

Nudge Neeti

Decoding Behavioural Policy Making in India

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The onset of 2017 brought with it many policy changes made by the Modi government. For the first few months, much of the economy was paralyzed as an after-effect of the much celebrated ‘Surgical Strike’ on black money, ergo demonetization. This and other policies rolled out by the Modi government during the course of its tenure prompt us to think about the correlations between these policies and the theories proposed by behavioral economists, one of whom, Richard Thaler, won the Nobel Memorial Prize for his work on nudge theory. Thaler’s win made ‘nudge’ the buzzword in the world of economics. And so, it can hardly be, that the Indian government remains isolated from it. Among the many policies that were rolled out, there are some that clearly reflect the ideas of behavioral economists. Demonetisation was a ‘nudge’ not so much for the removal of black money from the economy, but for people to transition into a ‘digital economy’. It facilitated the rise of many e-wallets, and helped in moving towards a cashless economy. The Modi government also appealed to the economically better off households to consider giving up LPG subsidies, which would in exchange be used to bring LPG connections to BPL families. Such an appeal is a direct application of behavioral economics. Reforms in governance; making it more accessible to the public and more participatory in nature, easing access to information for businesses and investors; show that the Modi government has caught on to the trend that is taking the world by storm.

The paradigm shift in the approach to policy-making, and implementation, has definitely bore fruit. Though the UPA Regime were the introducers of as many as 23 schemes and policies that have been revamped by Modi, which they still lay their claim to, their ideas did have the potential to bring changes but lacked understanding of the context in which to be applied, and carefully thought-out analysis and planning. Consolidation of similar schemes under one, a sector-specific approach, addition of attractive features; take for example the issuance of RuPay debit cards under PMJDY that has often been regarded equivalent to the Basic Savings Bank Deposit Account (BSBDA) scheme, went a long way in building efficacy and popularity among people.

The economic decision-making of individuals is what composes or shapes nationwide implications in terms of how stock prices react, to how much annual growth an industry encounters, even to the extent of macroeconomic policy-implications. Traditionally, and even today, predictions about these are made on the basis of certain implausible assumptions, which render them pointless, if not inaccurate. Human beings are constantly subject to memory failures, cognitive fallacies, and even altruistic tendencies, in the simplest of monetary transactions. This is where psychological and behavioral insights take center-stage.

Insights and Applications of Behavioral economics:

It is seen that economic agents show defiance of the assumption of infinite self-interestedness. Human beings feel the emotions of sympathy, and empathy when they witness “suffering” of individuals like themselves. Feelings of guilt, on being a silent spectator may arise, leading to “irrational” behaviour. This has been built into the contemporary political developments by first giving birth to a foundational narrative. This narrative could be as broad as a nation-wide crisis, or as specific as the problems faced by a particular section of society. An identity is constructed, for example, the identity of being an “Indian” over merely being a normal individual, and it is a part of this identity which appeals one to look beyond one’s own self-interestedness. The employment of the “Give up Subsidy” scheme seeks to invoke empathy among common citizens by drawing attention to the lesser privileged households of India that do not have access to LPG connections, giving up subsidies and allowing the government to use that money instead to reach out to the poor. Nearly 1.13 crore people gave up subsidies, as a result of which the government saves Rs. 1080 crores each year. Similarly, such a framework has been employed in concessional schemes, like the railway concessions under which senior citizens have the option to choose the degree of concession, as against automatic 100% concession. These gentle nudges that appeal to moral sentiments, are testimony to the practicality and usefulness of behavioural insights.

Status-Quo bias, or procrastination, is the tendency of all decision making agents to evade cumbersome action that involves a considerable amount of focused thinking. Individuals end up making choices that may not be the welfare-maximising selection of goods and services. This is a clear violation of the revealed preference choice theory. It implies that observed choice making may not be perceived welfare maxima. Complexity and volume of information to be analysed leads to a passive behaviour. Simplification in bureaucratic processes, through the launch of websites and mobile-operated apps, effectively consolidates relevant data. The Make in India scheme, launch of numerous websites like mygov.in, the “Narendra Modi” App, specific databases like “NAARI” simplifies data for the general public. “Mann ki Baat”, broadcasting of an audio message from the prime minister himself is an excellent tool to communicate information. The Maternity Benefits Programme gives women subtle monetary nudges over the course of their pregnancy, and for some time afterwards, to seek professional medical help, register the birth of their child with the government and for the administration of the first cycle of vaccination.

Human beings are highly influenced by actions of fellows, in a defined community. “What others do”, and therefore, “How our actions will be perceived” by others, play a vital role in determining individualistic actions. Norms are often built in society, which could be due to geographical, cultural, social, political, economic considerations. Choices are made suited to these norms, in

order to be accepted and appreciated. This implies that a change in behaviour that is associated to norms can be easily achieved by an appropriate intervention. A negative connotation attached to a certain type of behaviour is likely to be more effective, as it is undesirable to be shunned by society. The campaigning against open defecation involves a televised advertisement where a man who practices the same, is looked down upon by fellow villagers and asked by his wife to use a closed bathroom. Another advertisement consists of young children teaching their parents and elders to make sure that unutilised appliances are switched off. This calls for a shift from existing norms to new norms that consist of the desired behavioural changes.

Simply put, behavioral economics is the study of human behavior and using the insights so gained to make better socio-economic policies. Policies are always either directly or indirectly impacted by the interaction and decision making of economic agents, hence implying **wide scope for applicability**. These insights can be easily utilised to tackle challenges that India faces, in areas like education, health, sanitation and gender. Low hanging fruit that can be bitten off by changing people's attitudes through the creation of a conducive social environment.

The effects of micro-incentives are universal in nature. For instance, taking a child to the doctor is a short term inconvenience for parents, but it was found that handing out a half kg bag of lentils effectively increased the fraction of children vaccinated from 18 to 29%. Similarly, absenteeism is a major problem in health and educational institutions.

Empirical data shows that incentive payment can help remedy this.

Going forward, there are two inherent problems that worry most behavioral economists. First, it is a field with several important empirical results, but little overarching theory. Second, new research in this field is being produced at a rapid rate. Due to both these problems, communication of its findings to non-expert policymakers can be difficult. For this very purpose, a report called 'MINDSPACE' was published in the UK by the Institute for Government and the Cabinet Office. The purpose of MINDSPACE is to present to policymakers the insights of behavioral economics in a concise, understandable form. It is, certainly, the most sophisticated attempt yet to make insights from behavioral economics available to policymakers, with the aim to influence policy design.

Table 1: *The MINDSPACE Acronym, from Dolan et al. (2010)*

<i>MESS ENGE R</i>	<i>We are heavily influenced by who communicates information</i>
<i>INCE NTIVE S</i>	<i>Our responses to incentives are shaped by predictable mental shortcuts such as strongly avoiding losses</i>
<i>NORM S</i>	<i>We are strongly influenced by what others do</i>
<i>DEFA ULTS</i>	<i>We 'go with the flow' of pre-set options</i>
<i>SALIE NCE</i>	<i>Our attention is drawn to what is novel and seems relevant</i>
<i>PRIMI</i>	<i>Our acts are often influenced</i>

NG	<i>by subconscious cues</i>
AFFE CT	<i>Our emotional associations can powerfully shape our actions</i>
COM MITM ENTS	<i>We seek to be consistent with our public promises and reciprocate acts</i>
EGO	<i>We act in ways that make us feel better about ourselves</i>

Behavioral economics, however, is not without its faults. The definition of a nudge is not entirely clear. Some nudges can be better described as traditional economic approaches. For instance, simplification of information, alteration of marginal costs or marginal profits. And so, it is not a comprehensive alternative to neoclassical economics, it is more ad hoc. Secondly, behavioral economics internalizes paternalism which could often lead to a slippery slope. It argues that it may, after all, be in people's interest to have their choices limited by the government. It makes the assumption that policymakers know better than individuals what is in the individuals' own interest. Behavioral economists like to call this 'libertarian paternalism' and not just paternalism as the former comes without the hint of arrogance. Thirdly, by setting up defaults, the government essentially takes away choice from a citizen. Lastly, it can be hard to identify when these interventions become coercive, that is, when a nudge becomes a shove. Thus, it gives policymakers the opportunity to roll out authoritarian policies in the garb of behavioral economics. But these are only the faults inherent within the field of behavioral economics. When applied in

the context of a culturally diverse country like India, the problems only get compounded. Because behavior is a product of social and cultural construct, any attempt to universalise behavioral outcomes would always lead to a dead end.

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