

They Thought We Were Ridiculous:

The Unlikely Story of Behavioral Economics

Episode 4: Behavioral Economics Goes Mainstream

Synopsis

Eventually, Behavioral Economics emerged as an influential perspective. It's become mainstream in Economics, and it's helped inform programs and policies that affect real people every day.

- Behavioral economics proved itself on Economics' home field.
- Integrating psychology has inspired powerful ways to help people save for retirement.
- The UK government took a leap of faith to introduce science-based policymaking.
- The US government soon followed suit.

Introduction

CHANING JANG: So, in Kenya, we have the M-PESA system. So, you have mobile money that you then put into a mobile wallet, right? So, there's nothing physical about that transaction. You never see the dollars. You never look in your piggy bank. There's nothing physical about that. Right? So, I think there's something about flipping that coin over and remembering, "Okay, there is savings here." This does represent something in the real world.

ANDY: That was Channing Jang who runs ...

CHANING JANG: The Busara Center for Behavioral Economics¹ which is based in Nairobi and has offices around Africa and in India.

ANDY: And he was talking about one of the many real-world studies that they've been doing to apply behavioral economics to real world problems. So for example, how could they encourage Kenyan workers to save money, when their pay gets quietly filed away into a digital wallet? Rationally, they should be optimizing their finances, no matter how they're paid. And earlier ways of thinking about this problem have focused on the typical calculus of economics.

CHANING JANG: They started with a classic economists' question is like, Well, how do you calibrate these financial incentives

ANDY: But by now, we know people don't always spend their precious time optimizing every choice to align with typical incentives. Sometimes, you just need a big old gold coin.

CHANING JANG: This thing was like, really, really heavy and weighty. It makes it feel really valuable.

¹ <https://www.busara.global/>

ANDY: Maybe if we give people a physical object that sits in their pocket, constantly reminding them to make better choices with their money, that will be what pushes them to save. They tried this coin idea alongside a bunch of other ideas like text message reminders, and different kinds of incentives. But the big winner, the strategy that led people to save the most money?

CHANING JANG: The coin just blew everything away.²

ANDY: People are funny, aren't they? But hey, whatever works.

ANDY: Behavioral economics started as a fringe idea—a bold re-imagining of economics that ruffled lots of feathers. And it could have fizzled out, it could have gotten buried in the annals of academic history. But it's flourishing! Not only has it gained acceptance in mainstream economics, but it's also burst out of the ivory towers and is being applied in real situations, with real people, not just in North America and Europe – but across the globe. And the problems they're solving aren't just whether cab drivers work shorter hours on busy days. Nope, the Busara Center is an example of how they're trying to solve *really deep* problems with massive implications – like how to help people who make only a few dollars a day save little bits at a time.

KURT: And Busara is not the only group that is tapping into behavioral economics. In 2015, the World Bank found that there are over 200 organizations using behavioral economics as the basis for their work – everything from non-profit NGOs like Busara, to government Nudge Units, to private consultancies.

ANDY: And this is surely an undercounting of organizations that may have a single behavioral economist or a behavioral economics team that informs their decisions.

KURT: Behavioral economics is here, baby.

TIM: You're listening to *They Thought We Were Ridiculous: The Unlikely Story of Behavioral Economics*, a 5-part podcast series on a radical idea in economics that shaped the way we see the world. From Behavioral Grooves, I'm Tim Houlihan.

KURT: And I'm Kurt Nelson.

ANDY: From Opinion Science, I'm Andy Luttrell.

KURT: So far in this series, we've seen how a ragtag group of economists and psychologists dared to challenge the dogma of a whole field of study and wouldn't give up the fight. Now we see the fruits of that labor.

ANDY: Episode 4: Behavioral Economics Goes Mainstream.

All Economics is Behavioral Economics

KURT: Okay, before we get to solving global issues on the ground, let's pick up where we left off—squarely in the ivory towers.

ANDY: And one of our friends in those towers is Drazen Prelec. Drazen is an economist at MIT whose early work dates back to the Russell Sage Foundation in the 1990s. We

² <https://www.iza.org/publications/dp/10024/how-to-help-poor-informal-workers-to-save-a-bit-evidence-from-a-field-experiment-in-kenya>

caught him while he was visiting his home country of Croatia. We wanted to know what the plan for behavioral economics was in the first place.

DRAZEN PRELEC: It was a critical strategic decision that behavioral economics would not have its own journal or its own organization, so on. That meant that behavioral economists had to make their case in front of the entire economics field. And I think that was fantastically, you know, it was a wise decision.

ANDY: So, the plan all along was to avoid letting this new movement get relegated to some subdiscipline, fenced off from "real" economics. They didn't want to form a special journal of behavioral economics. They wanted their work in the same room as everyone else's, have it judged on their terms. And it seems like it worked. Here's Richard Thaler.

RICHARD THALER: I fought for years to make sure there was not a Journal of Behavioral Economics. I said, we have to get papers published in the top journals. And we have to engage with that. There are still people over in the economics department, who was saying that I'm very much mistaken. But right now, in 2021, they are further from the mainstream in economics than I am. And virtually every issue of the *American Economic Review* has one behavioral economics paper.

GEORGE LOEWENSTEIN: I think it's changed the way that economists do their business like the rationality, assumptions that were so dominant, when we all started out, are no longer nearly as widespread as they are.

ANDY: That last voice was economist and psychologist, George Loewenstein. And he thinks this whole movement didn't just gain popularity among economists tinkering away in their offices.

GEORGE LOEWENSTEIN: I think it's really helped to make economics in general more accessible to mainstream people because the bedrock assumption of conventional economics that people are perfectly rational maximizing agents that just when most people hear that they it just instantly strikes them as obviously false. Paradoxically, maybe we've helped to bring economics to the masses.

KURT: And let's not forget the Nobel prizes.

TIM: Can't forget the Nobels!

KURT: Herb Simon, Danny Kahneman, and Richard Thaler. They've all been recognized with the Nobel Prize in Economics for their work in what is ostensibly behavioral economics. Colin Camerer at Caltech helped us understand what these awards really mean.

COLIN CAMERER: I mean, Nobel prizes...it's part of what they're for, right? Typically, the recipe is that you give it to some person or a couple of people who did something that was very unpopular first, or people are very skeptical of, and then it became less unpopular and then became popular. And then it's like, oh yeah, we kind of knew that

all along, you know? But I think in the Nobel prize for economics, it's also kind of the way of saying this is an important thing for society, whether it's environmental economics, or poverty, you know, there's usually some good thing for the world to know more about aspects to it.

ANDY: I mean, it's gotten to the point that the question is really: how do we treat this so-called "movement" now?

SENDHIL MULLAINATHAN: I really question why there's a field called behavioral economics.

ANDY: That's Sendhil Mullainathan, a professor of Computation and Behavioral Science at the University of Chicago.

SENDHIL MULLAINATHAN: Like I know Thaler does, I think he still does. Doesn't actually make sense. Hmm. Like, shouldn't all economics be behavioral economics? And so what is this like, why, why is it like, if a student came to me now and said, I wanna be a behavioral economist, I'm like yeah, everybody does. That's what you are. You're doing economics. So, what do you wanna work on? So I do worry that the existence of a field and the continued existence of a field called behavior economics is a form of failure perpetuating, which we shouldn't perpetuate.

ANDY (Tape): Do you think it had to be identified as a domain at the beginning, at least?

SENDHIL MULLAINATHAN: Groups need identities. Having some notion of kindred spirits makes a big difference. And an identity label definitely helps you. But at some level you kind of need things where there's program cell death and the identity label needs to have program cell death because, you know, at some point the, then the label becomes exclusionary and we want everybody to think they're quote a behavioral economist. We want economics to be behavioral economics. So, you know, at some point it has to disappear, I think.

RICHARD THALER: I wrote a paper called "The End of Behavioral Finance," maybe 20 years ago.³

ANDY: Richard Thaler, again.

RICHARD THALER: And I said, I was hoping that the field do it someday disappear, because economics would become as behavioral as it needed to be. And I think some of that is happening. More and more of the economists who don't think of themselves as behavioral economists have written behavioral papers. And that seems to be happening all the time. And that makes me very happy.

³ <https://www.jstor.org/stable/4480205>

Behavioral Economics Captures Public Interest

DANIEL KAHNEMAN: You know, it's been more than 7 million copies have been sold worldwide.

TIM: That's Daniel Kahneman. After developing seminal ideas in psychology about making choices and forming judgments, among a bunch of other influential ideas, he took his wisdom to the masses in 2011 with his bestselling book, *Thinking, Fast and Slow*.⁴

DANIEL KAHNEMAN: You know, I had been teaching, I mean, every chapter there comes either from a lecture that I had given or from something I had taught. It turned out that I had a lot of stories to tell by that stage. But I didn't like the book, you know, when I thought I certainly did not anticipate, uh, that it would be successful because I was trying to write simultaneously for two audiences. I wanted to be taken seriously by professionals and to be readable by the public. And, and I didn't think that I was, I thought I would fail clearly with one or with the other.

TIM: Kahneman's concerns weren't well founded. More than 10 years after it was originally published, it continues to hold a spot among the bestselling books on psychology. But it wasn't just Kahneman bringing behavioral economics to the masses. A small market had emerged around this time with a bunch of behavioral economists writing trade books. In 2008, Richard Thaler teamed up with Harvard Law School Professor Cass Sunstein to publish their book *Nudge*.⁵ The book's premise was basically that we could get smart about how we design people's financial choices, acknowledging their biases and penchant for irrationality, to help people make better decisions. The book leans heavily on Thaler's expertise in behavioral economics but...

DANIEL KAHNEMAN: I mean, Dick doesn't like when I say so, but *Nudge* is social psychology. It doesn't have all that much economics.

ANDY: Also in 2008, Duke University professor Dan Ariely published a book called *Predictably Irrational* that was also super popular.⁶ Its premise is probably familiar to you now: people are not as rational as economists would have you believe. These and a smattering of other books drummed up public interest in behavioral economics. We ask the London School of Economics Professor Liam Delaney if he thought these books helped catapult behavioral economics into the mainstream?

LIAM DELANEY: Oh, absolutely. Yeah, I can't think of a more influential book of its type. I'm definitely not going to win many prizes for forecasting because when I saw *Nudge*, which I have to say, it just genuinely didn't, didn't strike me that this would be such a big book. I think the reason it's been really influential is actually because it comes from so much background activity. I think, *Predictably Irrational*, and some of those other books even *Thinking Fast and Slow*, are just compelling reads. And like people can see elements of their own life in them and they're just good as they're just brilliant as popular science books.

⁴ <https://us.macmillan.com/books/9780374533557/thinkingfastandslow>

⁵ <https://yalebooks.yale.edu/book/9780300262285/nudge/>

⁶ <https://predictablyirrational.com/>

TIM: But there’s probably another important factor, too. Maybe you recall something else happening in 2008 when these books were coming out.

[Archival Media]: Before they crashed, those big financial firms had an unquenchable thirst for subprime loans. And that created a big opportunity for mortgage brokers.⁷

[Archival Media]: Home foreclosures are at their highest level since 1979.⁸

[Archival Media]: There’s just panic in the air...It's a little scary...I think a lot of people are going to be hit hard...We are in crisis. We all know that...This turmoil is a major threat.⁹

[Archival Media]: The man long viewed as an economic guru admitted today that the financial crisis has exposed flaws in his understanding of the economy.¹⁰

TIM: The collapse of the housing market and the 2008 financial crisis showed that standard operating procedure in economics hadn’t really considered people’s faulty psychological programming. Some have said that “the economic crisis also is a crisis of neoclassical economics.”¹¹ We don’t really have the time to unpack this all the way, but suffice it to say that the ideology of traditional economics couldn’t easily explain the housing bubble, but behavioral economics could.¹² In 2011, University of Cambridge professor Kamal Munir summarized the situation, saying: “Free market economists are searching around for answers, and a new breed of ‘behavioral economists’ are selling books like wildfire.”¹³ The whole debacle even became the subject of an Academy Award-winning film featuring a cameo by our guy, Richard Thaler.¹⁴

ANDY: So you had a major financial event and a bunch of accessible books written by experts in their field explaining the totally reasonable-sounding premise of behavioral economics, and you’ve got these once-fringy ideas being eaten up on a public stage. So then what? Economists are in. The public is in. World leaders are in. Could behavioral economics be used for good?

Changing the World with Behavioral Economics

KURT: We opened this series by talking about a program called *Refund to Savings*.¹⁵ It’s a program that tinkers with the interface of a tax filing software to nudge people to put more of their tax refund into a savings account. We were a little cagey on the details. According to researcher Stephen Roll, some of these little tweaks had big payoffs.

STEPHEN ROLL: The big thing that we have found in tax filing is something simple: that defaults matter. We made saving the refund seem like the default.

⁷ <https://www.npr.org/templates/story/story.php?storyId=89505982>

⁸ <https://www.npr.org/2008/06/10/91360595/housing-bailout-plan-sparks-anger-for-some>

⁹ <https://www.npr.org/2008/09/16/94667073/did-greed-cause-markets-to-tumble>

¹⁰ <https://www.npr.org/2008/10/23/96047014/greenspan-u-s-will-take-months-to-recover>

¹¹ <https://archive.krisis.eu/wp-content/uploads/2017/04/krisis-2010-3-03-heukelom-sent.pdf>

¹² <https://doi.org/10.1111/j.1759-3441.2009.00026.x>

¹³ <https://doi.org/10.1177/1056492610394739>

¹⁴ <https://www.imdb.com/title/tt1596363/>

¹⁵ <https://socialpolicyinstitute.wustl.edu/items/refund-to-savings/>

ANDY: In other words, when you get to the end of the tax filing process, the program is like, “Okay time to put some of your refund into a savings account! But I guess if you don’t want to, you could click this other button and skip this step.” It’s set up this way to make saving money seem like the next obvious step in the process. You would have to deliberately say no if you didn’t want to save the money.

KURT: This is all the product of a huge insight from behavioral economics: default options are powerful. We’re just so lazy. If something’s already been selected for us, it’s easier to just go with it than to think carefully about whether we should or not.

TIM: A good example of this is retirement savings. The standard economic model says that people know how much money they’ll earn over their lifetime, so they can work out how much they’ll need when they retire. They just make sure they save that amount of money. This is obviously not how real people work, so the question is: can we adjust savings decisions to nudge people to save money when they might not ordinarily do so?

KURT: So what can we do to nudge people?

TIM: Well, consider one way that corporate retirement plans could work. You get hired! Hurray! You’re filling out your paperwork, but then the company says “We offer 401K retirement plans, and you’re eligible. Do you want to enroll?”

KURT: So, you have to opt *in*.

TIM: Yep, you have to opt in. But what if we changed this ever so slightly? You still have just as much freedom to make your own choices, but in this scenario, the company says: “We offer 401K retirement plans, and you’ve been automatically enrolled by default. If you want, though, let us know and we’ll take you off the plan.”

KURT: Opt *out*.

TIM: Opt out. And it turns out, this makes a huge difference. Back in 1998, a big company in the United States changed the rules for its 401k plan, and one of the key updates was that now all new hires would be eligible and *automatically enrolled* in the plan unless they explicitly elected not to. This was mostly a logistical change. But someone from the company approached Bridgitte Madrian, an economist at the University of Chicago, and asked if she’d help analyze data from the rollout.¹⁶ She found that this simple nudge was an incredible success.¹⁷ When the new policy went into effect, a group of employees were newly eligible for the retirement plan but were not automatically enrolled. For them, only 49% – less than half – opted *in* to the plan. But for new hires who were automatically enrolled, 86% joined the plan. Only 14% opted out. This is a massive difference, especially when we’re talking about exactly the same retirement plan.

KURT: These results show how behavioral economics opens up doors to building programs with major implications. But it wasn’t always easy to sell the idea.

SHLOMO BENARTZI: Industry people thought I’m the biggest idiot, another academic who doesn’t understand anything.

¹⁶ Some of the backstory of this study is discussed in “[Misbehaving](#).”

¹⁷ <https://www.jstor.org/stable/2696456>

KURT: That's UCLA economics professor Shlomo Benartzi. In the late 90s, he and Richard Thaler were starting to think about how behavioral economics could be used to build a retirement savings program that would help people set aside enough cash for the future. Automatic enrollment was clearly a useful idea, but they wanted to do more than just have a bunch of people enroll in a retirement plan. They wanted to encourage people to set aside even more money.

SHLOMO BENARTZI: So one of the early things that we tested and found out was that especially low income blue collar employees knew they should save, wanted to save, and just couldn't get to do it. And that was a really critical ingredient. Because we were not tricking people into saving more when in fact, they didn't want to do it.

KURT: The program they developed was called *Save More Tomorrow*.¹⁸ It wasn't necessarily an automatic *enrollment* plan. It was even more innovative than that. It was an automatic *escalation* program. It had three key components, which were all based on behavioral economics. First was getting people to commit *now* to a savings plan that would get rolling in the *future*. This is important because we think about money differently when it's money we have now versus money we'll have in the future.

TIM: It's not exactly rational, but it's what we do. It's called the *present bias*. If you ask people if they want to take the money they have *right now* and put it away in a savings account, they're going to be resistant. But...

SHLOMO BENARTZI: It's easy to do the right thing in the future. We have plenty of self-control in supply.

KURT: The second component has to do with ramping up people's savings over time. People agree to save more in the future, but when? And how can they be convinced to up their contributions?

SHLOMO BENARTZI: We came up with the idea, what if we time it with salary raises? With pay increases. So people make more money, and they can save a bit more and take home a bit more, and they never have to cut down dining out or anything.

KURT: And finally, we're back to defaults because this all sounds fine, but when people get their raise, are they really going to fill out the paperwork to increase their savings contribution? The program is set up so that when you enroll in the program today, it lies dormant until your next raise and then automatically kicks in, increasing your savings contributions by default every time your pay goes up.

TIM: So it's on autopilot, but I mean, they weren't necessarily *locked* into this for the rest of their lives.

SHLOMO BENARTZI: We made it very easy to opt out. But for those who wanted to save more, it was very easy. Every time we make more money, you're automatically gonna save more.

TIM: And so this is all a nice idea in theory, but does it really make a difference?

¹⁸ Benartzi and Thaler originally proposed the program and provided evidence in [2004](#). Benartzi published a popular press book on the program in [2012](#), and summarized the program and presented data on its adoption in [2013](#).

KURT: Yep. In their first large trial in a company with more than 300 employees who were eligible for a retirement savings plan¹⁹, not only did almost 80% of the people offered the plan enroll in it, but most of them stuck with the plan for the long haul and ended up almost quadrupling their savings rate within 4 years. But maybe even beyond the virtues of helping people save more for their retirement, Save More Tomorrow was also really important because it showed how the principles of behavioral economics could be applied at scale. The Save More Tomorrow model could be adopted by any company with a savings plan.

TIM: So, Save More Tomorrow and the 401K Opt-Out model *can* be adopted, but are they?

KURT: Yes, in a big way. In the year 2000, participation rates among employees who had access to 401K programs in the US were around 40%. But by 2020, that rate was more than double, and it looks like participation rates are now in the 93% range. This explosion in people enrolling in 401K plans owes a lot to the spread of automatic enrollments and programs like Save More Tomorrow.

TIM: Benartzi has occasionally crunched the numbers to figure out how many people have enrolled in a program like his. In 2013, it was 4 million people.²⁰ In 2017, it was around 15 million people.²¹

SHLOMO BENARTZI: And my best guesstimate today, we're looking around 25 million people on such a program.

TIM: This was a critical early indication that behavioral economics wasn't just right, but it was useful. People are setting themselves up for more comfortable retirements. Real people in the actual world! But behavioral economics was about to get a whole lot more influential.

Applying Behavioral Economics in Government: UK Nudge Unit

David Halpern: I used to be a respectable academic. That's right. I had lifetime tenure at Cambridge. What was I doing?

ANDY: That's David Halpern. He received a PhD in social and political sciences and was dutifully following the path of a professor in the UK. But when Tony Blair won reelection as prime minister in 2001, he wanted to strengthen his strategy unit to help Downing Street think more carefully about long-term policy issues, by taking human psychology seriously. David was teaching a class called psychology and policy and he had already pitched in on some policy work in the late 90s. He was a no brainer.²²

DAVID HALPERN: I agreed to come in on loan from Cambridge for 18 months, I ended up actually working with him for six years.

ANDY: In that time, this strategy unit would consider how government could improve people's lives not by forcing them to, through laws and regulations, but by designing

¹⁹ <https://doi.org/10.1086/380085>

²⁰ <https://www.science.org/doi/10.1126/science.1231320>

²¹ <https://hbr.org/2017/12/how-digital-tools-and-behavioral-economics-will-save-retirement>

²² Much of David's story comes from his book, "[Inside the Nudge Unit.](#)"

systems that appreciate the quirks of psychology. They invited savvy researchers like Danny Kahneman to present to the group and dove into decades of experimental research in 2009. After witnessing this policy work up close, David published a book called *The Hidden Wealth of Nations*, which included recommendations for future politicians. One recommendation went like this: Behavioral Economics provides a powerful new set of tools for policymakers and citizens to address the challenges of today and improve the quality of our lives. The application of behavioral economics could offer substantial gains in relation to the environment, crime, pro-social behavior, education, welfare, and health.

TIM: Uh, that was 2009. Did politicians take up David's call?

ANDY: Oh, yeah, actually, right away. And we have David to thank so in 2010, David Cameron begins as the new prime minister, and there's interest in integrating psychology and policy ideas gets thrown around, Richard Thaler gets brought into help. And eventually, a small new unit starts to form in July 2010, there's a plan in place and the group finally has a name, the Behavioural Insights Team, or B.I.T. or BIT. Some people end up calling it The Nudge Unit, a small team of civil servants with special access to the Prime Minister's Office. David came on full time to lead the charge. They drafted a set of concrete objectives, transform at least two major areas of policy, spread understanding of behavioral approaches, and achieve at least a 10-fold return on the cost of the units. But they set a bold deadline for themselves. If they didn't achieve their objectives within two years, they would shut down BIT.

DAVID HALPERN: I felt it was a good discipline, that why not shift the default and say that, if this thing doesn't deliver, then shut it down. And by the way, shut it down early enough in your parliamentary cycle, so that by the time you get to the next election, it was a distant memory if it didn't work. It wasn't the only thing that was kind of a number of innovative, like policy leads that were being pursued in Downing Street at the time. And in many ways, what's interesting I think, is that if you had to take a guess which of those were going to succeed, in which of them were well resourced? The Behavioural Insights Team was definitely not going to be top of your pile. It wasn't given very much resource. It was a slightly kooky idea. So yeah, set it up with a sunset clause.

ANDY: They had to prove that behavioral economics could make good on its promises. So, they started running giant experiments within the government. One important early success was an experiment to try to get people to pay their taxes every year if the tax deadline comes and goes, and wouldn't you know it, some people just don't pay what they owe. Most people in the UK 90% of them do pay their taxes on time. But could David's team take advantage of some simple psychology to get the stragglers to catch up?

KURT: They don't need psychology, they just need to send everyone a letter saying, "Pay up or else!"

ANDY: Okay, take it easy, Kurt. That's one way to do it – yes. But if we think like a behavioral scientist, we might realize that there's power in social norms. In other words, people don't just rationally process information in a vacuum. Instead, they take their cues from what other people are doing. So, David's team crafted a simple reminder letter to send to 140,000 people who were late paying their taxes, that's 290 million pounds in unpaid debts. And in some of those letters, they added one extra

sentence, honestly informing the person that most people in their area had already paid their taxes.²³

KURT: One extra sentence?

ANDY: Just one sentence.

DAVID HALPERN: showed such a beautiful clear result, we were able to get about a 15% increase in payment rate, without further prompts by changing one line in a letter.²⁴ And, and that was definitely a kind of wow moment. I literally remember sharing it with the heads of departments, we call firm secs in Britain, you could just almost feel the room turn as that graph comes up when they realize this is something which actually seems to work and might be useful.

ANDY: And I don't know, "pay up or else" might also have worked. But there's a real benefit to letting simple psychology do the heavy lifting.

DAVID HALPERN: We also looked at complaints and complaints fell, because it's actually just kind of a nicer way, in some ways encouraging people to pay tax. So, your fellow citizen is more virtuous than you thought they were, as opposed to threatening to take away your TV or whatever. So that was interesting and again, helped I think to reinforce the shift.

ANDY: Another tweak the Behavioural Insights Team made to the tax system goes back to the idea that people will jump ship the moment things get just barely too difficult. Like, rationally people should think as much as they need to, in order to make optimal decisions. But life's hard. We've got dinner to make and Netflix to watch. If systems can make the right choice super easy, we'll do it. But in many places doing your taxes is anything but straightforward. And as David says in his book *Inside the Nudge Unit*, a lot of what tax authorities think is tax fraud or evasion is really just people having better things to do than waiting through complicated paperwork.

KURT: So, what can we do about it?

ANDY: Well, one of the bits early projects took issue with a letter that the tax department was sending. The letter gave people a web address that took them to a page with a link to the tax form they needed to fill out. All they had to do was click the link and fill in the form, but only one in five people would actually fill out the form.

KURT: They won't file their taxes. They're cheating!

ANDY: Or they just got confused. David steam made a simple adjustment to the letters, instead of giving them the address to a page with the form on it, they just gave them the address to the form itself. It saved them one click, but the proportion of people completing the tax form went up 22%.²⁵

KURT: That's actually like Save More Tomorrow, the program makes it easy to put money into savings, so people end up actually making better financial decisions.

²³ <https://thedecisionlab.com/intervention/how-normative-messaging-increased-tax-compliance-by-15>

²⁴ For exact figures, see the [full paper](#) published in *Journal of Public Economics*.

²⁵ <https://www.bi.team/publications/east-four-simple-ways-to-apply-behavioural-insights/>

ANDY: Exactly. And in this case, it's a simple tweak to how a government interacts with every citizen. That seems huge to me. And it seemed huge to BIT to, eventually these kinds of successes were adding up, the Nudge Unit had proven itself useful, no need to call in the sunset clause. Behavioural insights were there to stay.

DAVID HALPERN: Oh, my God, it does work. So the decision to not shut it down, was powerful in itself became a powerful secondary signal and government, right, because it was an active decision. Oh, my God, this stuff does work. You know, let's get serious. What's the next? How do we take it to scale?

ANDY: But beyond just proving the behavioral economics has applications in government, David's team might have had an even more basic impact.

DAVID HALPERN: And one of the most important things, in my view that Behavioural Insights Team did was it was a Trojan horse to some extent, to bringing in randomized controlled trials and stronger empirical methods into government popularizing.

ANDY: And even when people were resistant to running experiments on citizens,

DAVID HALPERN: The idea of doing experimentation is still unthinkable, actually, in relation to some fields.

ANDY: It was careful science that took down the assumptions of neoclassical economics. And it'll be careful science that shows us how to build a better society.

DAVID HALPERN: There is often this kind of reaction that it is somehow unethical to run a trial. But people tend to not think about the counterfactual, which is do you think it's ethical to do this intervention on millions of people? Or kids, without testing if it's effective? It's incredible that that's not considered unethical. And yet the trial is. I think that the deeper barrier is that it's, you know, it's overconfidence. So often, oh, my goodness, we hear, you know, someone will say, but we know what works. It's like, are you really sure you know what works? Because you've been doing that thing for years and most of the kids don't die doesn't mean there's not a better way of doing it.

Extending to the U.S. Government

TIM: It wasn't long before other governments began to notice. In the United States, the Obama administration worked to establish a unit like Halpern's Behavioural Insights Team. In 2014, the White House established the Social and Behavioral Science Team or SBST.²⁶ A year later, September 15, 2015, Obama issued Executive Order 13707. It was called Using Behavioral Science Insights to Better Serve the American People.²⁷ The order says, "The federal government should design its policies and programs to reflect our best understanding of how people engage with, participate in, use, and respond to those policies and programs." All of this makes the SBST seem like it's some exceptionally well-established, ready-to-go plan. But...

DAVID YOKUM: But yeah, we didn't like we didn't really have like a dedicated office space or anything, actually spent, like the first few days just trying to figure out how to

²⁶ <https://sbst.gov/>

²⁷ <https://obamawhitehouse.archives.gov/the-press-office/2015/09/15/executive-order-using-behavioral-science-insights-better-serve-american>

even get into the building or anything like that. There wasn't a whole lot of playbook for how to do this and really no institutional setup for it, either.

TIM: That's David Yokum. While he was a grad student in psychology, he became a founding member of the SBST along with cognitive scientist, Maya Shankar.

DAVID YOKUM: Maya and I were both new to government. And so, a lot of this was being made up kind of on this live. We certainly had a stretch there of press that hit that was quite skeptical and wary that there was something nefarious happening, that there was some sort of unit being put together to distribute propaganda, manipulate the budget. So like I had a moment where I literally moved to DC get their process the next day and I'm wondering whether it's going to get shut down 12 hours later.

TIM: Fortunately, the SBST was able to get to work drumming up business, finding ways to use sign tends to make things run more smoothly. But if you're picturing some buttoned-up professors, rubbing elbows with diplomats in the storied halls of American history, think again.

DAVID YOKUM: Even just those moments where, you know, I'm like down in the basement of the General Service Administration building with no windows, and in the IT room with falling computers and keyboards around. And I'm talking to Larry, the IT guy, you know, he's got like the ponytail haircut and everything, like the perfect IT guy. And we're trying to figure out how to randomize some old code. And he's never run an experiment or anything. But the kind of conversation we have and getting him excited about the work in a way that like nobody had ever come down to his basement office before and invited him to think about one of the big giant structural issues for the agency, the fact that he was kind of in that mix. And then seeing the kinds of ideas that those individuals would throw in was really sort of a special part of this project. And we ended up just getting all kinds of great ideas from people that had been in the civil service for a long time, maybe didn't have the right opportunities to pitch in on these kinds of things. And that was just very humbling and was very interesting. I felt very fortunate to have those kinds of encounters.

TIM: Eventually, the group was humming along and getting things done. In their first year²⁸, their work already meant that more service members were saving for retirement. More students were going to college. More veterans were taking advantage of their benefits. More small farms were gaining access to credit and more families were securing health insurance coverage. For example, remember how David Halpern's team in the UK was able to get people to pay their taxes just by making it easier to access the form? Well, the SBST was doing the same sort of thing: streamlining all sorts of programs. In one case, the government provides aid for kids from low-income families to go to college. And even though it would be a super optimal rational decision to apply for that funding, plenty of people don't because it's confusing and overwhelming. But a study in the *Quarterly Journal of Economics* had shown that students were more likely to eventually go to college and stay in college, if they simply got some help filling out this paperwork.²⁹ Making it easy nudged people to actually get it done. So, the folks at the SBST caught wind of this study and shared it with the Department of Education, who then started streamlining the forms to

²⁸ <https://github.com/gsa-oes/SBST-NSTC/blob/master/download/2015%20SBST%20Annual%20Report.pdf>

²⁹ <https://doi.org/10.1093/qje/qjs017>

request college assistance, even letting people automatically complete parts of the forms with the data that was already on file.

KURT: It's amazing, this behavioral economics movement that use data to make a theoretical point about economics set off a chain of events that led to huge governments redesigning their everyday practices, so that their policies and programs could have a deep impact on people's lives.

DAVID YOKUM: It's cool for me to look back and see a picture of meeting with President Obama. That's kind of cool. But honestly, I think if I like the kinds of stories I'm going to tell my kids as they're getting older are actually more likely to be about some of these interactions I'm having with the people that are directly impacted by these policies. And I don't know maybe that sounds corny to say, but that's where the impact really happens. And if you experience it directly, it's something that is just very humbling and makes you realize that you're a part of something much bigger than any particular project or a particular idea you might have. And that's, that's something to consider and appreciate as special.

Conclusion

KURT: As nudge units in the UK and the US governments, as well as in other countries have thrived. They inspired units like the Becerra center to form according to Faisal Nero, the executive director of the Rockefeller Philanthropy Advisors, the number of teams applying behavioural insights to public policy has grown to more than 400, around the globe, as of 2022. And that's just those focused on public policy. There are dozens of agencies focused on things like marketing, human resources, risk and compliance.

TIM: It's incredible to see so many agencies using behavioral science to inform their decision making. And when we think of moving from the ivory tower to Main Street, this change happened fast, really fast. Danny Kahneman.

DANIEL KAHNEMAN: It's astonishingly quick, the adoption of behavior economics. I mean, we are talking prospect theory is 1979 and it's people basically ignore it except for a few quite important people. Then [Matthew] Rabin got the Clark Medal. That was the first thing. And I got the Nobel and, and in quick succession. That was about 20 years. So that's extremely quick for the adoption of really a strange body of ideas. So, I have nothing to complain about.

ANDY: So behavioral economics is a success story. But now what is the story over? Not at all. In the last installment of this series, we're going to talk with young behavioral economists who are pushing this field into new frontiers.

[CREDITS]

They thought we were ridiculous is written and reported by Andy Luttrell, Kurt Nelson, and Tim Houlihan. Editing and Sound Design by Andy Luttrell. Thanks to Ben Granlund, Alex Belanger, and Alexa Cover for design and marketing. And thanks to Mary Kaliff and Caroline Schaeffer for other assistance along the way. Music licensed by Blue Dot Sessions and Epidemic Sound. Transcripts with key source citations are available, check out the episode webpage. Thanks to the guests whose voices you heard, including Richard Thaler, Colin Camerer, Richard Nisbett, Liam Delaney, Linda Babcock, and George Loewenstein. This miniseries is a co-production of two podcasts: Opinion Science is hosted by Andy Luttrell and explores the science of people's opinions, where they come from and how they talk about them. Behavioral Grooves is hosted by Tim Houlihan and Kurt Nelson and explores our human condition through a behavioral science lens. You can find more information on both of those shows in the episode description. Thanks for listening. We'll see you next time.