Behavioural Economics for the Information Society

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Part I

Behavioural advice to policy
Behavioural advice to policy

- In the Obama Administration
- In the UK government
  - Behavioural Insights Team
- In FR, DK, SE, Australia...
- ... and in the European Commission too
At the European Commission

- SANCO has led the way
- Started in 2010 by using behavioural insights for the Consumer Rights Directive
- A ‘Framework Contract for Behavioural Studies’ is available to all DGs
- JRC is building capacities and providing support to SANCO
Example from the UK: tax letter

- **Behavioural issue**: people did not pay their taxes on time

- **Proposed solution**: changes to the wording of letters
Example from the UK: tax letter

Results:

- Repayment rates boosted by 15%
- Cost: zero
- Benefit: £30 million per year

Why?

- Because people conform to social norms
Behavioural advice is relevant to information society policy

- It can lead to changes in behaviour
  - E.g. on-line shopping and e-government use (Digital Agenda goals)
- It can help design more effective policies
- It can help protect the citizen from on-line abuses by industry
Behavioural insights are key to understanding digital society

- They help explain the success of digital platforms
  - E.g. ‘Intermittent Variable Reward’ explains why social media is addictive
Part II

Some building blocks
Behaviour is often not rational

- This has been established empirically (and anecdotally!)
- Policies that assume this are at risk of failure
  - More information does not always lead to better choices
Biases and heuristics

We consistently make the same ‘errors’ when making decisions*

E.g.
- Loss aversion
- Anchoring
- Endowment effect
- Availability heuristic

* Kahneman and Tversky
There are two ways of ‘thinking’*

<table>
<thead>
<tr>
<th>System 1</th>
<th>System 2</th>
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<tbody>
<tr>
<td>Automatic</td>
<td>Reflective</td>
</tr>
<tr>
<td>Uncontrolled</td>
<td>Controlled</td>
</tr>
<tr>
<td>Effortless</td>
<td>Effortful</td>
</tr>
<tr>
<td>Fast</td>
<td>Slow</td>
</tr>
<tr>
<td>Unconscious</td>
<td>Self-aware</td>
</tr>
<tr>
<td>Stereotypic</td>
<td>Calculating</td>
</tr>
<tr>
<td>Frequent</td>
<td>Infrequent</td>
</tr>
</tbody>
</table>

*Kahneman, 2011
Example

A bat and a ball together cost €1.10. The bat costs €1 more than the ball. How much does the ball cost?
Social norms / social proof

- Our behaviour is guided to a large degree by what others do
However...

- There is no unified Grand Theory of Behaviour
- Need to rely on empirical observation of behaviour
- “Test, learn, adapt” strategy by UK government
How to test?

In randomised control trials (RCTs, or simply ‘experiments’)

[Diagram showing the process of a randomised control trial]
Part III

Applying behavioural insights to policy
Nudging*

- It is one way of bringing behavioural insights into policy
- People can be *nudged* (gently pushed) into behaving in a certain way

* Thaler and Sunstein (2008)
Some examples of nudging

37.2
Percentage of towel reuse rate when hotel guests see a standard sign

49.3
Percentage rate when guests see a sign about reuse in their specific hotel room

Bring it on lead foot!
Nudged

- Deals with System 1 thinking, not System 2
- Attempts to “change people’s behaviour without changing their minds”
2. Beyond nudging...

Behavioural economics is relevant in any policy area where the individual response affects the effectiveness of a given policy.

Commissioner John Dalli
Some examples
3. Protecting the citizen from abuses

- E.g. Consumer Rights Directive (2011) recognised the power of defaults

✓ Eliminated pre-checked boxes in Internet purchases
Another example of on-line marketing nudge

Thank you for updating Ad-Aware Internet Security to version 9.5

Before you continue to download the new version of Ad-Aware did you consider upgrading to Ad-Aware PRO?

<table>
<thead>
<tr>
<th>Feature</th>
<th>Ad-Aware FREE</th>
<th>Ad-Aware PRO</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>Essential online browsing protection</td>
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</tr>
<tr>
<td>Shop, bank and download safely</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>Keep your sensitive information away from prying eyes</td>
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<td>Stay safe on social networks</td>
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<tr>
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<td>Control your privacy</td>
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<td>✓</td>
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<tr>
<td>Erase tracks left behind while surfing the web</td>
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<tr>
<td>Safeguard your secure documents</td>
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<td>✓</td>
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<td>Protection from deceptive applications and cyber attacks</td>
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[Update] [Upgrade]
Part IV

How can behavioural advice contribute to information society policy?

(brainstorming session)
1. By providing a better understanding on-line behaviour

- In, for example
  - Privacy protection
  - Cross-border eCommerce
  - eHealth
  - Use of eGovernment
Using this better understanding

• If on-line behaviour is shown to be mainly System 1, then the power of defaults must be harnessed
• **Framing** information differently should lead to changes in on-line behaviour
• All of this can be studied using **on-line experiments**
2. By designing ICT-enabled nudges

- ICT offers new possibilities to nudge
  - Real-time *nudges* through mobile devices
  - Using social media to amplify the role of social factors influencing behaviour
3. By helping design smart cities, buildings, meters, etc…

Ambient Orb

Opower Home Energy Report
4. By suggesting ways of simplifying the choices consumers face

- Sometimes there are just too many options for consumers
- ‘Smart Disclosure’ (proposed in the US) lets the apps do the work
JRC-IPTS’s activities

• Contract with SANCO until 2013 for support in behavioural studies
• Also doing studies on
  ▪ ICT-enabled nudges to tackle obesity
  ▪ Behavioural response to personal data management (planned 2013)
JRC-IPTS…

…can collaborate with CNECT on

1. Finding ways of nudging relevant behaviour (e.g. eGov uptake, cross-border eCommerce)

2. Strengthening the evidence base to

✔ Support policies where the behavioural response is key

✔ Defend EU consumers by countering on-line marketing-nudges