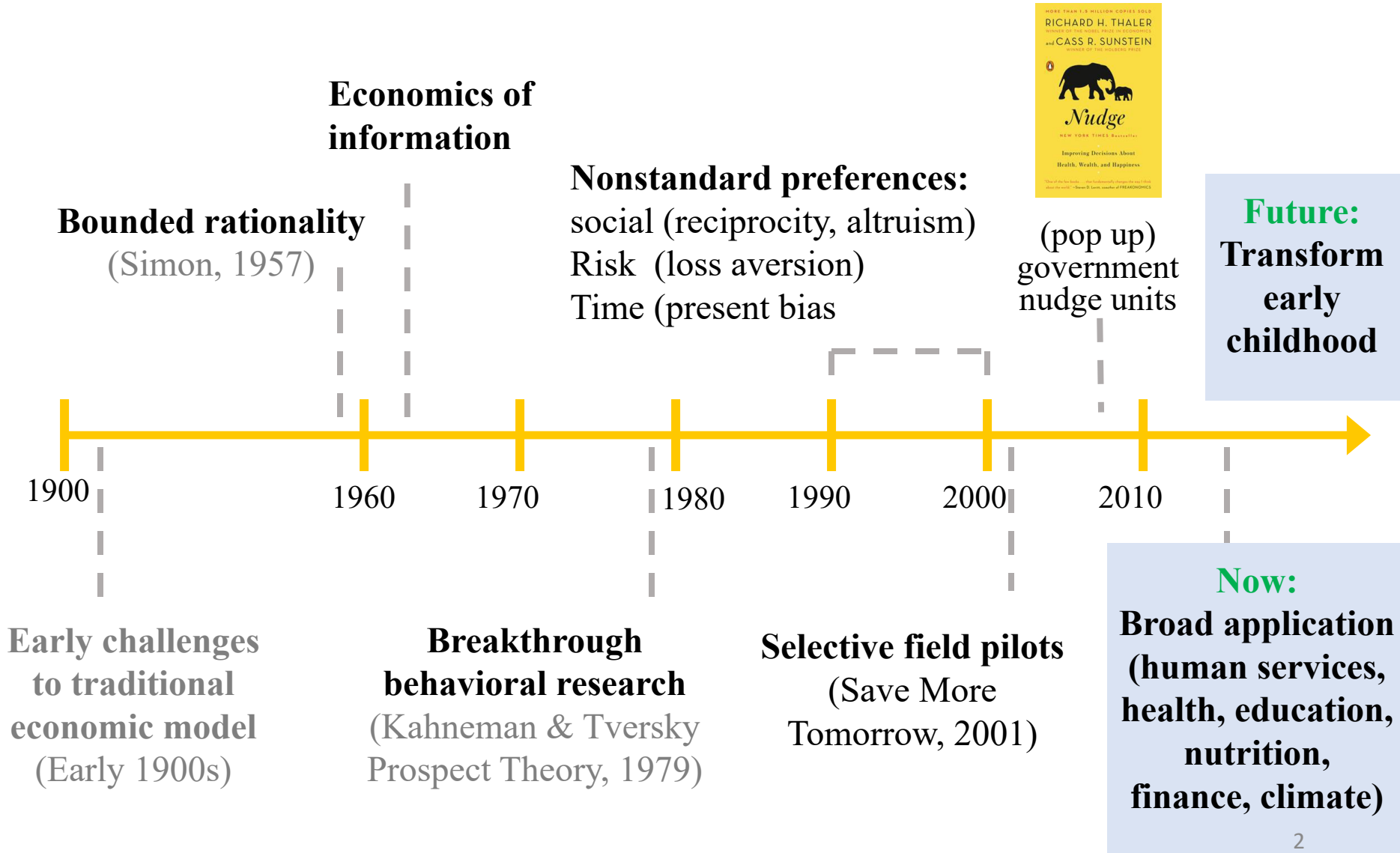# Behavioral Economics (BE) and Social Policy: Insights to improve returns on public investments

Lisa A. Gennetian

A brief journey through the history of BE

Economics of information

Bounded rationality
(Simon, 1957)

Nonstandard preferences:
social (reciprocity, altruism)
Risk (loss aversion)
Time (present bias

(pop up)
government
nudge units

Future:
Transform early childhood

Early challenges to traditional economic model
(Early 1900s)

Breakthrough behavioral research
(Kahneman & Tversky Prospect Theory, 1979)

Selective field pilots
(Save More Tomorrow, 2001)

Now:
Broad application (human services, health, education, nutrition, finance, climate)

1900   1960   1970   1980   1990   2000   2010
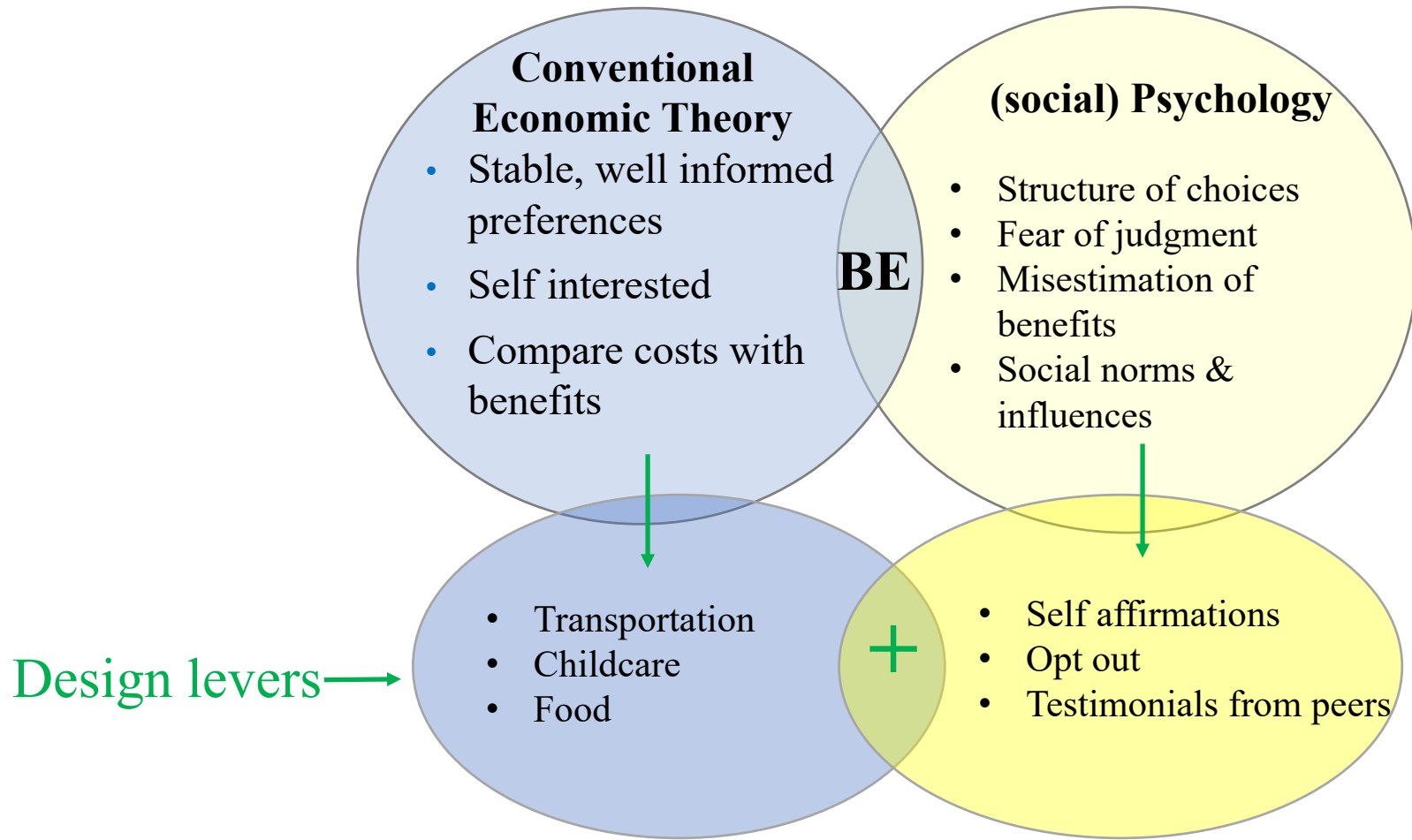
Rationale: BE and social policy

Social problems:
- Child poverty persists
- Investing in early childhood has high returns but intervention reach and scale are limited
- Benefits not always effective or efficient
  - Low and generally choppy uptake and participation
  - Leakage? Those who otherwise would have the highest returns

Contribution of BE:
- *Harnessing BE insights* to enhance impact of existing social policies—how can BE improve what is already in place?
- Designing social policy *by harnessing BE insights:* how to apply BE early while designing new policies?

Expanding the policy toolkit with BE

Conventional Economic Theory
- Stable, well informed preferences
- Self interested
- Compare costs with benefits

BE

(social) Psychology
- Structure of choices
- Fear of judgment
- Misestimation of benefits
- Social norms & influences

Design levers →
- Transportation
- Childcare
- Food

+
- Self affirmations
- Opt out
- Testimonials from peers

Expanding views on policy context with BE

Scarcity and instability is more than a state of financial well-being:

> ➤ Drains cognitive bandwidth
>
> ➤ Thereby affecting decision making
>
> ➤ Thereby perpetuating poverty

Are social policies getting the highest return? And, for whom?

BE in policy action

- Hypothesis
  - Cognitive (attentional) demands and drain contribute to suboptimal budgeting behavior

- Testing the BE hypothesis
  - If there are bandwidth challenges related to financial instability, then food budgeting within monthly food subsidy receipt should impact children's schooling participation and performance

Instability **matters** for human capital development

Indicative standardized effects on attendance

Higher income has positive effects

More instability has negative effects

4th graders   7th graders   9th graders

■ Quarterly average income   ■ High income instability
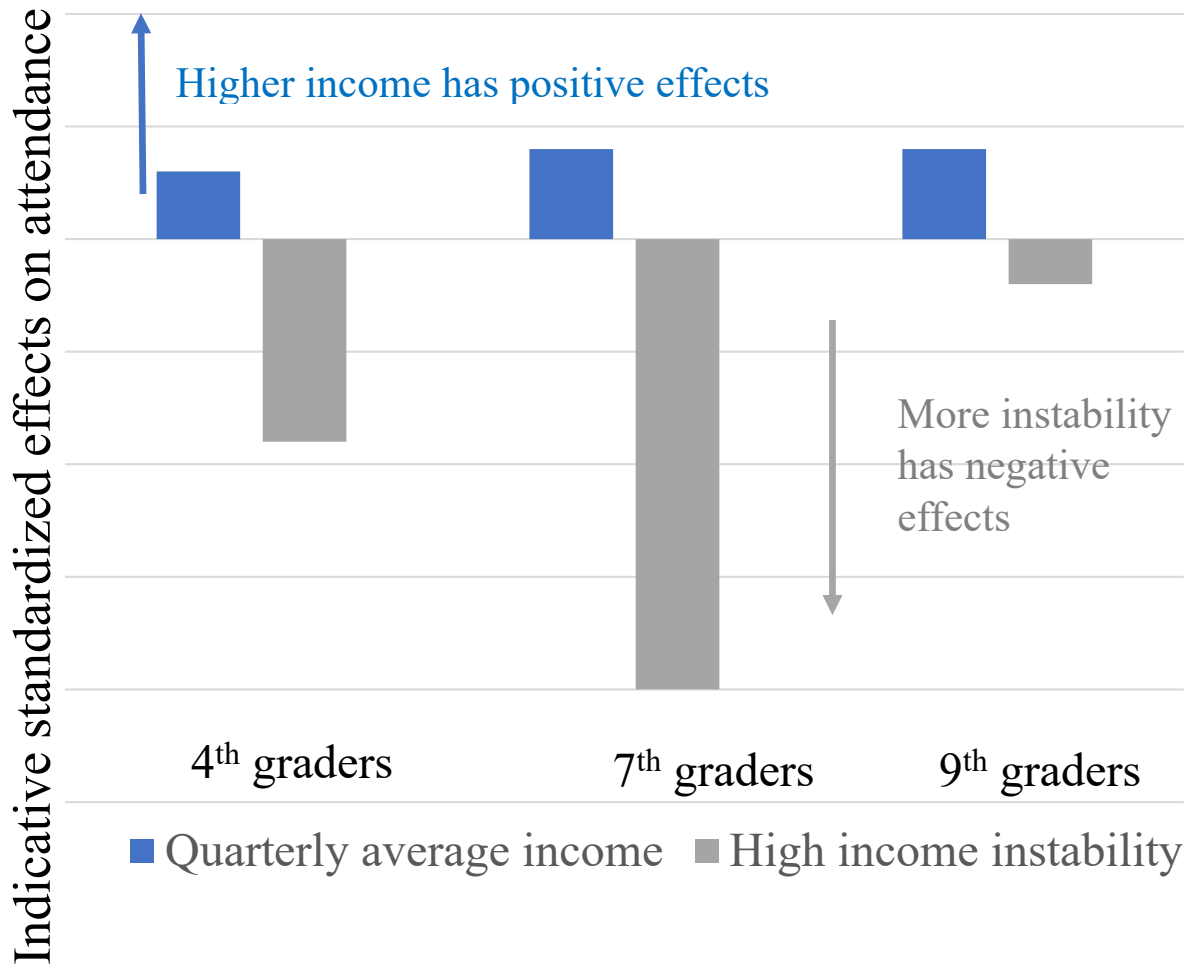
Similar patterns:

- Student disciplinary infractions

- Expulsions and suspensions

- High school graduation

- Adult educational completion

- Exacerbated for minority/nonwhite students

BE in policy action

- Hypothesis
  - Cognitive (attentional) demands and drain contribute to suboptimal budgeting behavior
- Testing the BE hypothesis
  - If there are bandwidth challenges related to financial instability, then food budgeting within monthly food subsidy receipt should impact children's schooling participation and performance
- Improving policy performance for existing monthly benefits
  - Design "trickle" support throughout the disbursement cycle
  - "This pair of findings suggests that … for many families, additional support to help sustain food budgets throughout the month would lead to further improvements in children's academic performance and…help close achievement gaps" (Economic Report of the President, February 2016)

Harnessing BE insights to enhance impact of existing social policies and interventions

Social policy design and delivery has evolved to be very focused on screening, efficiency, and fraud detection.

This results in policy implementation with:
- Ladders (e.g. complicated documentation) and not enough chutes
- Fear and stigma
- Distrust

# The BIAS project: increased applications to modify child support owed among incarcerated

TX Office of Attorney General (Franklin county)

Goal: Increase % of incarcerated parents owing child support to request a modification (to avoid child support debt accumulation)

Altered basic cold call letter to:
- Introductory informational "teaser" post card
- Pre-populated packet
- Reminder follow-up post card

FIGURE 3.1 Child Support Order Modification Outcomes, by Site
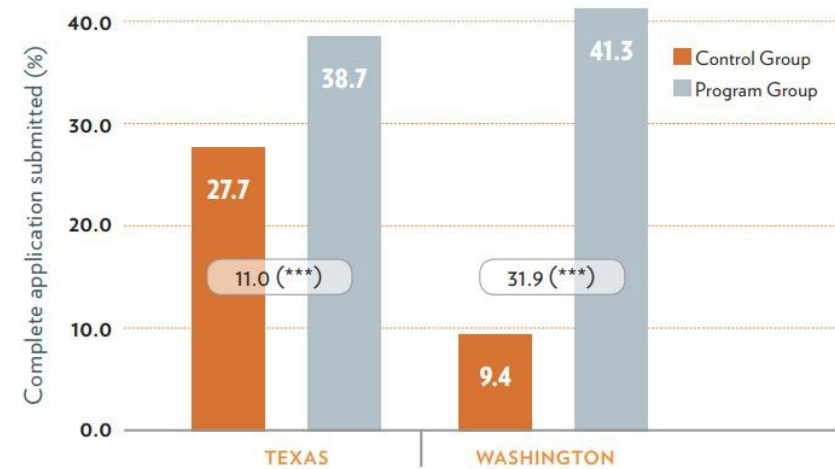
SOURCE: MDRC calculations using agency data.

NOTES: A two-tailed t-test was applied to differences between research groups. Statistical significance levels are indicated as: *** = 1 percent; ** = 5 percent; * = 10 percent.

Estimates are adjusted for noncustodial parent baseline characteristics.

BE in policy action: the BIAS project

- Hypothesis
  - Program enrollment complexities increase procrastination, status quo bias, planning fallacy, present bias, loss aversion
- Testing the BE hypothesis
  - "behavioral diagnosis" via the SIMPLER framework to increase uptake. E.g. pre-population, reminders, prompts
- Improving policy performance
  - 2012-15: Eight agencies launched projects in child care, child support and work support programs across 15 states affecting 100,000 clients
  - 2 to 4 percentage point impacts on uptake and follow through; these benefits exceeded costs
  - Described as the "lower bound" of possibilities

More BE in the broad domain of anti-poverty policy

Up to 20% of eligible tax filers do not claim the generous earned income tax refund (worth $3-5,000 per family as a lump sum)
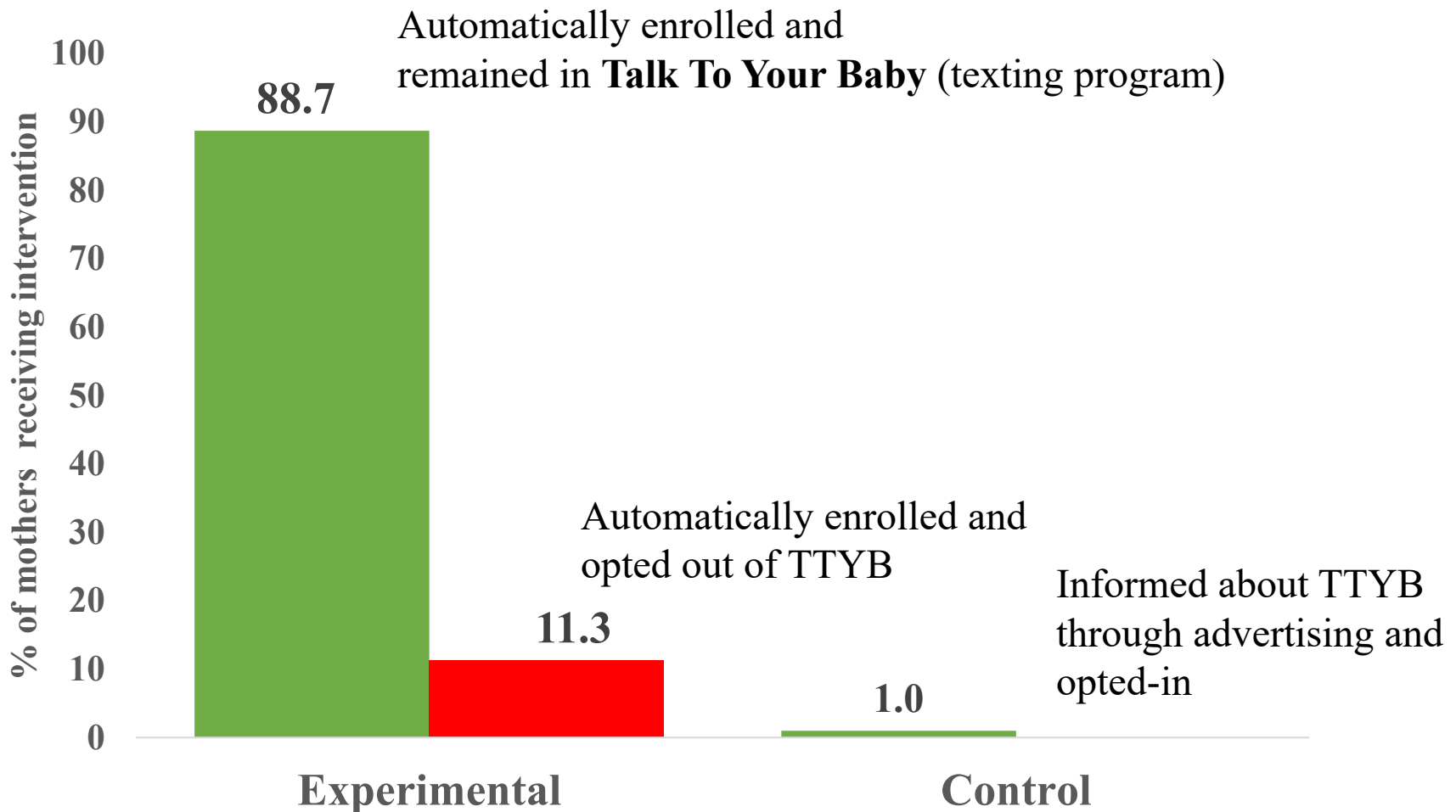
- Various personalized outreach to one million Californians with no substantive impact on filing for EITC (Linos et al, forthcoming)

- Yet, framing that deploys psychological ownership (that reduces aversion to ask for assistance) increased uptake (De La Rosa et al., 2021)

How about BE and early childhood policy?

These BE insights can help achieve goals of increasing reach and population scale:

- Choice structure
- Fear of judgment
- Misperception and miscalibration (e.g. present bias, confirmation bias)
- Social influences and norms

An example: Parents stay enrolled when an early literacy program is designed as opt out

Automatically enrolled and
remained in **Talk To Your Baby** (texting program)

Automatically enrolled and
opted out of TTYB

Informed about TTYB
through advertising and
opted-in

% of mothers receiving intervention

- 88.7 — Experimental (green)
- 11.3 — Experimental (red)
- 1.0 — Control

Experimental   **Control**
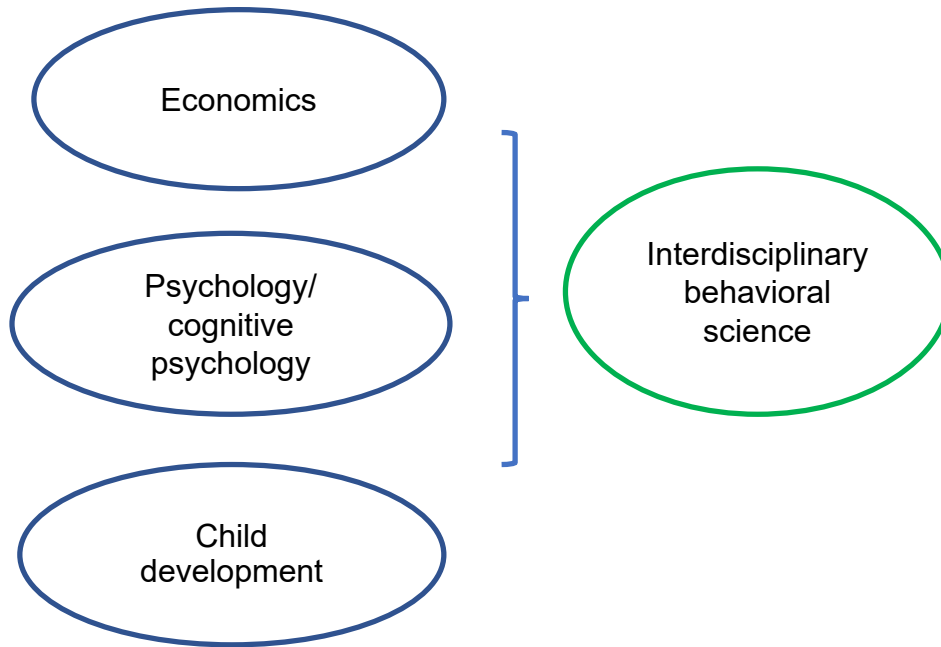
BE in policy action

- Hypothesis
  - Time and cognitive demands of parenting are high; benefits to children are long in the future; prejudgment of how parents behave; repetition is key but not hard wired

- Testing the BE hypothesis
  - Opt out, fewer choices, affirmation of existing capacities, rewarding repeat behavior

- Improving scale and reach of early childhood interventions
  - Active choice reminds parents of current benefits
  - Goal setting and feedback recalibrates biases (how much should or did I actually read to my child? How much school did my child actually attend?)
  - Pride based affirmations remind parents of existing capacities and increase receptiveness to program enrollment and participation
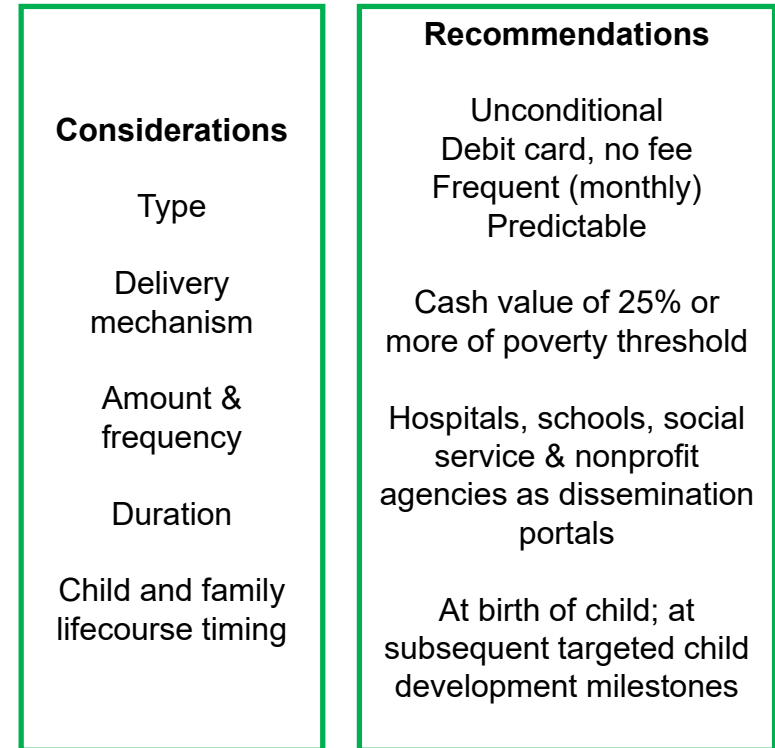
Designing social policy by harnessing BE insights

The example of cash transfers or direct poverty reduction

BE policy design considerations: cash transfers

BE Theoretical foundations

Economics

Psychology/ cognitive psychology

Child development

Interdisciplinary behavioral science

Policy design

Considerations

Type

Delivery mechanism

Amount & frequency

Duration

Child and family lifecourse timing

Recommendations

Unconditional
Debit card, no fee
Frequent (monthly)
Predictable

Cash value of 25% or more of poverty threshold

Hospitals, schools, social service & nonprofit agencies as dissemination portals

At birth of child; at subsequent targeted child development milestones

Baby's First Years

- Automatically activated at the hospital

- Monthly disbursement on the day of the child's birth date

- Co-branded: 4 MY Baby

- Monthly text reminder at each disbursement

Funded by charitable sources:

- SSN or TIN not required

- Not taxable

- To the extent possible, *does not count* against government benefit eligibility

➢ ~$6 million in the hands of mothers so far

BE in policy action

- Hypothesis
    - Time and cognitive demands of parenting (and national crises) are high; avoid poverty traps
- Testing the BE hypothesis
    - Monthly, automated, predictable
- Improving policy performance:
    - Baby's First Years study debit card works; few problems; all families use the card, cash is drained off of card every month
    - Diversity of purchases and uses from ATM withdrawals to big box stores to gas stations to calls to prisons and taxi rides
    - TBD on broad range of impacts on family life and cumulative impacts on child development; early findings show impacts on faster infant brain activity

Where does this leave us? Lots of promise

- BE insights regarding poverty, financial instability, and cognitive bandwidth:
    - More frequent disbursement reduces budgeting demands
    - Automatic enrollment reduces enrollment demands
    - And, so on
- Reduce hassle factors in enrollment of existing policies
- Evidence on what works is building: design of choices, role of psychological ownership, timing of reminders
- Evidence on what does not work also important: personalization, easing burden on participants (e.g. pre-populating, roadmaps) can increase burden on staff
- Apply BE insights for new policy creation, especially with respect to population scale and universal reach

Thank you!

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beELL: nudging children to a better start

Baby's First Years is a pathbreaking study of the causal impact of monthly, unconditional cash gifts to low-income mothers and their children in the first three years of the child's life. The gifts are funded through charitable foundations. The study will identify whether reducing poverty can affect early childhood development and the family processes that support children's development.