

Policy for *Homo Sapiens*, Not *Homo Economicus*: Leveraging the Behavioural Economics of “Nudge”

02 CHAPTER

तर्कोऽप्रतिष्ठः श्रुतयोविभिन्नानैको ऋषिर्यस्य मतं प्रमाणम्।

We cannot rely totally on rational thinking to gain information, as it is not without its bias.

Decisions made by real people often deviate from the impractical robots theorized in classical economics. Drawing on the psychology of human behaviour, behavioural economics provides insights to ‘nudge’ people towards desirable behaviour. This chapter illustrates how the Swachh Bharat Mission (SBM) and the Beti Bachao Beti Padhao (BBBP) have successfully employed behavioural insights. Using such learning, the chapter lays out an ambitious agenda for social change: (i) from BBBP to BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi); (ii) from Swachh Bharat to Sundar Bharat; (iii) from “Give it up” for the LPG subsidy to “Think about the Subsidy”; and (iv) from tax evasion to tax compliance. First, a key principle of behavioural economics is that while people’s behaviour is influenced significantly by social norms, understanding the drivers of these social norms can enable change. In India, where social and religious norms play such a dominant role in influencing behaviour, behavioural economics can therefore provide a valuable instrument for change. So, beneficial social norms can be furthered by drawing attention to positive influencers, especially friends/ neighbours that represent role models with which people can identify. Second, as people are given to tremendous inertia when making a choice, they prefer sticking to the default option. By the nearly costless act of changing the default to overcome this inertia, desired behaviour can be encouraged without affecting people’s choices. Third, as people find it difficult to sustain good habits, repeated reinforcements and reminders of successful past actions can help sustain changed behaviour.

THE INFLUENCE SPECTRUM OF PUBLIC POLICY

2.1 Public policy affects all aspects of our lives. Public policy influences people to act in a socially desirable way, be it driving safely, conserving natural resources, educating

children, respecting the human rights of fellow citizens or saving for retirement. Some policies subtly influence by fostering the right incentives while others mandate desired behaviour or ban undesirable ones.

2.2 Public policies can, therefore, be graded on a spectrum capturing how strongly

they influence (or coerce) behaviour (see Figure 1). On one extreme is *laissez faire*, i.e. doing nothing and leaving individuals/firms to chart their own course. *Laissez faire* works well when markets achieve socially desirable outcomes on their own. Where markets fail, *laissez faire* fails. For instance, individuals/firms in a free market would not restrain pollution. Public policy – in the form of regulation – mandates people to act in a socially desirable manner. Sandwiched between these extremes are policies that

incentivize good behaviour or dis-incentivize bad behaviour, such as subsidies for renewable energy and taxes on tobacco.

2.3 Recently, behavioural economists have discovered the efficacy of a new class of “nudge” policies that lie between *laissez faire* and incentives. Such policies leverage insights from human psychology to influence the choice architecture of people. Nudge policies gently steer people towards desirable behaviour even while preserving their liberty to choose.

Figure 1: From Minimal Influence to Coercion



2.4 Adam Smith, in his book the ‘Theory of Moral Sentiment’, noted that a wide range of human choices are driven and limited by our mental resources i.e., cognitive ability, attention and motivation. Behavioural economics relies on this essential insight from human psychology that real people do not always behave like robots, rational and unbiased individuals that form the basis of classical economic theory called “*homo economicus*” (Thaler, 2000). To a *homo economicus*, the choice architecture is irrelevant, as she will make the optimal choice irrespective of the way the choices are presented to her. However, real people respond to the choice architecture. For example, a large fraction of individuals opt for the default choice, irrespective of their intrinsic preferences. This is because individuals suffer from a cognitive bias called “*anchoring bias*”, viz., once a default option is presented to them, they anchor on to it (Tversky and Kahneman, 1974). Anchoring bias, along with several others that we describe in this chapter, drives a wedge between people’s intrinsic preferences and the choices they eventually make.

2.5 As individuals suffer from tremendous inertia when they have to make a choice, they tend to stick to the default option (Thaler and Sunstein 2008; Samson 2014). The nearly costless act of changing the default on an enrolment form harvests this inertia for people’s own good. At the same time, this form of paternalism preserves people’s right to choose as the choice architecture makes it easy for an individual to opt out of the scheme. For example, studies have shown that enrolment rates in a healthcare or retirement savings plan improve dramatically if the plan is designed as an opt-in by default embedded with the option to opt-out, as opposed to voluntary enrolment by opting in.

2.6 Understanding these principles of behavioural economics, therefore, can bridge the gap between people’s preferences and the choices they make, and thereby enable informed policymaking. Many governments, including the U.S., the U.K. and Australia, have set up dedicated units to use behavioural insights for effective policymaking. Innovative interventions across the world that utilize the principles of behavioural economics are tabulated in Table 1.

Table 1: Innovative Global Behaviour Change Interventions

Sector	Problem	Intervention	Observations
Pension Policy (USA)	People tend to go with defaults. When the default in a saving plan is non-enrolment, most people do not enrol even when they want to.	Instead of employees checking a box to enrol in savings plans, employees check a box to <i>not</i> enrol; i.e. the default option is to be enrolled.	Automatic enrolment increased savings by up to 40 per cent (Beshears et al., 2005)
Tax Compliance (UK)	People need reminders and positive reinforcement to sustain socially desirable behaviour.	People were sent variations of text messages on how their taxes make a difference to public services.	People who owed most tax were also most responsive to messages asking them to pay. Compliance increased without increase in tax surveillance costs (UK Cabinet Office, Behavioural Insights Team, 2012).
Agriculture (Africa)	Inertia makes people procrastinate important, time-sensitive decisions even when they are aware of the consequences of delay.	To tackle farmers' procrastination in buying fertilizer (possibly because of the hassle of traveling to town), home delivery of fertilizer early in the season was attempted.	Fertilizer use increased by 70 per cent (Duflo et al., 2011). Early home delivery increased fertilizer use by 70 per cent. The effect was as much as a 50 per cent price subsidy would have accomplished.
Savings (Philippines)	People save much less than they want to because of lack of adequate self-control in spending.	People were offered specially designed savings accounts that locked up funds until a self-specified target was met.	Nearly 30 per cent of those who were offered the account adopted it. Saving balance increased by 81 per cent in a year (Ashraf et al., 2006).
Savings (Bolivia, Peru, Philippines)	People save much less than they want to because of inertia and lack of positive reinforcement.	People were sent periodic and timely reminders about their self-determined saving goals.	Reminders increased the amount saved by six per cent (Karlan et al., 2010).
Education (Madagascar)	Many parents underestimate the returns to spending another year at school. They think schooling is worthless unless the child is able to go all the way through high school. Many allow their children to drop out with even fewer years of schooling than they can afford.	Parents were informed about the average income gains from spending one more year in school for children from backgrounds like their own.	Information dissemination increased children's test scores by 0.37 standard deviations, particularly for those parents who had underestimated the return to education (Nguyen, 2008).

2.7 Behavioural economics is, however, not a panacea to policymaking; its potential needs to be understood and put in perspective. Nudge policies cannot and should not supplant every incentive-based and mandate-based policy. For example, a policy that merely nudges people to refrain from assaulting others will fail as such situations warrant strict decree or, at least, a stronger push than a mere nudge. However, the majority of public policy issues are amenable to incorporating

nudges. In fact, many incentive and mandate-based policies may be clubbed with a nudge effect to increase their efficacy.

SUCCESSFUL APPLICATIONS OF BEHAVIOURAL INSIGHTS IN INDIA

2.8 In India, policies to alter behaviour have spanned the influence spectrum, as is shown in Figure 2.

Figure 2: Policies spanning the influence spectrum in India

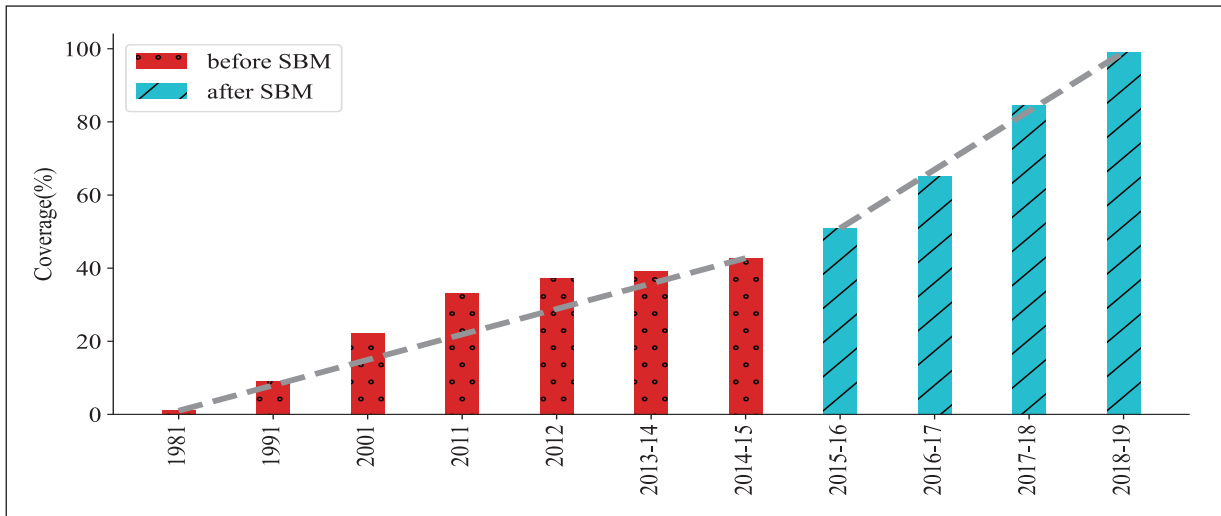
Policy	Level of influence			
	<i>Laissez faire</i>	Nudge	Incentivize	Mandate
Give It Up	■			
Aadhaar	■	■		
Jan Dhan Yojana	■	■		
Beti Bachao, Beti Padhao	■	■		
Swachh Bharat Mission	■	■		
Taxes on tobacco	■	■	■	
Compulsory voting in panchayat elections in some states	■	■	■	■
Ban on alcohol in some states	■	■	■	■

2.9 Many Indian schemes that employ insights from behavioural economics have met with success. The Swachh Bharat Mission (SBM) and the Beti Bachao, Beti Padhao (BBBP) scheme are cases in point. Behavioural economists have long touted the power of the “*social norm*” as most people want to behave or be seen to behave in congruity with these norms (Dolan et al., 2010). People are more likely to stop defecating in the open if their neighbours stop or are more likely to value their girl children if that is touted as the social norm.

Swachh Bharat Mission (SBM)

2.10 SBM was launched on 2nd October, 2014 to achieve universal sanitation coverage. It is not the first programme to address sanitation concerns. However, there were no dramatic shifts in the access rates until SBM as is shown in Figure 3. SBM is the first one to emphasize behaviour change as much as, if not more than, construction of toilets. Within five years of the launch of SBM, household access to toilets has increased to nearly 100 per cent in all states.

Figure 3: National Sanitation Coverage before and after SBM



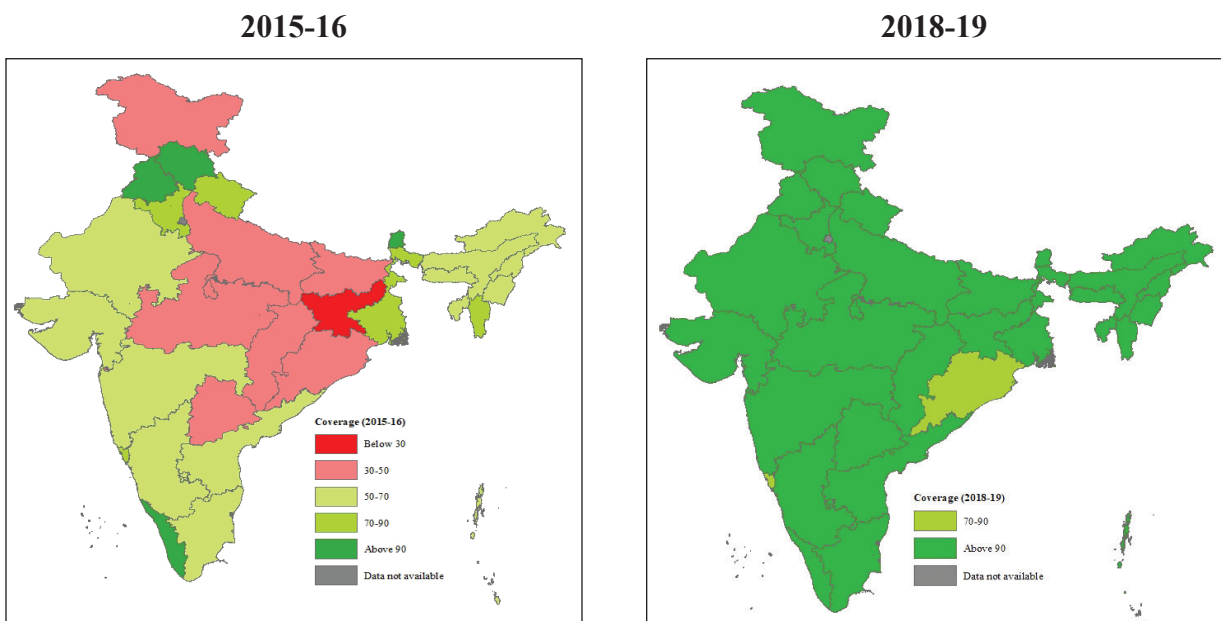
Source: Ministry of Drinking Water and Sanitation (MoDWS)

Note: Data for 1981-2011 is as per Census.

2.11 SBM has achieved success in not only providing toilets but also in ensuring that these toilets are *used*. An independent verification of SBM through the National Annual Rural Sanitation Survey (NARSS) 2018-19 has found that 93.1 per cent of rural households had access to toilets, 96.5 per cent of the households in rural India who have access to a toilet use it. This re-confirmed the Open Defecation Free (ODF)

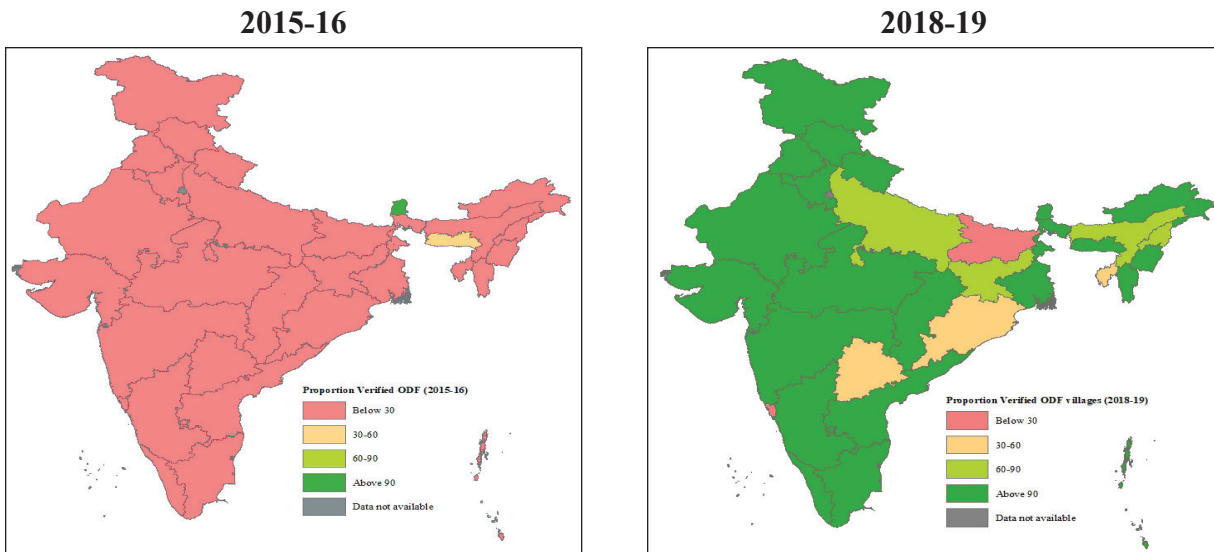
status of 90.7 per cent of villages that were previously declared and verified as ODF by various districts/states. This is also evident in the maps/charts below depicting the state-wise increase in coverage of individual household latrines (IHHL) from 2015-16 to 2018-19 (Figure 4) and the percentage of villages in each state that have been declared and verified ODF (Figure 5).

Figure 4: Coverage of Individual Household Latrine (IHHL)



Source: MoDWS

Figure 5: Verified ODF Villages

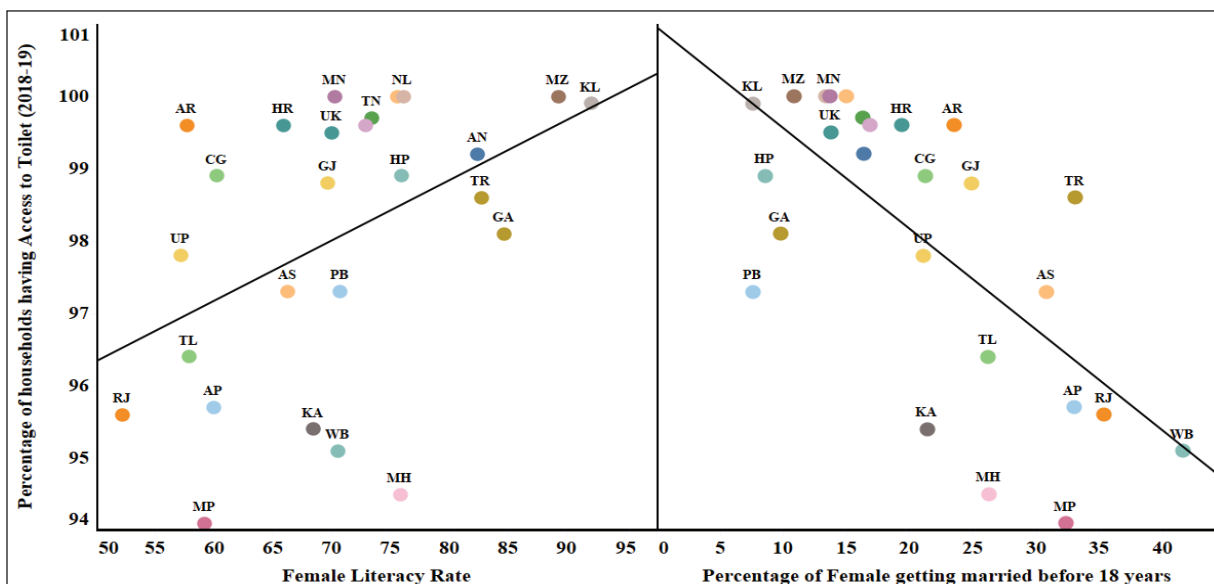


Source: MoDWS

2.12 The above figures highlight the tremendous success of SBM. As is highlighted in Figure 2, the principles of behavioural economics were applied in SBM. Figures 6 to 8 examine the role of these principles in the success of SBM. Measures of female literacy and early marriages of girls, which associate strongly with rigid social norms, correlate powerfully with access and usage of toilets across states. This shows that toilet access and usage can be suitably

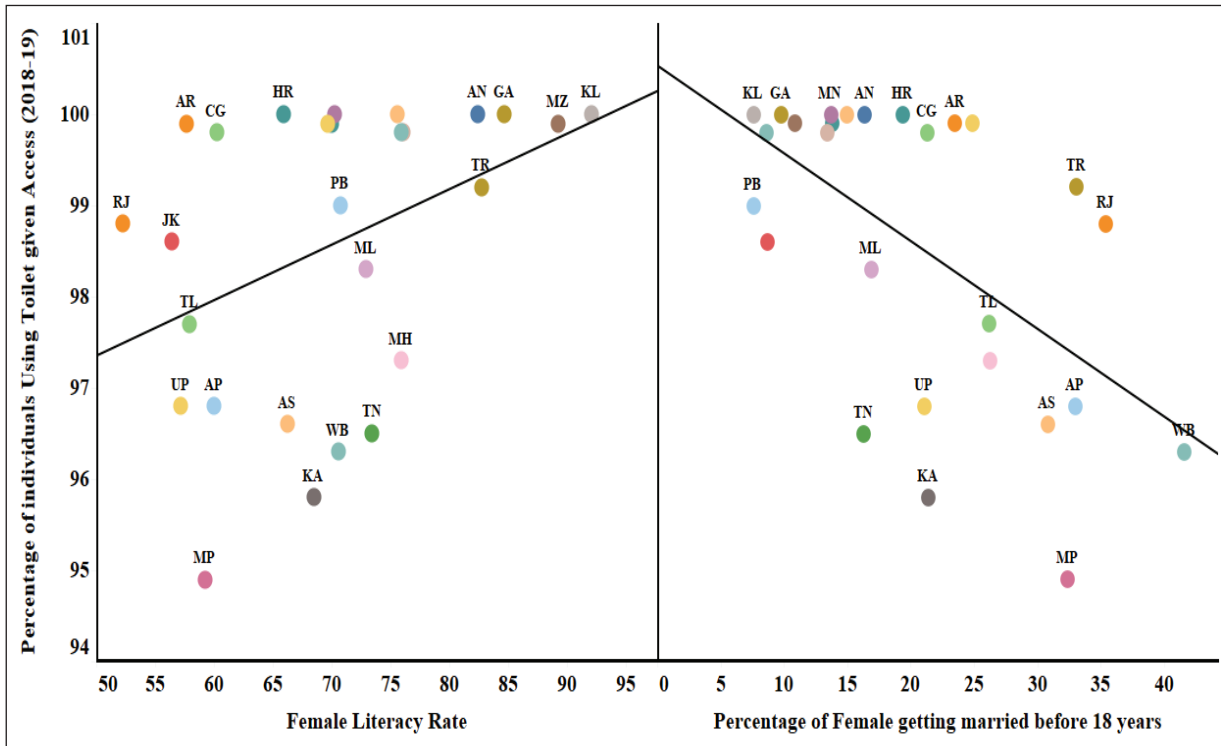
increased with behavioural nudges that push female literacy rates up and discourage early marriages of girls. In this respect, the BBBP scheme, which we describe next as a scheme aimed at empowering the girl child, complements SBM strongly as factors related to gender empowerment are seen to be significantly correlated with toilet access and usage. This interplay can be effectively used to improve the efficacy of both the schemes.

Figure 6: Correlation between Access to Toilets with Female Literacy and Female Age at Marriage



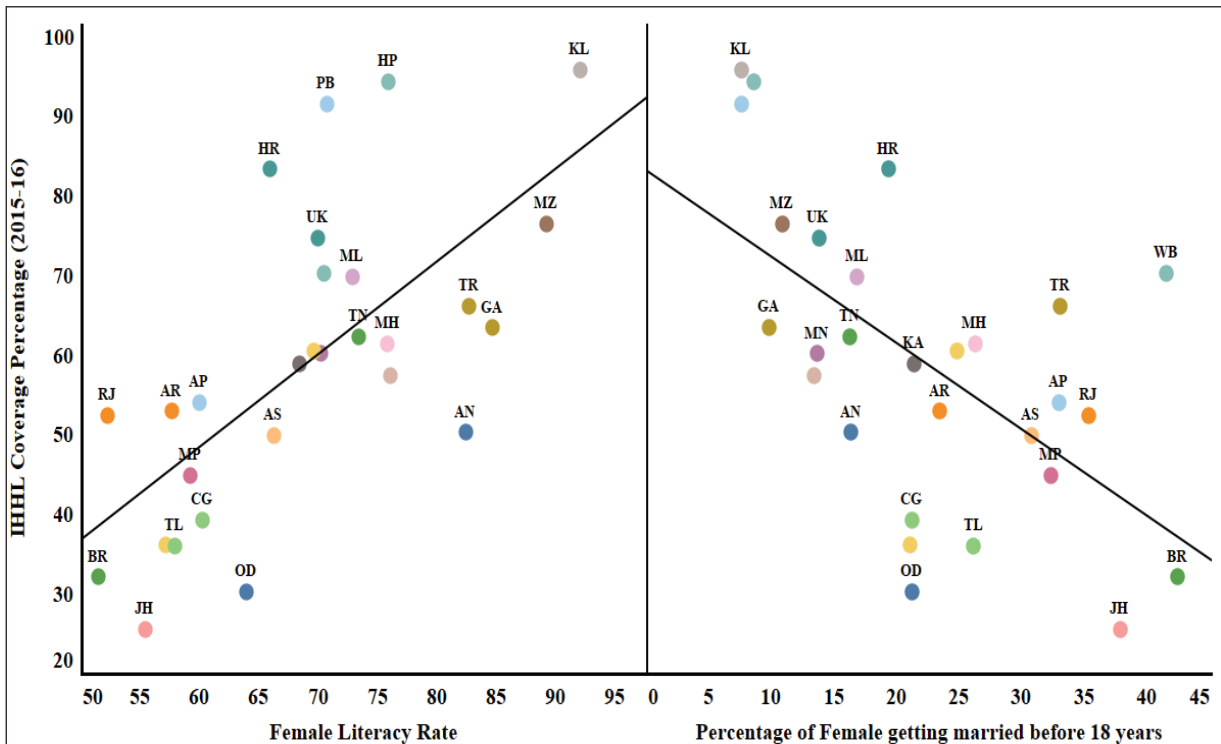
Source: MoDWS, Census 2011, NFHS 2015-16

Figure 7: Correlation between Use of Toilets (given access) with Female Literacy and Female Age at Marriage



Source: MoDWS, Census 2011, NFHS 2015-16

Figure 8: Correlation between IHHL Coverage with Female Literacy and Female Age at Marriage



Source: MoDWS, Census 2011, NFHS 2015-16

Box 1: Use of Behavioural insights in the SBM



SBM, as a nation-wide cleanliness drive, was launched on 2nd October, 2014, the birthday of India's most revered 'role model' Mahatma Gandhi. The day was chosen to leverage the values propagated by him and thereby create a mass movement on the lines of 'satyagraha' for a cleaner India. The symbol used for SBM invokes Gandhiji's ideas. Behavioural economics emphasises the role of context in influencing choices and decisions, which has been effectively adopted by the SBM campaign.

To initiate behavioural change in usage of toilets, more than five lakh *swachhagrahis*, foot soldiers of the SBM, were recruited; *the similarity with satyagrahis is intentional to reinforce the message*. As each village has at least one *swachhagrahi*, who is a local, these *swachhagrahis* were able to leverage their social ties within their villages to effect change. People are more likely to listen to and emulate someone they know, which is why local ambassadors of change are more effective in getting through to people than mass media campaigns.

Further, SBM relies on community-based approaches to sanitation. Behaviour change techniques such as Participatory Rural Appraisal and Community-led Total Sanitation induce people to come together, appraise their community's open defecation situation and plan the next course of action. This makes sanitation a community-level concern rather than an obscure campaign of a distant government. Non-conformers, therefore, find their act more visible to their community. The fear of community scorn, or a desire to fit in, or both, have led many to renounce open defecation.

SBM used yet another behavioural insight – that people internalize messages better when these messages make them *feel* a certain way. Arcane concerns about hygiene and disease appeal to few; it is natural that those who have defecated in the open all their lives without consequence would fail to absorb the message that open defecation can have deleterious effects. On the other hand, appealing to people's emotions, for example by attaching a sense of disgust to open defecation, has a better chance of moving people to change.

Many *swachhagrahis* delivered the message that open defecation is tantamount to eating one's own excreta, as flies sit on excreta left in open spaces and then sit on food. The act of provoking disgust or shaming people for open defecation has been controversial; some have considered it disrespectful. That may well be the case, but it does not take away from the fact that campaigns that elicit emotional reactions are more effective than those that deliver plain, recondite messages.

Beti Bachao, Beti Padhao (BBBP)

2.13 As is well known, India's child sex ratio had been consistently falling for decades. Between the 2001 and 2011 censuses, 21 out of 29 states registered a decline in child sex ratio. India's sex ratio at birth¹ (SRB) was on a steady decline until the first decade of the twenty-first century, when a number of initiatives, including BBBP, were launched

in quick succession to arrest this trend.

2.14 BBBP Scheme was launched on 22nd January, 2015 to address the issue of decline in Child Sex Ratio and related issues of empowerment of girls and women. The campaign was flagged from Panipat, Haryana, which had the worst child sex ratio at 834 among Indian states as compared with the national average of 919 (as per Census, 2011).

1 Sex Ratio at Birth = (Total Number of Live Female Births/Total Number of Live Male Births)*1000

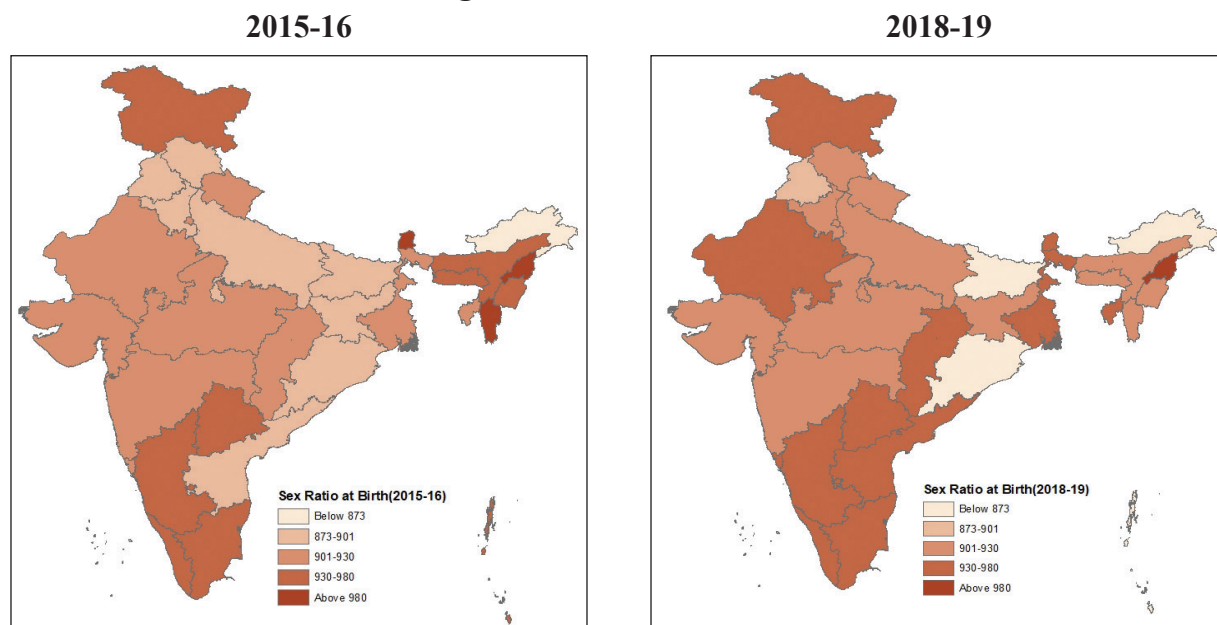
The choice of Panipat in the battle against the socially ingrained bias against the girl child was also symbolic through the association with the famous battles fought at Panipat in 1526, 1556 and 1761. As we highlight later, one of the principles of behavioural economics is to adapt the message to match “mental models” of people. The symbolism captured by the choice of Panipat in Haryana helped significantly in matching the message to the relevant mental model.

2.15 The scheme was initially launched in 100 districts in 2014-15, and was expanded to 61 additional districts in 2015-16. The initiative was expanded to all districts of the Country on March 8, 2018 from Jhunjunu, Rajasthan. The date and location was again selected carefully to ensure that the symbolism behind the message matched the relevant mental model. Rajasthan was chosen as the State improved by 34 points from 888 girls per 1000 boys in 2011 to 922 per 1000 boys in 2017-18 to indicate that good performance receives a reward. Also, International Women’s Day was chosen

to launch to reinforce the stress on gender empowerment and establish the social norm of ‘girls are valuable’.

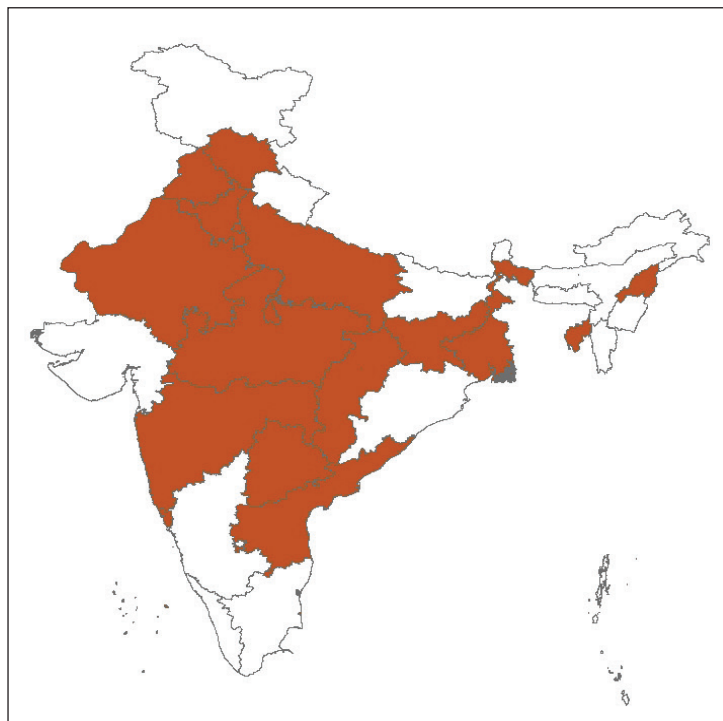
2.16 It is, of course, difficult to attribute the improving child sex ratio to a single scheme, especially because awareness programmes do not create results overnight. However, the timing of the launch of these schemes and the inter-state variation in existing social norms may be used to assess the impact of BBBP. Consider the large states of Uttar Pradesh, Madhya Pradesh, Rajasthan, Chhattisgarh, Andhra Pradesh and Jharkhand, all of which had registered declining child sex ratios between the 2001 and 2011 censuses. Around the launch of the BBBP in 2015-16, they had among the poorest sex ratios at birth, as evident in Figure 9. But by 2018-19, all these states showed a reversal of the trend, registering an increase in SRB between 2015-16 and 2018-19 (Figure 10). BBBP has had an impact particularly on large states with very poor child sex ratios – states that plausibly also needed the greatest pivot in their social norms.

Figure 9: Sex Ratio at Birth



Source: Derived from Health Management Information System (HMIS), Ministry of Health and Family Welfare
 Note: SRB figures are calculated using average of BBBP districts.

Figure 10: States with an improvement in Sex Ratio at Birth from 2015-16 to 2018-19

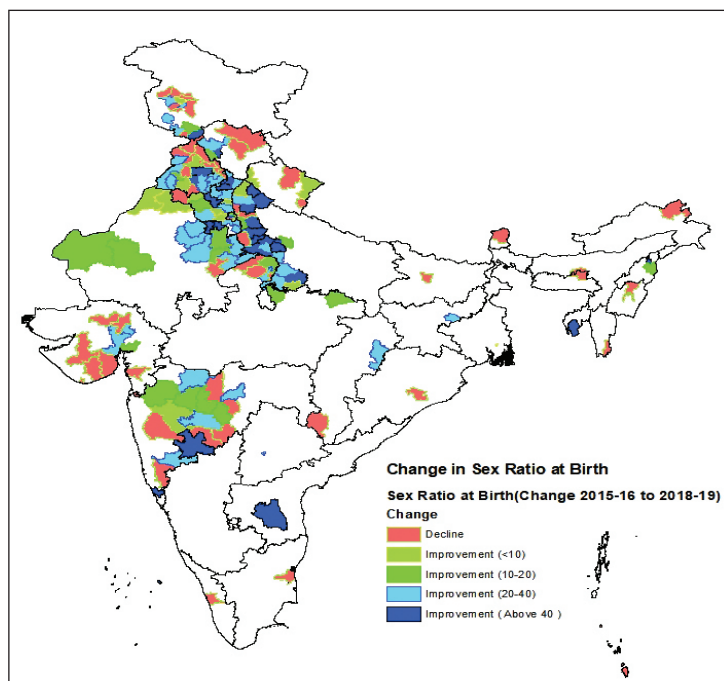


Source: Derived from Health Management Information System(HMIS), Ministry of Health and Family Welfare

2.17 The impact of BBBP in the 161 districts where it was initially implemented is shown in Figure 11. The SRB has improved in 107 districts within a period of 4 years viz., from

2015-16 to 2018-19. On an average, the sex ratio for 161 districts has improved from 909 in 2015-16 to 919 in 2018-19.

Figure 11: Change in Sex Ratio at Birth from 2015-16 to 2018-19 in 161 BBBP Districts



Source: Derived from Health Management Information System (HMIS), Ministry of Health and Family Welfare

Box 2: Effective Use of “Social norm” in BBBP

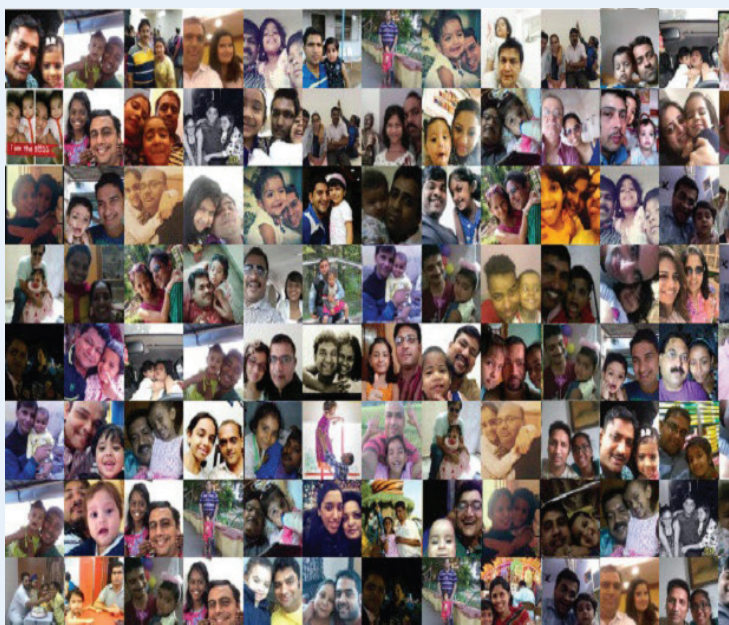


The success of the BBBP Scheme demonstrates a powerful use of the insight on ‘social norm’ in its ‘Selfie with Daughter’ initiative. This scheme was launched to address a highly imbalanced child sex ratio in India. People’s attitude towards the girl child needed to change – people needed to stop viewing girls as burdens and start celebrating them instead. The selfie campaign showcased examples of parents around the country who were doing exactly that. The celebration of the girl child quickly became the norm. Most people wanted to conform, and more and more parents posted selfies with their girls. Started by one proud father in a village in Haryana, the campaign went viral and #SelfieWithDaughter became a worldwide hit.

Two elements enabled the campaign’s success: first, telling people what the norm is, and second, showcasing the thousands of other people who were acting in line with that norm.

The strategy addresses a cognitive bias called ‘*failure bias*’ (Baumeister and Bratslavsky, 2001). The failure bias is the tendency to focus on failures rather than successes, mostly because failures have greater visibility. Because failures get the spotlight, people tend to think that failing is the norm, or at least that failing is more prevalent than it really is. Therefore, in the context of BBBP, focus must be on people who treat their girls fairly; this corrects the failure bias and makes the social norm of fair treatment of girls unequivocally clear.

BBBP’s work is far from over, of course, as posting a selfie is not tantamount to subverting entrenched orthodox mind-sets overnight, but its leverage of social norms is certainly a step in the right direction.



The Power of Clear Messaging

2.18 Apart from the SBM and BBBP programmes that have successfully employed the power of messaging, several other programmes have utilised this power. The success of any programme depends upon the level of involvement of all the relevant stakeholders. Use of socially and

culturally identifiable names gives a clear message of the objectives of the programme – one of the principles of behavioural economics is that the messaging needs to be clear and simple and aligned to a mental model. This is evident from the names used for various recent schemes, some of which are tabulated in table 2 below.

Table 2: Use of clear messaging for Schemes

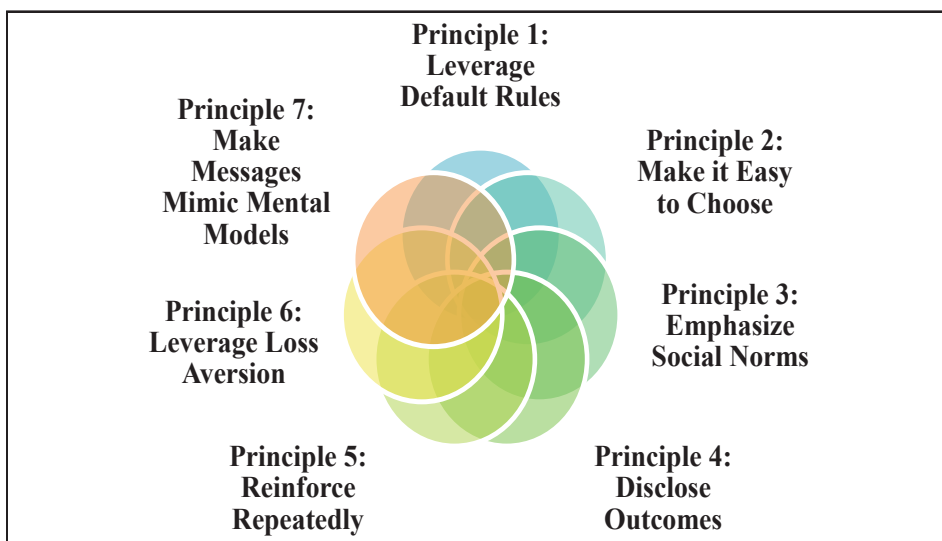
Name of the Scheme	Literal Meaning of the Name	Objective of the Scheme	Cultural/Societal aspect used
Namami Gange	Namami Gange means ‘I pray to Ganga’ as the river Ganga is revered in our culture.	To arrest the pollution of Ganga River and revive the river.	
POSHAN Abhiyan	Poshan means holistic nutrition	Multi-ministerial convergence mission to ensure a malnutrition free India by 2022.	
Ujjwala	Means ‘bright, clear’	To safeguard the health of women by providing them with clean cooking fuel – LPG.	
PM Mudra Yojana	Mudra means “currency, coins”	Provides loans upto 10 lakh to the non-corporate, non-farm small/micro enterprises.	
Jan Dhan Yojana	Jan Dhan implies “money of the people”	Financial inclusion program to expand access to financial services.	
Ayushman Bharat	Ayushman means “Being Blessed with long life”	Universal and affordable access to good quality health care services.	

PRINCIPLES FOR APPLYING BEHAVIOURAL INSIGHTS TO PUBLIC POLICY

2.19 While several Indian programmes have applied the principles of behavioural

economics, there is still ample scope for leveraging these insights to enhance the efficacy of programmes in India. To outline such applications, Figure 12 describes the seven key principles of behavioural economics that public policy must employ.

Figure 12: Principles of Behavioural Economics



2.20 The cognitive biases, the principle that can be applied to alleviate the cognitive bias, and the relevant applications are summarized below in Table 3.

Table 3: Using Behavioural Principles to Overcome Cognitive Biases

Cognitive bias	Behavioural principle	General application across all programs
Anchoring bias	Principle 1: Leverage default rules	<ul style="list-style-type: none"> Choose the right default; default choice should maximise welfare. Make the default ‘opt-in’ for welfare programs like insurance, retirement savings, organ donation, etc. Make the default ‘opt-out’ for purchasing add-on services, enrolling for a subsidy, etc.
	Principle 2: Make it easy to choose	<ul style="list-style-type: none"> Keep options few in number and easy to comprehend. Reduce logistical and administrative impediments to choosing. Offer micro-incentives.
Failure bias	Principle 3: Emphasize social norm	<ul style="list-style-type: none"> Emphasize the number of people who vote, save regularly, file taxes on time, etc. – the enhancers of good behaviour. Wherever possible, clarify the insignificant role of detractors/ negative influencers to avoid “failure bias”. Focus on influencers that people can relate to, for example those in the same geography or age group.
	Principle 4: Disclose outcomes	<ul style="list-style-type: none"> Disclose the realized benefits of good behaviour.
Sunk cost bias	Principle 5: Reinforce repeatedly	<ul style="list-style-type: none"> Remind people of past good behaviour, for example, that they saved regularly for the last three months, to invoke the sunk cost fallacy; people tend to continue their past behaviour, especially when reminded about the same. Elicit a pre-commitment for desired behaviour, and if possible, enable immediate action as per the commitment.
Loss aversion bias	Principle 6: Leverage loss aversion	<ul style="list-style-type: none"> Design incentives to reward good behaviour <i>ex ante</i> with threat to revoke reward later if behaviour fails to match expectations.
Flawed mental models and confirmation bias	Principle 7: Make messages match mental models	<ul style="list-style-type: none"> Train people to shift to new rules of thumb, for example, “fluids out – so fluids in” to increase fluid intake during diarrhoea. Make the rules of thumb catchy, easy to remember and intuitive.

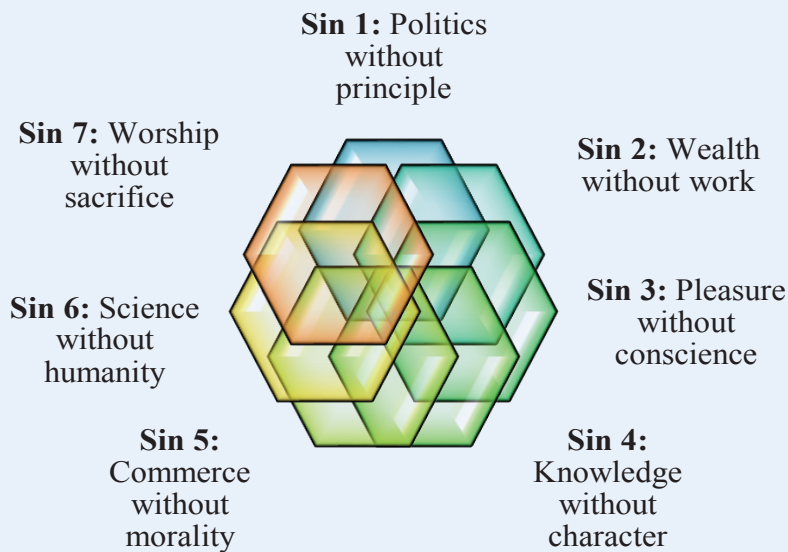
AN ASPIRATIONAL AGENDA FOR PATH-BREAKING CHANGE

2.21 The successful application of behavioural insights, both in India and elsewhere, illustrates how their power can be tapped in several other programs to enhance policy impact. To this purpose, the current

section draws on the principles outlined above to create an aspirational agenda for path-breaking change. The section combines (i) suggestions for transforming some of the existing programmes into revolutionary ones aimed at removing social ills; and (ii) ways to radically improve existing programmes.

Box 3: Citizen@75-Using Behavioral Economics to Avoid the Seven Social Sins

The destiny of a nation is shaped by its citizens. India @75 is envisaged as a ‘New India’ where every individual realizes his or her full potential and looks for opportunities to contribute rather than claim entitlements. A new spirit of independence needs to be imbibed from all extrinsic and intrinsic fetters to shape the future of India. Mahatma Gandhi’s *Seven Social Sins*, published in *Young India* on October 22, 1925, provide deep insights into the role of social and political conditions shaping human behavior. Each of these is a statement of principle that can be interpreted and utilized for nudging people towards desirable behaviour.



Social Sins of Gandhiji	Related Principles of Behavioral Economics	Applications
Politics without principle	Leverage loss aversion	<p>Growing perceptions of criminalization of politics, misuse of public office and lack of effective governance has led to increased apathy towards participation in political processes. Studies from behavioral economics and public administration show that policy makers and legislators exhibit loss-aversion in decision-making and seemingly harsh policy decisions do not garner enough support.</p> <p>Behavioral insights to address the loss aversion of policymakers can improve policy and legislative outcomes and uphold ‘Politics with principle’.</p> <p>This would also enhance broader participation in politics and contribute to a vibrant democracy.</p>

Wealth without work	Disclose outcomes	<p>“Work is worship” – Indian ethos has always worshipped the fruits of one’s own efforts. Work also leads to dignity and self-reliance.</p> <p>The perception of getting things for ‘free’ as an entitlement has to be reoriented towards discharging our obligations towards society by rendering productive work and contributing to national growth.</p> <p>The Principles of behavioral economics, viz. disclose the realized benefits of good behavior and the adverse outcomes of bad behaviour, on the one hand, and emphasizing social norms, on the other hand, offer insights towards enhancing productivity and tax compliance.</p>
Pleasure without conscience	Leverage default rules	<p>When less deserving people claim benefits of a development programme, it is an act of pleasure without conscience or a sense of responsibility. Such claiming of benefits neglects welfare concerns of their relatively unfortunate fellow counterparts. To learn to give and take, to live selflessly, to be sensitive, to be considerate, is our challenge.</p> <p>The behavioural principle of leveraging default rules like making the default ‘opt-out’ for availing subsidy, etc. can be employed to nudge people towards confident displays and conduct of altruism. The “Give it up” campaign can use this principle more effectively to broaden its adoption to surrendering all types of subsidies.</p>
Knowledge without character	Match messages to mental models	<p>With globalizing societies witnessing an information explosion today, a lack of moral element underlying this information bears the risk of desensitizing societies to ethics of harmony and brotherhood.</p> <p>Gender based violence, internet trolling, and rise of drug abuse amongst teenagers show how people, while mindlessly becoming more aware about the world around them, are ironically becoming less self-aware of their actions and outcomes of the same.</p> <p>People can be nudged with messages matching their mental models to make them realize that such biases exist and that soft skills like self-control, altruism, patience, and trust are as important as cognitive skills.</p>
Commerce without morality	Emphasizing social norms	<p>Ethics are moral principles that govern a person’s actions and reflect beliefs about right and wrong, just and unjust in terms of human behaviour.</p> <p>These morals are shaped by social and cultural norms and religious practices.</p>

		<p>Emphasizing social norms is a powerful way of shaping choices and navigating human actions towards desired behaviour. Highlighting information regarding people who exhibit good behaviour and clarifying insignificant role of negative influencers can help enhance conformity and deter unethical social behaviours.</p> <p>The National Corporate Social Responsibility Awards of Ministry of Corporate Affairs is an initiative in this direction. These awards emphasize ethical behaviour and acknowledge companies that have positively impacted both business and society.</p>
Science without humanity	Making it easy to choose	<p>Science and Technology has a huge potential to simplify and benefit human lives.</p> <p>Chapter 10 in this volume dwells on an application of technology to improve the effectiveness of welfare programmes.</p> <p>Chapter 4 shows how data can be created as a public good within the legal framework of data privacy using technology. Using the behavioral principle of “Making it easy to choose”, technology can make things simple to understand, cut through layers of processes and target the benefit to the actual beneficiary.</p>
Worship without sacrifice	Reinforce repeatedly	<p>Practicing religion without developing an embedded sense of sacrifice, empathy and humility to serve the needs of other people is self-defeating.</p> <p>Across all religions, positive mythological insights about gender and caste equality as well as universal brotherhood have been available and deeply understood in Indian society since the ages. So, repeatedly reinforcing examples of people following these positive sentiments as truly spiritual people can help establish the correct social norm that “serving man is serving God.”</p> <p>This may also be seen in the MARD (Men Against Rape and Discrimination) campaign underlying which is the sacrifice of the male ego in a patriarchal society for the larger good of gender equality.</p> <p>The Good Samaritan guidelines of the Central Government and the policy adopted by several State governments, where people who help road accident victims receive a monetary incentive and an appreciation certificate, leverage behavioral insights to reinforce the correct social norm of selfless service of mankind.</p>

Transforming Gender Equations: From BBBP to BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi)

यत्रनार्यस्तुपूज्यन्तेरमन्तेतत्रदेवताः॥

2.22 While the BBBP campaign has helped, gender inequality needs a revolutionary campaign that utilises the benefits of behavioural economics. Our scriptures worship women as the embodiment of Shakti and exhort, as captured in the shloka above, that societies where women are respected prosper. Given the importance of messaging as highlighted before, the campaign must draw on cultural and social norms because they affect behaviour so crucially in India.

Therefore, this campaign can be labelled BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi) to represent the 'change' towards gender equality. By drawing on the imagery of the forms of Goddess Lakshmi that symbolises wealth (Dhan Lakshmi) and victory (Vijay Lakshmi), the message of treating women as the forms of Lakshmi needs to be emphasized. Box 3 outlines ideas for utilising the power of role models from Indian mythology to create the social norm that “women are equal to men.” Table 4 details the explicit use of the seven behavioural principles outlined above to empower BADLAV and thereby create the new norm.

Box 4: Drawing on Mythological role models to reinforce the message of BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi)

Indian women have enjoyed a position of respect and reverence in ancient Indian society. *Ardhanareshwar* – a half male-half female representation of Lord Shiva – captures the equality between men and women. The Rigveda identified many women sages as treasures of knowledge and foresight: the prophetess *Gargi*, who questioned the origin of all existence in her Vedic hymns and the great *Maitreyi*, who rejected half her husband’s wealth in favour of spiritual knowledge. The long philosophical conversations between sage Agasthya and his highly educated wife Lopamudra are legendary. Men in ancient Indian society were identified with their mothers, *Yashoda-Nandan*, *Kaushalya-Nandan*, *Gandhari-Putra*, as well as their wives/consorts, *Janaki-Raman*, *Radha-Krishna*.

Since such positive mythological insights about gender equality are readily available and deeply understood in Indian society, these can be used as part of a revolutionary BADLAV programme for the following:

- a) to explicitly state the new norm of gender equality,
- b) to focus attention on all those who adopt the new norm, and
- c) to continuously reinforce the norm over time.

The last step is crucial because people’s memories are short-lived. They need to be reminded of what is socially acceptable behaviour and repeatedly shown examples of their conforming neighbours, until the norm becomes entrenched in society. Seeing is believing, i.e. only when people can see counter-stereotypical role models of gender equality often, will their beliefs start to change. A marketing campaign by the U.S. government leveraged this idea perfectly when they sought to recruit women for “men’s jobs” in factories. They supported their marketing effort by caricaturing a cultural icon – *Rosie the Riveter* – a female taking a “man’s job” without losing her femininity.

Telling people what the others are doing is most effective when people can relate to the ‘others’. People are more likely to alter their behaviours if the ‘others’ belong to their community. Information campaigns promoting gender equality should emphasize, for each group of people, what the others from their own geography or ethnic identity are doing in this direction. This would help the “What is” to become the “What should be” because of people’s innate desire to follow the herd, compete with them and/or gain social approval.

Table 4: Using Behavioural Principles for BADLAV

Principle	Applying the principle to BADLAV
1. Make it easy to choose	<ul style="list-style-type: none"> • Simplify procedures to make it easier for women to, <i>inter alia</i>, report incidences of harassment and discrimination, to open bank accounts, to get government documents such as passports, visas etc.
2. Emphasize social norms	<ul style="list-style-type: none"> • Prominent women, including many female and male Hollywood and Bollywood stars, played an important role in raising the profile of the recent “Me too” movement, thereby contributing to changing the norm and illustrating that change in social norm is possible. • Instead of highlighting the number of top companies that have few women on their boards, it is more effective to highlight how many do. Similarly, showing how prevalent and pervasive gender based violence is, runs the risk of normalising it; instead emphasising on how many people are not perpetrators or reinforcing injunctive norms against it can be more helpful in shaping correct norms towards gender equality. • Research shows that girls and women who observed female village chiefs exhibit behaviour that highlights them as equal to men. Villagers who had exposure to at least two female chiefs rated male and female leaders equally. Therefore, women village leaders must be advertised as role models as people can relate to proximate “others”. Mass media must be utilised for regular efforts to change the social norm via BADLAV.
3. Disclose outcomes	<ul style="list-style-type: none"> • Publishing gender rankings or audits in public domain, whether for numbers of women in legislatures, in political parties, in bureaucracy or on company boards, can prompt organisations to take action to avoid bad publicity or looking worse than their competitors. Mandating organisations to report the “Gender pay gap” can reinforce this trend.
4. Reinforce repeatedly	<ul style="list-style-type: none"> • Having multiple visually descriptive posters in every corridor of workplaces and public places regarding what constitutes sexual harassment at workplace can reinforce the norm of it not being acceptable. Similarly, regular TV advertisements that reinforce the positive norm of gender equality can help to reinforce repeatedly.
5. Leverage loss aversion	<ul style="list-style-type: none"> • Evidence from field studies and experiments shows that among men and women of equal abilities, men often choose to compete twice as often as women. Reward structures can be modified to ameliorate the higher aversion of women to competition. For instance, application fees for women applicants in jobs can be waived. Removing demographic information from job applications can also help.

6. Make messages match mental models
- Women consistently tend to place more value on flexibility at workplace. Companies that offer flexibility as the default norm have many more women applicants and employees.
 - Women are less likely to apply for jobs perceived as “male-labelled.” Skill training and apprenticeship programmes can be redesigned with appropriately gendered wording to attract female applicants in male dominated professions.
 - Stereotypes regarding innate ability linked to gender and/or race can impact standardized test performance. Gender stereotype threats (filling demographic information before tests) can influence test scores of girls and boys differentially. These insights are crucial for building gender and race sensitive curriculum and evaluation procedures in schools.
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From Swachh and Ayushman Bharat to Sundar Bharath

2.23 A strong way to reinforce behaviour is by getting people to pre-commit to a certain course of action. Studies find that if people pre-commit to doing something, they are much more likely to do it. For instance, a simple act of asking people if they will vote, enrol in a smoking cessation programme or save money, increases the likelihood that people will act in accordance with their goals. SBM *swachhagrahis* may use this strategy to make people pre-commit to sanitation goals. Further, the *swachhagrahis* may also assist people in assessing themselves periodically, say once a month. An assisted reflection session in the community or on a one-on-one basis with the local *swachhagrahi* can prompt people to think about whether they acted as planned and how many times they detracted. These reflection sessions should culminate in a commitment about how people plan to act in the near-term future – whether they will refrain from open defecation next month or not.

2.24 Further, people often respond to disclosure of outcomes; they are more likely to sustain their new behaviour if told about tangible benefits that they can internalize; not aggregate statistics that they may not care about. For example, a *swachhagrahi* may disseminate information about the incidence of sanitation-related illness *in her village* and

how this rate has improved after the adoption of sanitation practices. When people realize the tangible outcomes of their actions, they are more likely to sustain their behaviour. This is of tremendous importance for SBM because it relies on a *sustained* change in behaviour, not a one-time change. To drive the point home, *swachhagrahis* may also help individual households reflect on the incidence of illness in their own families in, say, the last six months or since the time they quit open defecation. If people find that their health outcomes are better after adopting the new practice, they are likely to persist in that practice.

2.25 Taking our learning from the power of behavioural economics in the Swachh Bharat scheme, the way forward is to develop an all-encompassing behavioural economics architecture for the entire health sector as health signifies inner beauty. Given the unique characteristics of the health sector i.e. information asymmetry between the doctor and the patient, hyperbolic tendencies of health consumers, and high variability of health care expenditures, people often make decisions in health care that are not in their best interest. This ranges from failing to enrol in health insurance to which they are entitled, to engaging in harmful behaviour like smoking and drug abuse. A potentially richer set of behavioural tools than provided by traditional economic theory is necessary to understand and influence health care behaviour.

Table 5: Using Behavioural Principles for Sundar Bharat

Principle	Applying the principle
1. Leverage default rules	<ul style="list-style-type: none"> • Giving individuals default flu shot appointment time can increase influenza vaccination rates. • Providing smart insurance plan defaults can significantly simplify health insurance choice.
2. Make it easy to choose	<ul style="list-style-type: none"> • Asking consumers the factors that are most important to them while choosing a health plan and restricting the plan to these factors can make choice easier and thereby enhance take-up of health insurance. • Minor behavioural alterations in school and college canteen menus (giving interesting names to healthy options, putting them near the cash counter, making the process of buying unhealthy options more time taking) can increase uptake of nutritious food.
3. Emphasize social norms	<ul style="list-style-type: none"> • Adolescents often overestimate how much alcohol or drugs their peers take making heavier consumption to be perceived as a socially desirable behaviour. Campaigns focusing on number of people who don't drink or take drugs may be more effective. • Youth may be more responsive to a drug prevention program after the death of a celebrity from drug overdose. • Giving out messages in information campaigns such as "90 per cent of doctors agree that vaccines are safe" can significantly reduce public concern about childhood vaccine, establish the social norm that vaccinations are safe and enhance vaccination. • Presenting information on how many people in the neighbourhood have chosen to take up the health insurance plan and the benefits it has offered to families with similar disease in that area can increase enrolment rates.
4. Disclose outcomes	<ul style="list-style-type: none"> • Disclosing to people about the realized benefits of hand-washing and, or family planning practices experienced by other people in their community, can enable them to take up these health practices.
5. Reinforce repeatedly	<ul style="list-style-type: none"> • Sending messages to patients that asked the patient to write down the day and time they planned to get their next vaccination can boost uptake of vaccines. • Doctors asking patients coming to hospitals for a signed pledge or a verbal commitment, preferably in the presence of someone the signee respects, called "accountability partner" to take up Yoga and walks can encourage such healthy lifestyle practices. A monthly appreciation (joint coupon rewards) for following the pledge, after being certified by the "accountability partner", can sustain such behaviour. • Many people suffering from critical diseases do not take their medicines regularly. Use of simple text messages & pill bottles that light up if not opened at the right time can increase drug adherence. Delivering an appreciation certificate at the end of the month for following their prescription schedule can sustain adherence.
6. Leverage loss aversion	<ul style="list-style-type: none"> • People often find it difficult to achieve goals like weight loss or ceasing to smoke. People voluntarily made to post bonds (deposit contracts) or lottery tickets on a website that will be returned to them if they achieve their goals, but are forfeited otherwise, can help them achieve these difficult goals.

7. Make messages match mental models
- Control of diarrhoea suffers from a flawed mental model: the perception that the solution is to decrease the child’s fluid intake and to keep the child ‘dry’, implying less use of Oral Rehydration Solution. Information campaigns on adoption of ORS can overturn this flawed mental model.
 - Message boards in public hospitals and medical advertisements on media must emphasize *gains* from smoke cessation and breastfeeding to foster preventive action. Similarly, messages for sexually transmitted diseases and breast cancer must focus on the *loss* to deter and encourage early diagnosis respectively.
 - The Mother’s Absolute Affection (MAA) Programme campaign leverages role of influencers (the relationship between mother-in-law and the daughter-in-law) and the idea of commitment devices (“Vaada” i.e., promise) to reinforce the idea of breastfeeding the child within one hour of birth. Cultural tailoring of health messages in this area can nudge them to adopt breastfeeding.

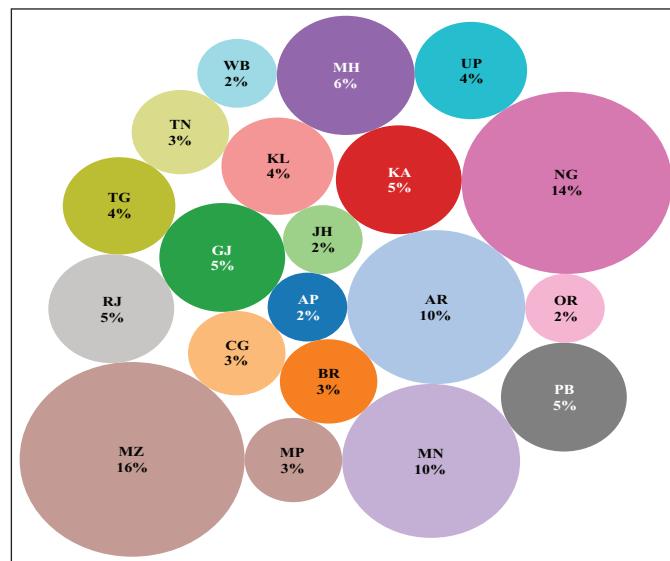
Think about the Subsidy

2.26 “Give It Up” encouraged Above-poverty line (APL) households to voluntarily surrender their LPG subsidies – for every household that “gave it up,” a BPL household would receive a gas connection. The lack of economic incentives in this programme means the campaign relies entirely on the better judgment of people to voluntarily give up their subsidies.

2.27 As Figure 13 shows, while the “Give It Up” campaign heralded a significant change in the form of voluntary giving up of subsidies, the overall response to the campaign could be improved from the one crore who have given

it up. While this represents a good beginning, the potential to expand this number remains large. It can be further observed that north eastern states like Arunachal Pradesh, Nagaland, Manipur and Mizoram have higher rate of subsidy surrender as compared to larger states availing much more subsidy. Like BBBP and SBM, “Give It Up” also relies on a change in behaviour. In fact, Give It Up’s task is less arduous than BBBP and SBM – while the latter programmes require continuous effort to dislodge mind-sets that have prevailed for decades, “Give It Up” requires only a one-time action that is inconsequential to most affluent households.

Figure 13: State-wise percentage of APL Consumers who surrendered LPG Subsidy



Source: Data from Ministry of Petroleum & Natural Gas

2.28 Behavioural economics tells us that even if people are truly interested in giving up their subsidies; their actions may differ from their intent as they need to be moved to action with a gentle nudge. A good choice architecture can aid in closing this gap between intention and action. For campaigns like Give It Up, the default choice matters immensely. People have a strong tendency to go with the status quo. Many governments have leveraged this insight to change the default option and thereby increase efficacy of their programmes. “Give It Up” needs to employ this insight. Given their inertia, of the nineteen crore people who did not give up their subsidy, many may have intended to give up their subsidy but have simply not been nudged to action.

2.29 Give It Up, however, incorporates other behavioural insights. It is easy and nearly effortless to give up one’s subsidy – an intuitive online interface ensures the process takes only a few minutes. This is essential because every additional minute that it takes to give up the subsidy increases the chances that one will drop out in the middle of the process.

2.30 The campaign also attempts to leverage the power of social norms, but with limited success. People act when they see

others act. Information campaigns do not, however, adequately emphasize what the (metaphorical) neighbours are doing. The Give It Up website has a “scroll of honour” to felicitate participants, but this feature relies on people to go looking for the social norm, instead of actively advertising the social norm. A click on the “scroll of honour” makes the user choose between three gas companies, as the lists are maintained on these companies’ websites. To find a name on these long lists, one needs to enter one’s consumer number. Since no one is likely to know anyone else’s consumer number, people cannot find their friends, relatives or neighbours.

2.31 People act positively when they see others act positively, and particularly when they can relate to such individuals. In fact, people can relate to others through even seemingly innocuous traits such as a shared geographical locality. The “scroll of honour” does not leverage this crucial insight, as people simply cannot find others they may know or can relate to. Maintaining a centralized list of names (independent of the gas company) and displaying the photographs of other participants in the same locality may increase the efficacy of the “scroll of honour.” Table 6 describes the applications of the behavioural principles to implement the “Think about the Subsidy.”

Table 6: Using Behavioural Principles for “Think about the Subsidy”

Principle	Applying the principle
1. Leverage default rules	For campaigns like Give It Up, the default choice matters immensely. People have a strong tendency to go with the status quo. The default option can be modified so that households above a certain income threshold have to opt in to continue their subsidies with the default option being “opt out” of the subsidy. It is critical to ensure that people find it extremely easy – through only a text message, a phone-call or a few clicks – to opt in to continue their subsidy.
2. Make it easy to choose	For people who donate impulsively, reducing the friction between the moment when their intention to give up the subsidy appears and when they feel they can take action can make them more likely to give up the subsidy. Prepopulating fields of subsidy giving up forms can make it more likely that people will submit applications. Mobile phones and apps can also make impulsive giving up easier.

3. Emphasize social norms	<p>Making people feel good about giving up subsidies can help establish the correct social norm. To discourage the middle-class and the comparatively rich people from enrolling for subsidies like kerosene, cooking gas etc., the government could, in its advertisements of the particular schemes, state that the scheme is intended to help the poor who make X per cent of the population and who earn less than Y per month.</p> <p>Advertisements could suggest that by not enrolling, the rich are becoming contributors to eradication of extreme poverty from the country.</p> <p>Social networks could support live “Give it Up” events where participation is acknowledged with visual changes to people’s online profiles.</p> <p>Creating quick outlets such as a simple phone app or physical kiosks for exercising our general intentions of donating small amounts can build the overall social norm of being charitable.</p> <p>Increasing visibility of donors can encourage giving up of subsidies, especially for people who think and donate based on their alignment with the causes they choose to support. Highlighting the noble act of giving in general using respected leaders in the world, and not just giving up a subsidy could increase the visibility of a more deliberate approach to giving.</p>
4. Disclose outcomes	<p>Displaying the names and photographs of people who give up subsidy on the website and while filling the form can bolster the act of giving it up.</p>
5. Reinforce repeatedly	<p>Immediately and vividly showing givers the effect of them giving up the subsidy can make giving feel really good. Givers could view personal photos of the people benefitting from the subsidy or a video with a beneficiary saying thank you.</p> <p>During tax filing time, people could fill an extra field in the form about whether they would like to give up their subsidy (a form of tax payment) for the cause of the nation. Givers could sign up for personalized reminders to bring attention to their giving up objectives throughout the year.</p>
6. Leverage loss aversion	<p>Loss aversion can be used to explain why majority of LPG users have not given up their subsidy. This reinforces the policy of setting the subsidy schemes default to opt-out with a fairly easy process to opt in.</p> <p>Asking individuals to pledge a certain amount of subsidy when they feel most inspired, possibly when watching a social movie in the theatre, with the payment coming later can encourage giving. They can be prompted to set a giving goal in advance to track their progress.</p>
7. Match messages to mental models	<p>Behavioural techniques can help achieve desirable outcomes from subsidy programmes and in turn reduce the effective costs of subsidy.</p> <p>Sometimes individuals do not take up vaccinations because they either forget the location of the clinic or the time of appointment. Fiscal subsidies to make people take up vaccinations can be made more cost effective if such set of individuals are reminded more frequently about the time and location or encouraged to make a concrete plan about when and where they will get their vaccination.</p>

Jan Dhan Yojana

2.32 While the Jan Dhan Yojana opened a large number of bank accounts in a short span of time, its success relies on people *using* these accounts regularly. The programme’s mandate is not only to open

accounts but to enable access to credit, insurance, pension schemes and other facilities offered by the formal banking sector. Going forward, the programme offers tremendous scope to employ behavioural insights.

Table 7: Using Behavioural Principles to enhance impact of Jan Dhan Yojana

Principle	Applying the principle
1. Leverage default rules	<ul style="list-style-type: none"> • Make auto enrolment into a savings plan the default while offering people the option to opt out.

2. Make it easy to choose	<ul style="list-style-type: none"> • Regulator must ensure that products for the poor do not confound with too many options. The Government's <i>Jeevan Jyoti Bima Yojana</i> is an example of a straight forward product that implements this option.
3. Emphasize social norms	<ul style="list-style-type: none"> • Information campaigns should highlight the number of people who use their bank accounts in the local village. Every person can be sent an SMS at the end of the month about his/her transactions, those of others in his village, and his relative standing in the village on this metric. This simple strategy can further the social norm for use of Jan Dhan account.
4. Disclose outcomes	<ul style="list-style-type: none"> • Holders of dormant accounts may be periodically reminded of the number of people in their neighbourhood who actively use their accounts. To regular users, even a simple SMS such as "You made three withdrawals this month – congratulations" in the vernacular language, followed by a happy emoticon, may remind people of the norm and sustain their usage of bank accounts.
5. Reinforce repeatedly	<ul style="list-style-type: none"> • Reminding people about the savings that they have done can in the past can help reinforce good behaviour. By simply asking people whether they plan to save next month, the intention to save can be reinforced. Committing people to how much they plan to save can also help reinforce the intention to save.
6. Leverage loss aversion	<ul style="list-style-type: none"> • A propitious time to get people to save more is when salary increases. At such times, people are less likely to consider increased savings as a loss than at other times of year. This feature can be combined with default rules to automatically increase enrolment into the savings while offering people the option to opt out of such automatic increases.
7. Make messages match mental models	<ul style="list-style-type: none"> • Money set aside for, say, education will unlikely be used for another purpose, whereas 'general' money not earmarked for any purpose is spent much faster. People may be asked to choose their own names such as "home savings plan" or "education savings plan." All outgoing communications from banks should stress the chosen name to reinforce savings.

Improving Tax Compliance

2.33 The great philosopher, Plato, convincingly argued centuries ago: "What is honoured in a country is cultivated there." Consider military service in India, which employs one of the largest group of armed personnel in the world (over 14 lakhs). While the economic incentives offered to army personnel are attractive, a large section joins the armed forces because serving in the armed forces is considered *honourable*. Similarly, in order to enhance tax compliance, behavioural insights need to be employed to modify the social norm from "evading taxes is acceptable" to "paying taxes honestly is

honourable." A start has been made through the budget speech of February 2019, which publicly and explicitly thanked tax payers, perhaps for the first time, thereby seeking to honour honest tax payers.

2.34 Across countries, research has highlighted that tax evasion is driven significantly by *tax morale*, viz., the intrinsic motivation of taxpayers in a country to pay taxes. Tax morale itself is driven primarily by two perceptive factors: (i) vertical fairness, i.e. what I pay in taxes is commensurate to the benefits I receive as services from the Government; and (ii) horizontal fairness, i.e., differences in the taxes paid by various

sections of society. For instance, citizens perceive vertical fairness to be low if they find their tax payments being squandered in wasteful public expenditure or by corruption. Similarly, perceptions of horizontal fairness suffer when the employee class is forced to contribute disproportionately to income taxes while the class of self-employed gets away paying minimal taxes. Both perceptions contribute to high tax evasion in a country.

2.35 To correct vertical unfairness that can lead to tax evasion, the Government should utilise the behavioural insight that people identify with their neighbourhood. Signboards showing “tax money at work” in constructions projects in a panchayat/district explicitly convey to citizens that their tax money is used in valuable public goods, thereby lowering perceptions of vertical unfairness. Similarly, highlighting the tax paid by other taxpayers, especially self-employed individuals, in the panchayat/district through SMS, billboards etc., can correct perceptions of horizontal unfairness.

Such information can propagate the social norm that “paying taxes honestly is honourable.”

2.36 As people often indulge in conspicuous consumption to convey their social status, top 10 highest tax payers within a district can be highlighted and accorded due recognition. This may take the form of expedited boarding privileges at airports, fast-lane privileges on roads and toll booths, special “diplomatic” type lanes at immigration counters, etc. Further, the highest taxpayers over a decade could be recognised by naming important buildings, monuments, roads, trains, initiatives, schools and universities, hospitals and airports in their name. The idea is to create exclusive membership of “clubs” that exude not only social status but also honour. Such steps can also help propagate the social norm that “paying taxes honestly is honourable.” Table 8 describes the applications of the behavioural principles to enhance tax compliance.

Table 8: Using Behavioural Principles to enhance tax compliance

Principle	Applying the principle
1. Leverage default rules	Automatic deduction of tax and directing all or portion of refunds into savings accounts can be used to encourage savings, including retirement savings. Sending messages to individuals suggesting that not declaring taxes is a deliberate and intentional choice on their part can help them overcome status quo bias and improve compliance.
2. Make it easy to choose	Filing of tax forms even for zero payment of tax. Removing barriers to filing taxes- procrastination, hassle of filling forms, or failing to understand the terms- can improve compliance. Automated tax collection can make individuals pay less attention to tax collected (Salience effects).
3. Emphasize social norms	Providing information about peer behaviour can make taxpayers adjust their reported income. Messages in the form of moral appeals to taxpayers regarding payment of taxes may have limited effects. Tax amnesties might reduce tax compliance if taxpayers perceive amnesties as unfair. Amnesties can decrease the government’s credibility and the taxpayers’ intrinsic motivation to comply by setting the incorrect social norm.

4. Disclose outcomes	Public shaming of individuals who don't pay taxes can reduce non-compliance if they are reintegrated immediately. However, persistent public shaming can be detrimental for compliance because of stigmatisation effects. If cheaters feel that the probability of their detection has increased, voluntary disclosure programs for tax payments can increase tax evasion incidence as these programs may offer the possibility to avoid strict punishments.
5. Reinforce repeatedly	Repeatedly sending fairness driven and normative messages added to standard reminder letters that referred to the facts that (a) most people in your local community pay their taxes on time and (b) the person concerned was in the very small minority who had not yet done so can help reduce late tax payments.
6. Leverage loss aversion	Tax withholding followed by refunds at the time of tax filing may increase tax compliance and total taxes paid. Taxpayers are more concerned about tax deduction claims when they owe additional tax (loss) at the time of filing than when they expect a refund (gain). Framing tax cuts: tax cuts presented as a bonus (gain) are more likely to be spent than tax cuts presented as a rebate (loss).
7. Match messages to mental models	Reminding tax payers that public goods can only be provided in return for tax compliance (reciprocity appeal) can boost tax morale.

Box 5: Tax evasion, wilful default, and the Doctrine of Pious Obligation

In Hinduism, non-payment of debts is a sin and also a crime. The scriptures ordain that if a person's debts are not paid and he dies in a state of indebtedness, his soul may have to face evil consequences. Therefore, it is the duty of his children to save him from such evil consequences. This duty or obligation of a child to repay the debts of the deceased parent is rested upon a special doctrine, known as "The Doctrine of Pious Obligation".

Under Islam, Prophet Muhammad advocated – "*Allaahummainnia'oodhibika min al-ma'thamwa'l-maghram (O Allaah, I seek refuge with You from sin and heavy debt).*" A person cannot enter Paradise until his debt was paid off. All of his wealth could be used to pay the debt and if it is insufficient then one or more heirs of the deceased could voluntarily pay for him.

The Bible says, "*Let no debt remain outstanding except the continuing debt to love one another - Romans 13:8*" and "*The wicked borrows and does not repay, but the righteous shows mercy and gives - Psalm 37:21.*"

Thus, the repayment of debt in one's own life is prescribed as necessary by scriptures across religions. Given the importance of religion in the Indian culture, the principles of behavioural economics need to be combined with this "spiritual/religious norm" to reduce tax evasion and wilful default in the country.

IMPLEMENTING THE ASPIRATIONAL AGENDA FOR BEHAVIOURAL CHANGE

2.37 The previous section outlines an ambitious agenda for behavioural change, from BBBP to BADLAV, from Swachh Bharat to Swasth Bharat, from "Give It Up" for the LPG subsidy to "Think about

the Subsidy", and from tax evasion to tax compliance. The possibilities, however, to employ the principles of behavioural economics to policymaking, especially in India where social norms so crucially influence behaviour are enormous. To avail these benefits, the following measures are suggested for implementation.

2.38 First, the proposal to set up a behavioural economics unit in the *Niti Aayog* must be immediately activated. Care, however, must be taken in setting up the unit as applying the principles of behavioural economics seems innocuously and misleadingly simple; after all, everyone can claim to be an expert in understanding human behaviour. However, as research in behavioural economics itself clearly highlights, there is a world of difference between *anecdotes* and *averages*. While insights gathered from careful research rely on averages, everyday experience is often driven by anecdotes. As anecdotes are more likely to represent outliers than averages, behavioural policymaking driven by anecdotal evidence can create more damage than good. Therefore, the temptation to appoint those who are not experts in this area must be avoided.

2.39 Second, every program must go through a “behavioural economics” audit before its implementation. This audit may adhere to the principles of behavioural economics outlined above to conduct its audit. Such an audit and the modifications undertaken, therein,

can significantly enhance the efficacy of the program. A simple application of this approach is in the Government communication that goes to citizens. For example, recent experience of the Department of Revenue showed that perceptions of “tax terrorism” often had more to do with the language employed in the communication than any Government action in reality. Therefore, by the mere act of altering the language, it may be possible to change the relationship between the Department and the taxpayer from adversarial to collaborative.

2.40 Third, as several programs are administered by state governments, the behavioural economics team can work with various state governments not only to inform them about the potential benefits but also help them to improve the efficacy of the programs.

2.41 While social norms impact behaviour significantly in India, the power to employ behavioural change to alter these norms has not been adequately tapped. Implementing the agenda in this chapter would be a valuable step in this direction.

CHAPTER AT A GLANCE

- Decisions made by real people often deviate from the impractical robots theorized in classical economics
- Drawing on the psychology of human behaviour, behavioural economics provides insights to ‘nudge’ people towards desirable behaviour.
- The key principles of behavioural economics are ‘emphasising the beneficial social norm’, ‘changing the default option’ and ‘repeated reinforcements’.
- Swachh Bharat Mission (SBM) and the Beti Bachao Beti Padhao (BBBP) have successfully employed behavioural insights.
- Insights from behavioural economics can be strategically utilised to create an aspirational agenda for social change: (i) from BBBP to BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi); (ii) from Swachh Bharat to Sundar Bharat; (iii) from “Give It Up” for the LPG subsidy to “Think about the Subsidy”; and (iv) from tax evasion to tax compliance.

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