Nudge, behavioural economics and public policy: a new theme for British Politics and Policy at LSE

Behavioural economics has come far in the past decade, and is being used increasingly to help inform public policy. A new theme for British Politics and Policy at LSE blog will, according to **Adam Oliver**, *serve as a forum for ideas and debate in this most topical area.*

Behavioural economics has been around for a while. Its origins could be disputed. Many may point to the pioneering work of Daniel Kahneman, Amos Tversky and Richard Thaler in the 1970s and 1980s. Others might look to Herbert Simon's work on bounded rationality in the 1950s. Still others will go all the way back to Adam Smith's eighteenth century ruminations, including his perfect definition of one of the key findings of modern behavioural economics, loss aversion:

> *Pain . . . is, in almost all cases, a more pungent sensation than the opposite and correspondent pleasure. The one almost always depresses us much more below the ordinary, or what may be called the natural state of our happiness, than the other ever raises us above it.*

Public policy is even older, but attempts to marry the two in any explicit way are recent and gained prominence with Thaler and Cass Sunstein's book, *Nudge: Improving Decisions About Health, Wealth and Happiness.* Now *Nudge* is probably Thaler's most hastily written work, but, perhaps paradoxically, it is also likely that it is his most widely read work (and maybe therein there is a behavioural lesson for all of us). *Nudge* has also been tremendously influential – David Cameron, for instance, when leader of the opposition became possibly the first British political leader to issue his MPs with a summer reading list (although I like to think Gladstone did the same), and placed *Nudge* at the top. And on being 'elected' to government in 2010, the new Prime Minister established The Behavioural Insights Team – the so-called 'Nudge Unit' – in the Cabinet Office at Number 10, with a remit to design public policy that is informed by behavioural theory.

Of late then, behavioural economics (at least with respect to it being used in public policy – i.e. behavioural public policy), has come a long way. Ten years ago, there were only a handful of behavioural economists in the UK. Now there are thousands of them (or so it seems). The rise of the sub-discipline is also partially consequent on the 2008 financial crisis, when neoclassical economics took a (probably temporary, but likely intermittent) battering, and its reach has not just been confined to the shores of Grande Britannia. Thaler's co-author, Sunstein, for instance, serves as regulation 'tsar' in the Obama Administration.

Fashionable and topical as behavioural economics is, I speculate that it is unlikely to maintain its current level of prominence indefinitely. I also speculate that it will not entirely disappear, although, over time, we can hope that some misconceptions with the approach will. For instance, behavioural economics is not a tool limited to those who wish to roll back the influence of the state. It is a tool to inform better and more effective (public and private) policy. It is not a panacea, and no sensible behavioural economist would claim it to be so, but it may help at the margin.

Over the last year, a few of my LSE colleagues and I organised a seminar series that engaged some of the world's leading behavioural economists and UK public policy makers in a debate about how the approach might help to inform better policy – and how it might explain past mistakes – across a range of areas, including health, education, the environment, incomes policy etc. We want the debate to continue, and we hope that this new theme will facilitate. If you would like to contribute a blog of your own on the topic of behavioural public policy, contact me at a.j.oliver@lse.ac.uk. We need your engagement, and we want to hear your ideas.