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CURRENT AFFAIRS

**ANALYSIS
NUDGE THEORY IN PRACTICE**

TRANSCRIPT OF A RECORDED DOCUMENTARY

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STOURTON: *(Applause) Welcome to the Institute for Government in London. In this edition of Analysis, we're going to hear from a man who may have had a significant impact on your life without you knowing it.*

Five years ago Cass Sunstein and another Chicago academic, Richard Thaler, published a book called "Nudge: Improving decisions about Health, Wealth and Happiness". It seems wrong to describe it as a "big new idea" because it is actually about the way that very small things can make a big difference, but it has been hugely influential - in both the Obama White House, where Professor Sunstein worked until quite recently, and in Number 10, which has its own so-called Nudge Unit. And we'll hear from the man who runs that in the course of the programme.

We're meeting just up the road from Whitehall and we have with us a large number of people whose job in one way or another is to implement government policy - and I hope that some of you will in the course of the programme have questions of your own for Professor Sunstein. But before I begin my conversation with him, I just want to get a sense of how many of you in this room have either had some kind of Nudge training - if that's the right phrase - or felt that your work has been influenced by the arrival of the Nudge culture. Would you like to put your hands up? Well I have to say Professor Sunstein, that's a pretty good compliment to you because the vast majority of hands in this room went up, which I suppose is a mark of how influential your ideas have been. Can we begin by exploring them a bit and where they came from. As I understand it, the problem you set out to address in a way is that we human beings aren't always rational in the choices that we make?

SUNSTEIN: Yes. So I was at the University of Chicago for many years, which is the home of rational choice theory, and as a young kid law professor, I heard extremely intelligent and powerful minds talking about human rationality. And some of them were complaining about their investment decisions and how they'd gone sour, and it seemed like the claims of rationality were (at least in those cases) not exactly wrong - these were rational people; that were maybe overstated.

STOURTON: Can you give me an example of the sort of things that it's rational to do, which we don't, and why that is the case?

SUNSTEIN: Well if you're thinking about risks, you could analyse it statistically by thinking what is the chance that something bad's going to go wrong - that would be a pretty rational thing to do - or you could think to yourself in the recent past has that thing gone wrong for me or for someone I know? And the second tool, just to recollect in your memory whether something went wrong in the recent past. It's not a terrible tool to use, but it can get us in big trouble. It may make us really scared about risk that happened flukishly to happen to someone we know last week or it can make us complacent about a risk that happens not to have faced anyone we know but it's actually real and it's good to take precautions.

STOURTON: What about things like health or personal finance? I mean where do we go wrong in those areas?

SUNSTEIN: Well one source of occasional error is optimistic bias. So about 90 per cent of people have been found to think that they are safer than the average driver and less likely to be involved in a serious accident. If you take a married couple and ask them what percentage of the household work they do, if the total isn't over 100 per cent it's an unusual couple. *(Laughter)* Eighty per cent of the population roughly tends to be unrealistically optimistic, which has some good side effects: it helps people really work and do things with a sense of possibility. But it may be with respect to your health - for example if you're a smoker, you are struggling with obesity, if you are inclined to attend to that little light on your cell phone while you're driving even though there are other people driving too and it's good to look at the road - that risk of unrealistic optimism can cause real harm.

STOURTON: Right, that's the problem. How did you get from identifying that to coming up with the nudge answer?

SUNSTEIN: Look in a free society it's very good to let people make their own choices; that if people want in the end to run certain risks and they're not affecting anybody else, at least as a general matter free societies allow that. But if you can give people a little help through for example information or through warning or through activating the more calculative and deliberate ways of thinking that we all have, then you can maybe save lives and reduce risks of economic reversal without eliminating freedom of choice. And so the idea was a knowledge of how people depart from perfect rationality isn't just a kind of fantastic set of social science findings, but it's also an opportunity to think of freedom-preserving, choice-friendly strategies for private and public institutions.

STOURTON: Well can you give me an example of your ideal nudge or the case that best illustrates what you are trying to explain?

SUNSTEIN: Well one idea on which there's a lot of research is that in some countries people aren't saving for retirement, they don't enrol in a pension plan, and some nations use tax incentives and other economic instruments to try to get people to enrol and they have a mixed track record. If though you default people into a savings plan, meaning they're automatically enrolled - and they can opt out if they don't like it but they're presumed to be in it - then you can dramatically increase savings rates. So automatic enrolment in a savings programme, an instrument that President Obama has spoken favourably of, is a very inexpensive and extremely effective way of reducing the risk that people won't have money at the time of retirement.

STOURTON: That's something very relevant here. But just remaining with the sort of theoretical basis for all this, you do have this phrase - "libertarian paternalism".

SUNSTEIN: Well the book didn't get called *Libertarian Paternalism* and that probably was advisable from the publisher's ... *(Laughter)*

STOURTON: It might not have sold quite so many covers.

SUNSTEIN: Too many syllables. But the idea behind libertarian paternalism, I think it is intuitive; that libertarian means people get to do what they want. If you want to opt out of a retirement plan, if you want all your money to go into wages, you can do that. But paternalism means there's some steering and the idea behind the phrase is that libertarians - sometimes described as liberals - tend to hate paternalism, and paternalists sometimes aren't that excited about unrestricted liberty, and we tried to bring together two seemingly opposed terms.

STOURTON: And I suppose at a time of austerity and all that, one attraction of this tool is that it's relatively cheap, very cheap perhaps?

SUNSTEIN: Yes, yes. So one thing that we were conscious of in thinking about nudges - and that I'm certainly conscious of in the Obama administration - is that if you can find a way to promote safety and health and protect the environment that doesn't cost a lot of public and private resources, that's good in a tough economic time.

STOURTON: Can I get a sense of where the boundary lies between a nudge and a shove? I mean, for example, something that's been used a lot here recently - minimum pricing for alcohol - is that a nudge or a shove? And how do you make that judgement?

SUNSTEIN: The way I think of it is that if you impose economic sanctions, you are not nudging anymore. So if you say that if people violate the law, they have to pay a £5 fine, that's not a nudge. If you say in some public education campaign that those who violate the law are harming both themselves and their family, that's a nudge.

STOURTON: Right, so that's a good moment, I think, on which to move on. Because not long after your book came out, policy advisers working for the then Leader of the Opposition here in Britain, David Cameron, came across these ideas and they struck a real chord and there's now a Nudge Unit in Number 10 - the Behavioural Insights Team as it's more properly known. And it's run by Dr David Halpern who's in the audience here. He was also chief analyst in the Prime Minister's Strategy Unit when Tony Blair was at Number 10. And before I talk about what you've done, can I just explore that? I mean is this something that crosses party lines or is it something that's particularly attractive to Conservatives because it's both about choice and it's also cheap?

HALPERN: I think we've reached the point where almost any party is likely to use these applications because, as you say, they're cheap, they generally appear to be pretty effective. But clearly it also helped that you had an administration which had in its instincts not first of all to turn to mandation and legislation, so those things came together in a pretty powerful way.

STOURTON: Tell me how your unit works because it's quite small, isn't it?

HALPERN: Yeah it's pretty small. It started off just half a dozen people. A little bigger now - partly because of the level of demand we get from across Whitehall, indeed other countries. We've been very experimental in the literal sense in that we try out different things and we run trials. And that was very important also because we started from quite a sceptical audience inside Whitehall and probably beyond as well.

STOURTON: Can you give me an example of an occasion when that yielded a surprise - I mean that process of road testing something?

HALPERN: One which has become quite well-known is that on some tax letters now just telling people something which is true, which is nine out of ten people pay their tax on time, turns out to be a very effective way of getting people to pay their tax, and actually I think it's a much nicer way actually than threatening people - just tell them that their neighbours are more virtuous than they thought. So that would be a good, simple example.

STOURTON: And that's what - because we as human beings like to fit into harmony with our peers or ...?

HALPERN: Well a very powerful influence on behaviour is what other people are doing, often called social norms. So sometimes just giving people information about what other people are doing is effective. And that can have very practical detail. So, for example, if you're going to sweep up a road maybe you shouldn't do it at night time; you actually should do it when other people see it. And it turns out in fact it reduces littering if you see people clearing up a road.

STOURTON: Are there any examples where you've hoped something would work but your testing has shown that it wouldn't; I mean where you've sent out a bunch of letters like that and found that the result was disappointing?

HALPERN: Generally we've had pretty good results across the board. The issue is more normally a practical one, which is can we get a given department to make the change.

STOURTON: And how do you measure whether you're succeeding? I mean do you, for example, try and calculate how much money you save to the Exchequer?

HALPERN: We do. We are very empirical, so we try and do trials, very specific trials. We'll try it on a small scale with various variations and that will give us a sense of what works and what doesn't; and then what we often do is we then make a projection as to what it will be if we then do it at scale. I mean other areas again we can draw from wider evidence, so one much discussed is pensions. And the pensions default has come into the UK, so people essentially opt out of a pension provision now in a private sector context as opposed to opting in. So it has an absolutely enormous effect and yet the cost in formal terms is quite modest.

STOURTON: Can I ask you about what I asked Professor Sunstein about in terms of where you draw the boundaries between nudges and shoving? I don't imagine you want to talk about minimum alcohol pricing in the current climate, but would you share with him the idea that as soon as you put penalties onto people, you've crossed the line between this idea and something more draconian?

HALPERN: Actually although everybody calls us the Nudge Unit, it's the Behavioural Insight Team, so we're interested in actually what does drive behaviour. I think the key line and sound is generally mandation - that is to say using some legal force and a requirement. You don't actually have a choice. As long as there's a choice, that would still play in. So actually that does enable us and we would certainly be interested in using financial instruments. So an everyday example would be fuel economy. Do you do it on the basis of extra fuel you know every time you buy some petrol or diesel, or to what extent do you need to bring it forward to the point when you purchase a car? So you could have exactly the same overall level of tax, but you might decide that the way that you shape that tax incentive would be much more effective in one way versus another.

STOURTON: We talked about alcohol pricing. Is that something that came out of your unit? Was that one of the sorts of ideas that you came up with?

HALPERN: No, I mean alcohol pricing has been widely discussed - so of course we have engagement, but it's a healthy political argument going across the piece on that one, I think it's safe to say.

STOURTON: You attracted a certain amount of criticism when you made some comments which were interpreted as saying that old people should go out to work and move into smaller houses. And perhaps the reason - and of course you didn't say that or didn't quite mean it - but it plays into the perception perhaps, and I'd like to talk to Professor Sunstein about this in a moment, that this method of implementing policy has a sort of bossiness about it. Do you think that's fair?

HALPERN: I think it could be used in that way. I think we're actually quite careful to avoid it. I mean it's a slightly inelegant term, but libertarian paternalism is genuinely meant so that you try and leave people with a choice. I mean to take another example, a good everyday one which we've done trial on, is loft insulation. So it's still the case that more than a third of homes in the UK have inadequate insulation. You know you could use sanctions, you could go round fining people for not enough insulation. And in fact we just found out that if you offer a loft clearance scheme, that leads to a three to fivefold increase in the number of people who do their loft. So you see it's not mandation, it's not instruction; it's just getting under the skin of what's really driving the behaviour.

STOURTON: Before I go back to Professor Sunstein, how is nudging and why is nudging in this country a little bit different from the United States?

HALPERN: We've done a kind of slightly more if you like experimental unit in terms of on the nudge side, so we've done a lot of randomised control trials - often smaller in some ways in their scale than what was done in the US - but perhaps we've

had a bit more freedom to operate around the margins and push what works and what doesn't.

STOURTON: Can I pick that up with you, Professor Sunstein? When you're deciding how you nudge people, do you have to take account of cultural differences? In other words, if this was an audience of French civil servants, would they be talking about different kinds of things from the sort of thing we're talking about here?

SUNSTEIN: If it would be different across cultures, it would be because there's some culture where being the anti-social non-taxpayer is actually culturally okay, and I think we wouldn't faint if we learned there's some culture where that's so.

STOURTON: One question that's raised about this approach is that nudging only takes you so far, and I suppose the example of smoking is a useful one in the sense that people were nudged for years and years - and it did make a difference - but in the end, in this country for example, it was only when you said you can't smoke inside buildings, in public places, and people found themselves on the street that a huge difference was made. Do you accept sometimes that actually though you might want to be a libertarian paternalist, you just have to make people do things like that?

SUNSTEIN: Well I think with respect to murder and assault and theft, you don't ...

STOURTON: Well that's obvious, isn't it? But we're not talking about that, are we? I mean something like smoking is absolutely the sort of thing where you could influence people's behaviour.

SUNSTEIN: Yes, now there are some people who would take very, very aggressive approaches to cigarette smoking and there are others who think look if smokers have adequate information and they are willing to pay the price of the risk, then in a free society they're allowed to do that. Fuel economy standards, that's actually a good one for your question. Most democracies believe, certainly the United States does, that for fuel economy standards it's legitimate to have requirements that go beyond nudges - to make powers be more fuel efficient than the market itself provides. So I think no-one thinks that the universe of legitimate regulations is exhausted by the nudge.

STOURTON: I'm sorry to push you on it, but on the smoking one, as a matter of curiosity, do you think it's right to make people stand out in the rain?

SUNSTEIN: In the United States that's a state matter rather than a federal matter.
(Laughter)

STOURTON: I've had a lot of politicians answers. I have to say that's ...

SUNSTEIN: I defer to the states.

STOURTON: Okay. You're listening to a special edition of Analysis from the Institute for Government with Professor Cass Sunstein. Why don't we throw this open to the audience at this stage? Is there anybody here who has doubts about this approach of that kind, is worried that nudging can only go so far and that you need to bite the bullet? Yes?

RUSSELL: Jenni Russell. I'm a journalist. I have doubts about where the nudge system can work. All the evidence now is that the processed food manufacturers have put so much research into understanding the sweet point at which we cannot resist a food. Surely trying to nudge them to do a little less of it when actually they don't want to and it's not working is a completely inadequate response to a huge health emergency?

SUNSTEIN: We have an initiative in the United States which is about calorie labelling for chain restaurants and there's some evidence suggesting that that has a significant effect both on consumers and on product reformulation, and in some communities we've seen that calorie labelling when it's occurred has resulted in significant reductions in consumption. So that is a nudge type intervention. But I think the burden of your question is right - that for a whole host of social problems, there's an assortment of tools. There's good reason to be quite interested in the tools that are as cheap and choice-preserving as possible, but in multiple areas the social benefits of something that isn't choice-preserving - and there are some environmental areas and areas involving transportation that are analogous where with devising safety of cars information and disclosure are very important but to make sure cars aren't going to crash too easily in a way that hurts people, that's also a good idea.

STOURTON: I'll take one more question on this section. Yes, gentlemen there.

VAN NEIMANN: Hello, my name's Hans Van Leeuwen from the Australian Government. There seem to be some cases where even if you preserve the choice, the public cares about the way the choice is framed or presented, and one example that happened in this country was a proposal to change organ donation from opt-in to opt-out. There was a bit of a backlash against this. People preferred having the choice to opt in to the choice to opt out and I just wonder if you could comment on that?

SUNSTEIN: Yes. You can imagine areas where default rules would run up against legitimate objections. So if you defaulted people into certain religious membership with freedom of opt-out, that wouldn't be a very respectful thing to do - freedom of religious choices in a democratic society not subject to automatic enrolment. If you said for voters that you are going to be defaulted into voting for the incumbent unless you ... *(Laughter)* That wouldn't be so good. And you can think of one that's a little more subtle that also wouldn't be so good. If you said people will be defaulted into voting for the party for which they voted last time, that would make life a little easier for some voters and it might in some places at some times be pretty accurate but it would be inconsistent with the internal morality of voting where people have to make an active choice. So there are areas where active choosing has to be preferred to a default rule and there are probably also areas, undoubtedly also areas where opt-in has to be preferred to opt-out. If there's sensitivity (and it's certainly understandable sensitivity) to an opt-out system where automatic enrolment makes people feel intruded on or compromised in some way, then an alternative is active choosing where instead of saying to people if you want your organs to be available at the relevant time, you have to opt in - and people maybe aren't going to do that not because necessarily they hate the idea but because they want to focus on other things - then an obvious third way is to say to people what do you want, what do you want to do with your organs - maybe when you get your driver's licence or something? And that's a form of active choosing that wouldn't run into the objection that opt-out sometimes has.

STOURTON: That actually leads rather neatly onto the next thing I wanted to ask you about. Can I read you something from the Economist magazine, which I suppose has a heritage that's both libertarian and paternalist in a way in its history. They wrote about the nudge idea: *From the point of view of liberty, there are grounds for caution. Politicians, after all, are hardly strangers to the art of framing the public's choices and rigging its decisions for partisan ends. What's to stop lobbyists, axe grinders and busy-bodies of all kinds hijacking the whole effort?*

SUNSTEIN: Well I think this kind of abstract talk of the sort you quoted from an admittedly admirable magazine may not be the most productive use of the English language. (*Stourton laughs*) I doubt the author thinks that government should fail to inform the public about certain risks and hazards. That would be a very odd enterprise for a social reformer to embark on: we're not going to inform the public about anything. That doesn't look like it would be very good on a poster - stop informing the public. The point is clearly correct - that any policy tool can be hijacked - but I think it's a cautionary note that operates at such a high level of abstraction that it doesn't impugn anything in particular yet. Though there are some things in particular that deserve to be impugned - a nudge that is interest group driven or intrusive or that violates some independent norm like a norm of equality. All those would be trouble.

STOURTON: An allied criticism is that this approach infantilises people, that it encourages them to think that they can know the right choice just by relying on official sources of information rather than turning them into robust citizens who can make their own minds up. Do you think there's a danger there?

SUNSTEIN: It's hard to see why public education would infantilise anybody.

STOURTON: Well it's more than that. You're encouraging people to make choices, aren't you? You're not merely presenting facts.

SUNSTEIN: The universe of nudges is large, so if you're informing people that the level of voluntary taxpayer compliance is really high, that doesn't infantilise anyone; it just tells them a truth.

STOURTON: Well what about the pensions example, for example, where you're going from a world where you have to opt in to one where you have to opt out where you're relying, presumably, largely on people's inertia and lack of enthusiasm for making energetic choices on their own apart from anything else?

SUNSTEIN: Yes, I think if for pensions you're going to have either opt-in or opt-out, which infantilises people I think is a very puzzling question to answer. In either case there's going to be a default which people haven't by hypothesis selected, and in both people can learn that the default is something that they don't like very much. Suppose the government defaulted everybody into something that the government thought was ideal for them. Maybe that would impede learning and that would be a bad thing. So it is true that there are many domains where education and active choosing are preferred to a default rule. But part of the libertarian paternalist project, as I see it, is to have a place for active choosing where you tell people you know here are your alternatives, which do you want? And the reason that is libertarian paternalism is that sometimes

people don't necessarily love being asked that question. They want to go about their day or do their job or be with their families and not answer that question and maybe they'd like a default rule better. You want people to make that choice rather than being defaulted into one or another outcome.

STOURTON: Well let me put that point to the audience, or those two points in a way. Many of you said that you had in some way been affected in your work by the nudge idea and the nudge culture. Do any of you have concerns either on this question that it's open to manipulation or on the question of whether it can infantilise people by encouraging them to do things and discouraging them from making up their own minds? Yes, Gus? I know we all know who you are, but do you mind ...?

O'DONNELL: Sure, Gus O'Donnell, former Cabinet Secretary. I think in some ways the question is actually the other way round because if you think of a public policy issue and you want to do something about it - obesity or smoking or whatever - you've got a menu of things you could do. At the most extreme you could say we're going to make it criminal, we're going to actually you know legislate. Or you could regulate or you could tax. These are all if you like mandatory things. At the kind of most freedom preserving end are all of the nudges, the things you're trying to change behaviour. So it's actually the other way round, I would say, and so we should start by thinking about are there some sensible nudges we can do; and then if that doesn't do the trick, then you move onto other things. But I think this idea that somehow you're infringing freedom, actually you need to think about what the counterfactual is, and quite often the counterfactual will be something that absolutely affects freedom much, much more.

STOURTON: Anyone else in the audience on this point. Yes?

CORMAC: Henry Cormac. I'm a civil servant. I suppose the only counter to that is that tax and legislation and regulation are all overt forms of action, whereas a nudge sometimes can be a little covert and thereby arguably inhibiting freedom a little bit. So I kind of take Gus's point, but that's the kind of counterargument.

STOURTON: And that sort of brings us back to the idea of manipulation, doesn't it, which is certainly a suspicion people have about the way that civil servants and politicians work these days?

SUNSTEIN: Well ..

STOURTON: Justly or unjustly.

SUNSTEIN: Okay so if there's a covert nudge, there's a problem because if government is acting, it should be open in public about what it's doing. The President of the United States, President Obama, spoke publicly about the value of automatic enrolment in retirement plans. That was out of the words of the nation's leader and that was hardly covert. I can't think in the Obama administration at least of something that qualifies as a nudge that was covert. On the contrary: these were all emphatically open and transparent.

STOURTON: Now just one of my own, rather greedily, very quickly. How much evidence, if any indeed, is there of what you might call the bloody-minded citizen phenomenon? In other words people react to a nudge by saying “I’m starting smoking because they’re making me go outside to do it” - that sort of ... Is that a factor at all?

SUNSTEIN: I think there is some evidence that sometimes people rebel against high-minded government that seems disrespectful. So in a democracy it’s good for public officials to know who they’re serving - that is they’re working for the public, not vice versa - and that can be a safeguard against feelings of resentment.

STOURTON: Thank you very much indeed. I think sadly we’ve run out of time. Our thanks to the Institute for Government for acting as our host today. Thanks too to all of you, to our audience here, for asking some very, very stimulating questions. But, above all, thank you to our guest, Cass Sunstein. Thank you. (*Applause*)