



BEHAVIOURAL ECONOMICS TEAM OF THE AUSTRALIAN GOVERNMENT

About behavioural economics

Introduction

Behavioural economics is a field of economic analysis that applies psychological insights to human behaviour to explain and predict how people make decisions.

People rarely exhibit the fully rational decision-making behaviours described in traditional economic models. The way we behave and make decisions is often powerfully and predictably shaped by psychological and social influences. Every day we rely on a range of shortcuts and contextual reference points to make choices in quick and routine ways.

These decision making processes serve us well, and in many cases, help us to make solid and reliable decisions. On other occasions, they can lead us astray and create a large gap between what we intend to do and what we actually end up doing. This is especially the case when choices are complex, or when the benefits of a decision are not immediate or certain. We tend to 'go with the flow' and follow default settings, we are prone to procrastination and we often let the actions of others influence the choices we make for ourselves.

Behavioural economics is sometimes broadly referred to as 'behavioural insights' or nudge economics.

Policy making

Insights from behavioural economics can help us rethink traditional approaches to policy design. They can enable us to develop innovative and simple solutions to policy problems in a range of areas from healthcare and retirement savings to energy conservation.

There are many examples of the success of behavioural economics in action:

- The United States, automatic enrolment of employees in retirement savings plans has dramatically improved the financial wellbeing of millions of people. In Australia, behavioural insights have been applied to set default fund choices with MySuper.

- Also in the United States, simple planning prompts have been used to help encourage people to access health services, such as immunizations and cancer screenings. These simple prompts have seen markedly improved health outcomes.
- In the United Kingdom, the Government tweaked the content of letters to late taxpayers to indicate to the taxpayer that the majority of residents in their area actually pay their taxes on time. This led to improved payment rates and a reduction in the cost of tax collection. In Australia, the ATO has adopted similar approaches in recent years to make its communications with taxpayers more effective.
- In the United States, electricity bills show people how their own energy use compares with that of their most efficient neighbours. Playing to people's competitive nature has significantly reduced household energy consumption. In Australia, the Department of Industry has adapted a similar approach to create a new standard for household electricity billing.

Government establishing Beta

BETA is a key example of the Government's commitment to innovation. BETA is:

- Expanding the policy toolkit—by drawing on behavioural insights to design policies and services that work with, rather than against, people's behaviour.
- Trialling its impact—through rigorous randomised controlled trials.
- Sharing the results widely—by publishing our results.

BETA will build on existing policies which have already adopted behavioural insights to help bridge the gap between people's intentions and their actions—MySuper already helps Australians make better choices about retirement savings and the ATO's pre-populated tax forms have already made tax time simpler and easier.

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BETA will build on and complement the work of other organisations that also research behavioural economics both here in Australia and abroad. These include the Behavioural Insights team established in the United Kingdom in 2010, the Social and Behavioural Sciences team set up in the United States in 2014, and the NSW Behavioural Insights Unit that has operated in the Department of the Premier and Cabinet since 2013. Several Commonwealth Government departments and agencies, including the Australian Taxation Office and the Department of Human Services, have also developed internal behavioural economics capability over the past few years and BETA will work closely with them.

Randomised control trials

At BETA, we know that human behaviour is complex and choices are powerfully influenced by context and timing. Policy designers can never be sure about what will work best and when. For

this reason, our commitment to human-centred design goes hand-in-hand with our commitment to test the impact of our designs carefully and rigorously. Knowing when to adapt our approach to get the best outcomes is a crucial part of the policy process.

Randomised controlled trials are the gold standard method for evaluating the impact of policies, programs and services. Randomised trials are commonly used in the medical field to test the efficacy and safety of new treatments before they can be approved and introduced in the health sector and they similarly have great potential in the policy world. Unlike many other forms of evaluation, they are highly effective at pinpointing the impact of policies on targeted outcomes.

Ethical trials

BETA is committed to ensuring that all research with partner agencies is conducted in accordance with the National Statement on Ethical Conduct in Human Research.

Sustainability of behavioural insights

Like all policies, the effects of behavioural interventions, especially those involving communications, can vary over time. Whether interventions lead to new habits and routines will therefore vary. This is why BETA will prioritise testing what works, and for how long, through carefully designed trials.

Research suggests that telling people about how a simple behavioural intervention is designed to help them make good choices does not actually reduce the effectiveness of the intervention.

Choosing when to use behavioural economics

The Government's job is to deliver policies and services that are in the national interest and improve the wellbeing of Australians.

Whenever the Government sets policies or delivers services it involves giving people information, choices and options; and procedures for enrolment, participation, access, and reporting. The way these are designed influences our behaviour and decision making. Using behavioural insights enables the Government to approach this in a responsible and smart way—in a way that helps people make better choices for themselves.

BETA is committed to being fully transparent about the work we do. We only design behavioural interventions we are willing to defend publicly to citizens.

We do not try to re-shape anyone's views about what is best for them; we help people turn their best intentions into actions. Often we understand fairly clearly what we would like to do and why it is the best thing for us but we find it difficult to follow through. BETA aims to help people bridge this gap, whether it is in taking action to access an important service, getting a health check-up or cancer screening, cutting back on electricity usage, filing their tax returns out on time, reviewing their finances or planning for retirement.