American Economic Review: Papers & Proceedings 2015, 105(5): 396–401
http://dx.doi.org/10.1257/aer.p20151049

Behavioral Economics and Public Policy 102: Beyond Nudging†

By Saurabh Bhargava and George Loewenstein*

The United States, despite its affluence, faces a number of daunting policy challenges. We rank last among 16 wealthy peers in life expectancy, infant mortality, and obesity, and have taken very little action on climate change, despite the extremity of the threat it poses not only to future generations but even those alive today.[1] Complicating matters is that the causes of these policy problems are multi-determined and can be engaged at different levels of policy analysis. For example, while obesity is proximally due to the (persistent) intake of excessive calories, it can also be attributed to more intermediate causes such as innovations in food production and delivery which have lowered the cost of consuming (largely unhealthy) foods, to policy decisions such as the subsidization of corn (and hence corn syrup), or even to more deeply structural factors, such as the sociocultural forces that have promoted the availability of "super-sized" portions and physical inactivity. To combat obesity, a policymaker must decide whether to intervene proximally (e.g., mandating caloric displays), or more distally (e.g., reducing access to low-nutrient foods).

Economics offers a useful framework for thinking about policy. However, the traditional approach in economics, by assuming fully rational and perfectly informed individuals, assumes away many potentially problematic behaviors. Recognizing human limitations and their consequences, many policymakers have embraced Behavioral Economics (BE) as an alternative framework. While traditional economics offers regulatory and price-based solutions to deal with market failures, such as those stemming from the presence of externalities (e.g., pollution or education), BE prescribes strategies, and rationales, for the use of policy to address the "internalities" (or "within-person externalities") that stem from the failure of individuals to successfully pursue their own interests.[2]

In this essay, aimed broadly at students of policy and their instructors, we comment critically on the past, present, and future role of BE in public policy. We first describe the notable successes of early applications of BE which have typically involved proximal interventions designed to improve behavior. We then argue that BE can and should now aspire to influence the design of policies aimed at the deeper causes of policy problems. Through a set of guiding principles, and case-studies, we seek to provoke students of public policy to think about how to leverage the teachings of BE more fully to deliver policy solutions whose scope is commensurable with the magnitude of contemporary challenges.

I. The Birth and Early Successes of Nudge

The intellectual basis for applying BE to policy was formally articulated in two papers published in 2003. Titled "Libertarian Paternalism" (Thaler and Sunstein 2003) and "Regulation for Conservatives: Behavioral Economics and the Case for 'Asymmetric Paternalism'" (Camerer et al. 2003), both papers advocated an approach to policymaking intended to benefit individuals not acting in their own self-interest, but which imposed minimal burdens on those already acting rationally. This approach, as the titles

* Bhargava: Social and Decision Sciences, Carnegie Mellon University, 5000 Forbes Avenue, Pittsburgh, PA 15213 (e-mail: sbhar@andrew.cmu.edu); Loewenstein: Social and Decision Sciences, Carnegie Mellon University, 5000 Forbes Avenue, Pittsburgh, PA 15213 (e-mail: gl20@andrew.cmu.edu). We thank Lynn Conell-Price, Ania Jaroszewicz, Brigitte Madrian, Nachum Sicherman, Cass Sunstein, and Richard Thaler for comments and feedback.

† Go to http://dx.doi.org/10.1257/aer.p20151049 to visit the article page for additional materials and author disclosure statement(s).

[1] Relative rankings on health outcomes are taken from a 2013 report published by the Institute of Medicine and The National Research Council.

[2] Coined by Herrnstein et al. (1993), an "internality" is produced when an individual fails to consider the full impact of a behavior on her present/future utility.