 6 x 7 x 8 = ?

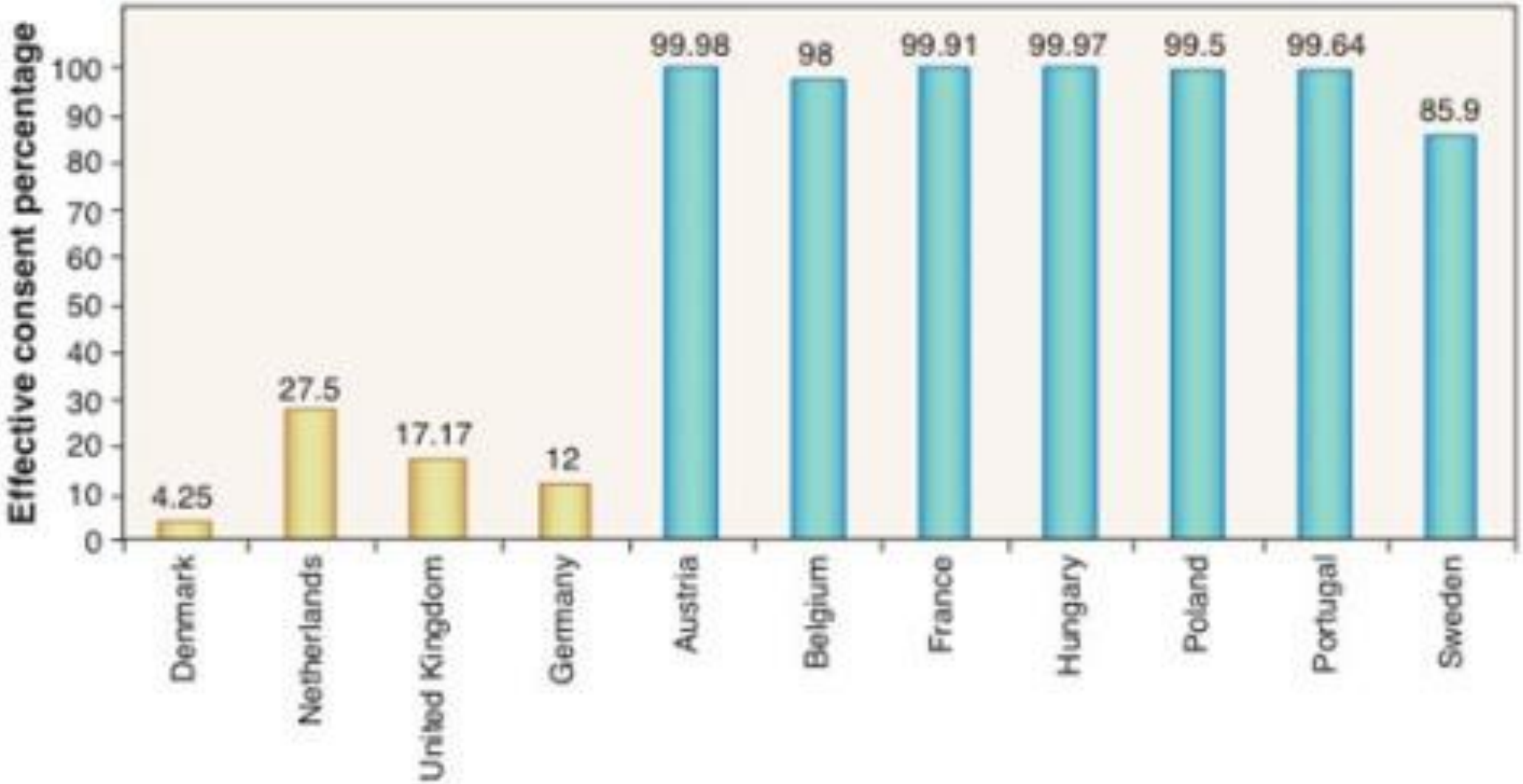
Median answer is 512

8 x 7 x 6 x 5 x 4 x 3 x 2 x 1 = ?

Median answer is 2,250

Correct answer is 40,320


Effective consent percentage
100
90
80
70
60
50
40
30
20
10
0
4.25
27.5
17.17
12
99.98
98
99.91
99.97
99.5
99.64
85.9
Denmark
Netherlands
United Kingdom
Germany
Austria
Belgium
France
Hungary
Poland
Portugal
Sweden



Effective consent rates, by country. Explicit consent (opt-in, gold) and presumed consent (opt-out, blue).

Lessons for Public Policy

Automatically enrolling people into retirement savings

Automatically depositing cash transfers to savings accounts

We Think Socially

What others think, expect, and do influences our preferences and decisions

Last Month Household Comparison

You used **6% less** electricity than efficient similar homes.

* kWh: A 100-Watt bulb burning for 10 hours uses 1 kilowatt-hour.

How you're doing:

▶ **GREAT** ☺☺

Good ☺

More than average

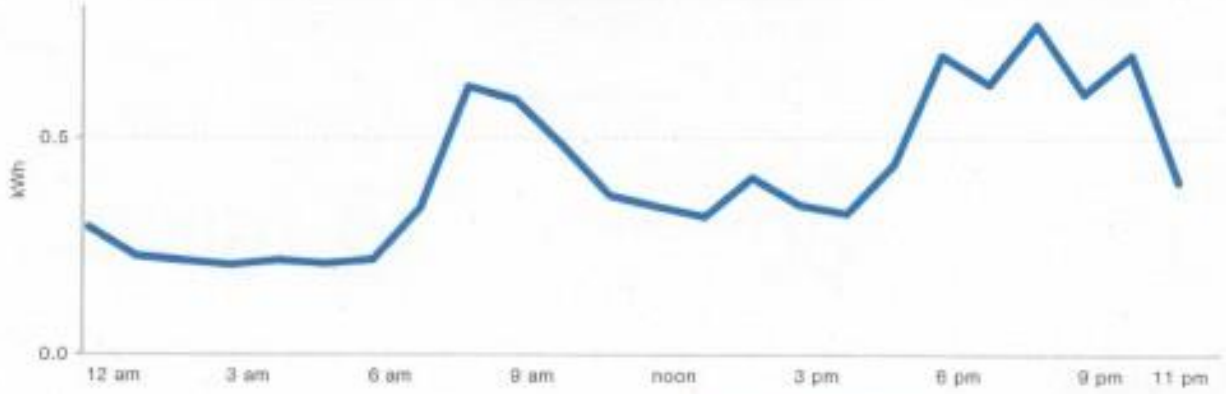
What Homes Are Compared?

Similar Homes: Approximately 100 occupied, nearby homes that are similar in size to yours (avg 1,769 sq ft)

Efficient Similar Homes: The most efficient 20 percent of similar homes

An Average Day Last Month

On average, you used the most from 6 pm – 11 pm.
Think about what uses electricity during this time.

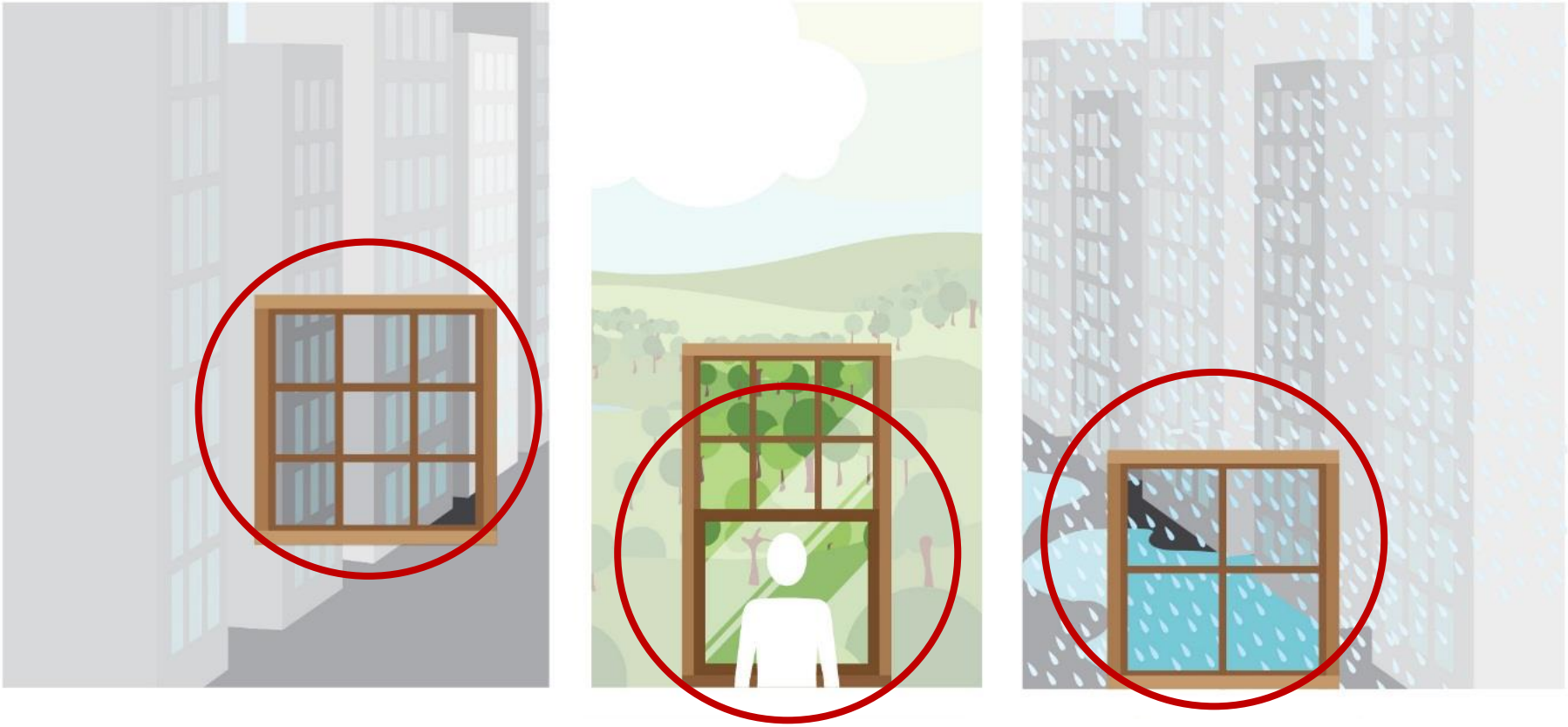


Do you use more on weekdays or weekends? Find out at **pepco.com/savings**

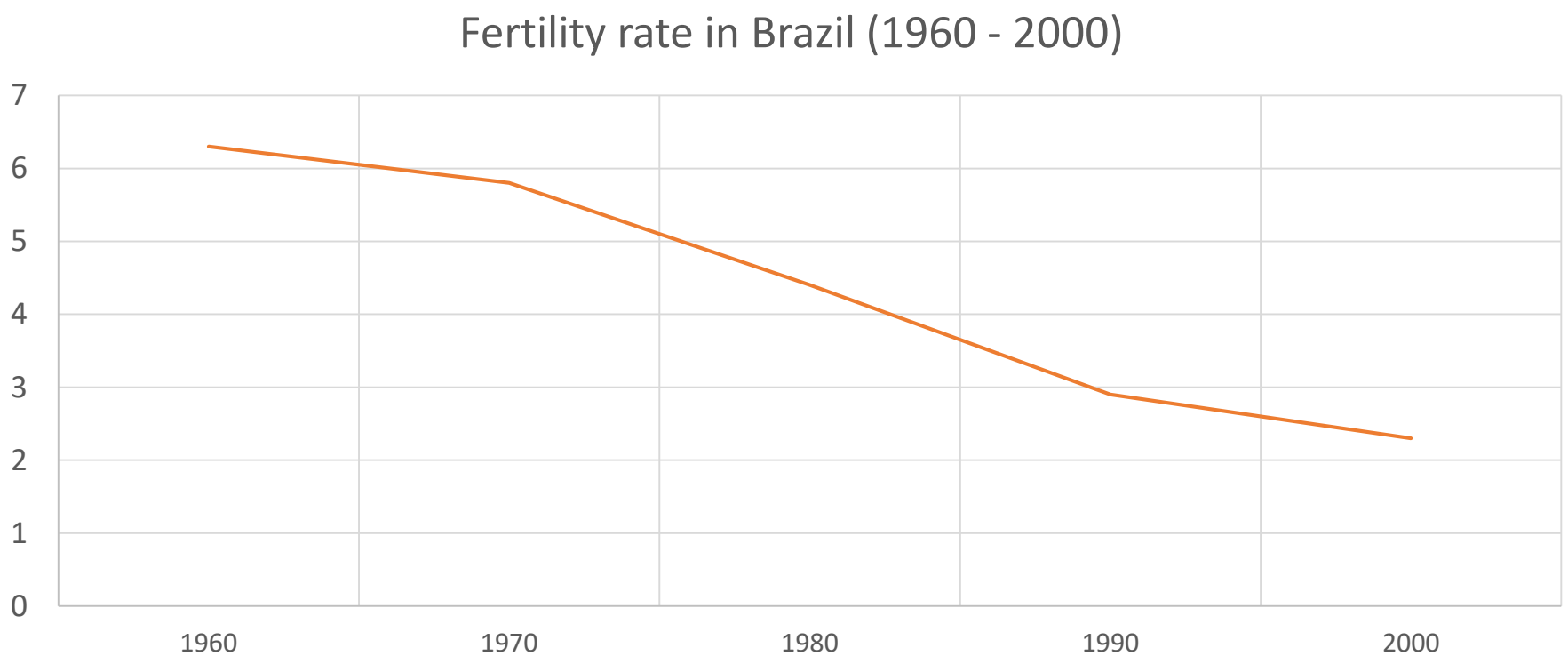
Turn over for savings tips →

We Think with Mental Models

This gives us a partial view of the world.



Shifting Mental Models with Role Models



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Operationalizing Social and Behavioral Insights

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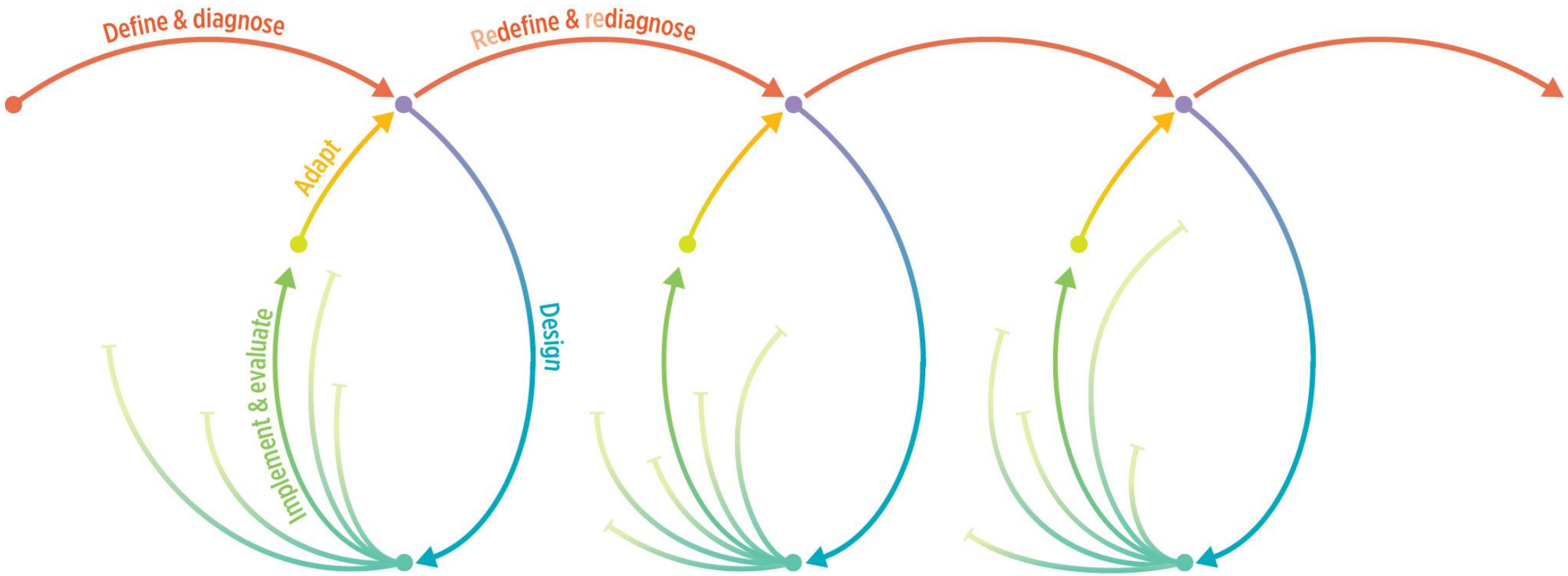
ol-Community Partnership for Sa Wate
20 L
CHLORINE
DISPENSER
Tiba Maji ya Kunywa

Main Lesson: Embed Diagnosis and Experimentation into Implementation



Source: WDR 2015 team.

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What Policy Makers Can Do

Poverty and development policy are high stakes situations

Incumbent on us to redesign choice environment to help people make decisions for their own best interests