The Behavioural Economy

A 10 point plan to
upgrade economic policy

Authors: Nida Broughton, Lis Costa, David Halpern,
Johannes Lohmann, Richard O'Brien, Pantelis Solomon,
Stefanie Schultheis, Natalia Shakhina, Hubert Wu

THE
BEHAVIOURAL
INSIGHTS
TEAM

Friends
Provident
Foundation

Acknowledgements

Contents

Executive Summary

COVID-19 has inflicted a major shock on the UK economy. Simultaneously, it has shone a spotlight on wider structural problems that were already serious but are now critical - such as the UK's lacklustre productivity and the uneven distribution of prosperity across society.

This is already well understood outside the corridors of power - 49 per cent of people in the UK say our economy works unfairly, while 55 per cent think that it has become more unfair over 2020 as the COVID-19 pandemic has hit the UK economy.

Now, as we emerge from the COVID-19 shock, it is more vital than ever that economic policy is reshaped with human behaviour at its heart. The pandemic has created an opening to upgrade our economic policy making so that it delivers for society.

When previous economic shocks hit us, our understanding of how behavioural science can help design better public policy was still in its infancy. Today, however, we have the knowledge and evidence to truly take advantage of behavioural insights for the very first time and bring them right into our economic policy making processes. The opportunities if we do so are immense. Behavioural effects shape the way individuals make economic choices about what to buy, where we work and where we live. Behavioural factors can help explain why markets don't weed out exploitative and inefficient practices and get stuck in a bad equilibrium.

It is a deep irony that, of all policy areas, behavioural economics has been little applied to economic policy. This omission means that policies such as taxes, subsidies and regulation are less effective than they can and should be and policymakers are without other classes of policy levers entirely.

In this paper, we set out a 10 point plan to upgrade economic policy with a deep understanding of human behaviour at its core. Recognising the true nature of people's incentives, motivations and behaviours will improve the design of traditional policy levers and open up entirely new categories of policy tools. It will help governments and regulators design more effective policy, improve the way our economy works, and address issues of low productivity, exclusion and unfairness, benefiting citizens and businesses right across our society.

This is an ambitious agenda. It is not a statement of government(s) policy, but is instead intended to provoke discussion and debate. We see this paper as just the start. Enacting this agenda requires effective collaboration between policymakers, regulators, researchers and funders. If you would like to work with us to turn this vision into reality, please get in touch. Contact our Director of Economic Policy, Nida Broughton (nida.broughton@bi.team).

Table 1: Summary of 10 point plan for reshaping economic policy

Micro	**Build UK household and job resilience through targeted action**	
1	**Help people save for the future**	• Restructure tax incentives towards rainy day savings and wider distribution of wealth • Build out of the COVID-19 crisis to create new savings habits
2	**Open up new job opportunities and equip jobseekers with the support they need**	• Build employment support around job goals, not compliance with benefit criteria • Use data to prompt jobseekers towards suitable opportunities that they wouldn't otherwise consider; and employers to consider a wider range of applicants
Meso	**Shape markets to drive innovation and productivity for the benefit of all**	
3	**Measure whether markets are delivering for consumers and small businesses**	• Collect data on behavioural drivers of market failures, such as sludge and complexity, to inform better policy and regulation
4	**Prioritise market transparency**	• Bring transparency to business and government procurement markets • Get employers to compete on job pay and quality • Make it easier to see the environmental and social impacts of pensions and other investments
5	**Attack switching costs**	• Design and test how to build trust and drive take-up of Smart Data initiatives that help consumers compare and switch energy, telecoms and financial providers • Extend Smart Data-style provisions to cover online platforms
6	**Kick-start market disruptors and disseminate what works**	• Use challenge funds to kick-start market disruption • Reduce costs of innovation through shared equipment, facilities and support • Speed up diffusion of innovation by actively disseminating 'what works' to businesses
Macro	**Bring human behaviour into the design of macroeconomic policy**	
7	**Plan ahead for the next shock**	• Build channel and data infrastructure to target stimulus spending where it's most needed • Build evidence on how to structure, design and frame spending stimulus
8	**Reward businesses that invest, grow and boost their productivity**	• Restructure business tax reliefs to better target underlying barriers like upfront investment costs • Prompt businesses to invest at timely moments
9	**Make social trust an integral part of economic policy making**	• Routinely measure the impact on social trust when designing and evaluating economic policies • Test how to design spaces to boost social trust as part of planning reforms and infrastructure projects • Test whether the components of higher education that boost social trust can be replicated for further education and apprenticeships
10	**Challenge test, measure, learn**	• Use tools like pre-mortems and red teams to minimise biases such as optimism bias, confirmation bias and group reinforcement in decision-making • Undertake rapid testing using online experiments before rolling out new policies • Build monitoring and evaluation into macroeconomic policy changes

# Introduction: why we need to reshape economic policy

The COVID-19 crisis has shone a spotlight on wider structural problems

The world's economies have been rocked by the coronavirus epidemic that shut down businesses and radically changed our day-to-day lives. The IMF expects that the world economy will experience its worst fall in GDP since the Great Depression - and far worse than the 2008 financial crisis.[1] Governments have responded with unprecedented financial help for workers and firms - loans, grants, tax deferrals and wage subsidies.

The economic shock has also highlighted and crystallised a set of wider structural challenges that must be tackled. The economic recovery from COVID-19 is an opportunity to design an ambitious new policy agenda that leaves the UK economy stronger, more inclusive, more sustainable and more resilient to future shocks. This includes tackling the UK's slowdown in productivity since the 2007-08 financial crisis; ensuring that economic gains are shared widely across society; and helping people thrive as new technology changes the nature of work and the UK realigns its international trading relationships.

The need to reform economic policy is already well understood outside the corridors of power. 49 per cent of people in the UK say our economy works unfairly, while 55 per cent think that it has become more unfair over 2020 as the COVID-19 pandemic has hit the UK economy.[2]

Figure 1: Year-on-year change in GDP
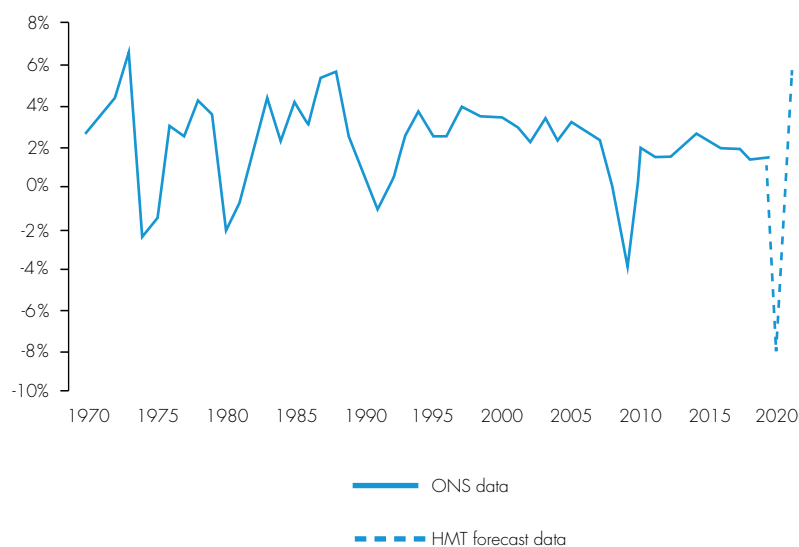
Source: ONS, Gross Domestic Product: Year on Year growth, August 2020; HMT, Forecast for the UK economy: a comparison of independent forecasts, 2020

Now is the time to bring behavioural insights into economic policy making

When previous economic shocks hit us, the application of behavioural insights to public policy was still in its infancy. Since then, over the past decade, insights from the behavioural sciences have delivered powerful results in areas that are crucial for economic growth and sound public finances, such as education, social mobility, market competition and tax compliance. For example, taking friction out of application processes boosts applications from students with disadvantaged backgrounds by a third, at a fraction of the costs of traditional scholarships.[3] Students from disadvantaged backgrounds are also more likely to take up places at Russell Group universities if they receive letters from current university students with a similar background to them.[4] Sending consumers a letter with information about the cheapest energy deal on the market triples the likelihood of switching suppliers.[5] Telling people that others in their local area have paid their tax on time boosts tax compliance.[6]

Despite these successes, current economic policy and thinking remains substantially based on 'classical' models that fail to capture many of these effects. Behavioural economists and psychologists can now claim four Nobel Prizes, and have significantly reshaped the academic study of economics. Yet it is much less clear how much this new body of work has reshaped economic policy. This conceptual failure means that policies such as taxes, subsidies and regulation are less effective than they could be - and leads policymakers to miss other classes of policy levers entirely. It is a deep irony that, of all policy areas, behavioural economics has been little applied to economic policy.

Psychological effects shape the way we as individuals make choices about what to buy, where we work and where we live. People are time poor and subject to cognitive overload. With so many daily tasks to complete and decisions to make, it is hard to process and action them all, and hard to put important but non-urgent tasks first. People are averse to regret, often sticking with what they have out of fear of getting things wrong if they move elsewhere. We don't just make choices based on the numbers: we are highly influenced by the actions of others, and we have a preference for fairness and reciprocity - being predisposed to reward kind actions and punish bad ones.

Behavioural factors can help explain why markets don't always deliver the best outcomes for society as a whole, nor distribute outcomes equitably. When they work well, markets are powerful drivers of higher living standards. They give suppliers strong incentives to compete to provide the best value for money to consumers, through lower prices, higher quality and innovation. However, behavioural factors are one reason why markets don't always weed out exploitative practices and why they get stuck in a bad equilibrium. For example, it is often in businesses' interests to increase complexity and make it hard for consumers to know if they are getting a good deal or should switch: people need to spend an estimated 107 minutes per week on navigating and comparing options if they want to make good decisions.[7] And when markets do fail, governments - and ultimately citizens - bear the cost, for example the billions spent bailing out banks following the 2008 financial crisis.[8]

A 10-point plan to reshape economic policy

In this paper, we set out a 10 point plan to reshape economic policy with human behaviour at its heart. A deep understanding of people's incentives, motivations and behaviours can improve the design of traditional policy levers, and open up new categories of policy tools based on influencing sentiment and behaviour. It has the potential to help governments and regulators design more effective policy, improve the way our economy works, and address issues of low productivity, exclusion and unfairness, benefiting businesses and citizens right across society.

We make recommendations on micro-level, meso (or market)-level, and macro-level economic policy, and set out early ideas on what policymakers, regulators and researchers should explore and test further. This is not a statement of government(s) policy. It is intended to provoke discussion and debate, though ultimately we hope it will inform and shape policy.

This is an ambitious agenda. Enacting it successfully requires effective collaboration between policymakers, regulators, researchers and funders. If you would like to work with us to turn this vision into reality, please get in touch. Contact our Director of Economic Policy, Nida Broughton (nida.broughton@bi.team).

Box 1: What do we mean by micro, meso and macro?

Economic policy is usually split into two categories: microeconomic policy that looks at individuals, businesses and markets; and macroeconomic policy that is economy-wide. The recommendations that come from taking a behavioural approach to economic policy do not always sit neatly within these two categories.

In this paper, we split microeconomic policy in two, which allows us to differentiate between individual-level policy design and market-level policy design. And whilst macroeconomic policy is traditionally concerned with overall levels of tax, spending and interest rates, a behavioural approach tells us that the details of the design of these macroeconomic policy levers is consequential, so that several recommendations in the 'macro' section - especially relating to how individuals react to financial incentives - have ideas in common with the 'micro' section.

The table below summarises the definitions we use in this paper.

Table 2: Definitions of micro, meso and macro in this paper

Micro	Microeconomic policy interventions that focus on shifting individual behaviour - for example, prompting consumers to switch, prompting jobseekers to apply for relevant training, and defaulting consumers into saving through schemes like auto-enrolment. Most traditional 'nudges' fall into this category.
Meso	Microeconomic policy interventions that focus on shifting the behaviours at the 'wholesale', business or market-level, often through several mechanisms at the same time. For example, publishing company-level information on salary gaps between men and women can change the willingness of individuals to apply to different employers; provides information to employers on how well they are doing and their potential to improve; and can affect wider company reputation beyond recruitment. In turn, this can offer powerful incentives for companies to improve their gender pay gaps.
Macro	Macroeconomic policy interventions that focus on improving the health of the overall economy - for example tax and spending to create a stable environment for investment in infrastructure, skills and R&D investment; or stabilising the economy through fiscal and monetary policy. This also includes macroeconomic policy communications aimed at building credibility and confidence during crises.

10 point plan for reshaping economic policy

Micro level: *Build UK household and job resilience through targeted action*

Household financial resilience was low going into the COVID-19 crisis. Research by the Money and Pensions Advice Service published in January 2020 found that 11.5 million people (22 per cent of all adults) in the UK had less than £100 in savings, 9 million were over-indebted, and a further 9 million were regularly borrowing to pay for essentials because they had run out of money.[9]

Early data on the impact of COVID-19 showed a third of Britons saving more money as opportunities to spend were locked down.[10] However, many households came under financial strain, with around a fifth struggling to make ends meet during April, the middle of lockdown.[11] Around a third drew down savings, and 16 per cent borrowed or used credit.[12] By May, around 1.5 million payment holidays had been granted on credit cards and personal loans.[13] As the economy recovers, these households will need to start repaying debt and (re)build rainy day savings for the future.

Meanwhile, UK workers must adapt to the changing job market. In many ways, the COVID-19 crisis has accelerated pre-existing trends. Shops have had to rely more on online orders; employees have had to work remotely; and social distancing rules have increased the cost of employing staff relative to investing in physical equipment. For many businesses, these adjustments are becoming permanent. According to an EY survey of 2,900 executives in 46 countries, over a third are accelerating investment in automation as a result of the crisis.[14] Companies like Twitter have decided to switch to remote working as the default indefinitely.[15]

On top of that, depending on what the UK's final trade deal with the EU will look like, sectors such as financial services and car manufacturing are likely to be disportionately affected if it becomes harder to export.[16] And the move towards clean growth is likely to affect jobs in parts of the North and Midlands with carbon-heavy industries.[17]

Rec 1. Help people save for the future

The government spends billions in tax reliefs on savings and pensions every year. However, the UK savings market is fragmented. It provides poor incentives and limited opportunities for people to save.

Table 3: Cost of selected tax reliefs and incentives to boost savings

Government initiative	Estimated nominal cost (£bn), 2019-20
Tax relief on registered pension schemes	21.2
Individual Savings Account relief	3.3
Personal savings allowance	0.7
Help to Save	0.085 (estimated annual cost by 2022-23, as of March 2018)

Source: HM Revenue & Customs, Estimated Costs of Tax Reliefs, 2019; OBR, Economic and Fiscal Outlook, March 2018

One of most powerful examples of behavioural insights is the mass-defaulting of people into saving for their pension: workplace pension participation rose from 55 per cent to 84 per cent of eligible employees in the years after auto enrolment was introduced.[18] There is also promising evidence on the potential to increase savings by prompting consumers at timely moments[19] and structuring financial incentives as prizes.[20]

"Unfortunately, I saved for a rainy day but had a rainy year."

Rec 1.1 Restructure tax incentives towards rainy day savings and wider distribution of wealth

Reducing pensions tax relief for higher rate earners would save around £9bn a year.[21] This could be put towards targeted incentives to get more people to a rainy day fund of £1,000, a buffer sufficient to cover the majority of unexpected shocks.[22]

Separately, policymakers could also consider restructuring tax incentives on gifts and inheritances to encourage wider distribution of wealth, whilst still leveraging people's desire to leave money to family - for example, encouraging people to leave money to grandchildren over children. Children tend to have incomes similar to their parents. But grandchildren, and great-grandchildren, look more and more like the general population – and there's more of them.

Ideas to research and test

- Restructure incentives for ISAs to get more people to £1,000 in savings.

- Offer smaller, more accessible Premium Bonds and prize-linked savings accounts.

- Prompt individuals to save at key moments to reduce loss aversion, such as when receiving a tax rebate or at the check-out, and providing rules of thumb on how much to save (e.g. three times your take home salary).

- Broaden 'Help to Save' eligibility to households with incomes of up to £20,000 and test variations to understand what best motivates savings, for example, reframing the match savings incentives to reward savings streaks (e.g. consistently saving for 10 out of 12 months).

- Adjust relative taxes on leaving money to one child versus several grandchildren and encourage financial institutions to offer more 'skip generation' trusts.
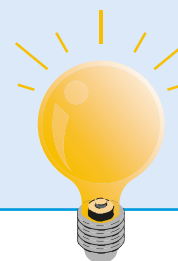
## Rec 1.2 Build out of the COVID-19 crisis to create new savings habits

The COVID-19 crisis broke people's usual spending and savings habits. Around a quarter of household budgets is usually spent on goods and services like travel, leisure and eating out, that were prohibited or strongly discouraged during the lockdown, effectively turning many households into savers.[23]

Previous research on why people don't save finds that most say they can't afford to, don't need to, or haven't thought about it.[24] The aftermath of the crisis provides a unique opportunity to shift these perceptions, first because people are saving significant amounts of money for the first time and second because it may bring home the reality of the need to be prepared for future shocks.

The economic recovery depends on getting consumers spending again. However, this is also a unique window of opportunity to build long-term savings habits that make households resilient against future shocks. With carefully designed policy (see Box 2) these two goals, spending now and saving later, don't need to be in conflict.

Ideas to research and test

- Encourage households to convert lockdown savings into starter rainy day savings pots and indulgence pots. Research shows that people are more motivated to keep going if they can see the progress they have already made towards a goal. Test different ways of motivating extra saving, for example, goals for holidays alongside rainy day savings, and rules of thumb on how much to save.

- Encourage people to sign up to automated savings schemes such as payroll savings as they go back to work. Test 'Repay and Save' products for people paying down debt - where loan payments are automatically turned into regular savings deposits as the loan is paid off. Both of these ideas draw on the power of defaults, making it easier and psychologically less painful to save.
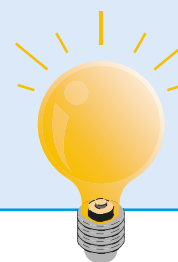
Box 2: Can we get people to save and stimulate the economy at the same time?

As economies recover from the COVID-19 crisis, governments are looking for ways to encourage consumers to go out and spend. At the same time, the exit from the crisis is an unprecedented opportunity to shift savings habits and make households more resilient to future shocks. However, these two goals are not necessarily in conflict:

- **Spend now, but build long-term saving habits:** Shifting savings habits does not have to mean encouraging people to put aside substantial extra savings right now. In fact, the most effective policies are likely to be those that encourage commitment to savings for the long-term. Ideas such as payroll savings and 'Repay and Save' are largely about committing to save more in the future.

- **Use data to target interventions:** Clever usage of open banking data and behavioural science can help better target prompts to encourage saving. Based on the customers' current level of savings and changes in income and spending during lockdown, banks and fintechs could identify those who can and should save. For example, they could prompt customers with higher-than-usual balances on their current accounts to split their spare money between an 'indulgence' pot to be spent as the economy reopens and a 'savings' pot for rainy days.

Rec 2. Open up new job opportunities and equip jobseekers with the support they need

Changes such as automation, digitisation, and now the pandemic, have shone a light on how hard it is to retrain and rechannel large numbers of workers whose livelihoods are at risk. Money spent supporting those out of work and on low incomes is often heavily scrutinised - however, this can often, perversely, lead to poorly designed support.

Rec 2.1 Build employment support around job goals, not compliance with benefit criteria

A side effect of the high level of scrutiny is that jobseeker support can be overly-focused on the jobseeker producing evidence they are complying with specific processes, such as registering with recruitment agencies or spending a certain amount of time each week looking for work. Instead, employment support should be focused on building motivation by working with jobseekers to set and commit to achievable goals, tailored to their needs and the specific barriers they face. Support should focus on prompting jobseekers towards more effective job search strategies, and avoiding common mistakes such as sending generic resumes or not registering on certain job sites.[25]

Ideas to research and test

- Structure employment support around setting job goals and offering tailored support to improve job search strategies.

- Introduce a wider range of local and online training content. Actively prompt and encourage jobseekers towards training that will help them achieve their job goals. Past research shows that personalisation and instilling a sense of reciprocity (for example by letting the jobseeker know that a place has been booked for them) can improve take-up.[26]
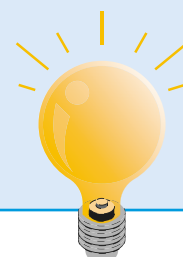
Rec 2.2 Use data to prompt jobseekers towards new opportunities and prompt employers to consider a wider range of applicants

Labour market changes related to COVID-19, automation, the shift to clean growth, and the UK's exit from the EU create opportunities and pressures for workers to adapt. As support schemes implemented during the crisis are phased out, many more people may become unemployed or find that their jobs have dramatically changed. Getting people back into work as quickly as possible is essential to minimise the atrophying of skills and the negative impact that worklessless can have on their wellbeing.[27]

People are often unaware of opportunities that lie within their reach to adapt their skills and experience or retrain. They may be held back by low motivation, lack of time or poor information. Employers may default to advertising jobs that are overly specific in terms of experience required (compared to overall skills and ability) or type of working arrangement offered. Behavioural insights combined with data science can be used to identify suitable opportunities and prompt workers towards them; and prompt employers to advertise jobs based on what they really need rather than the way they have always done things. For example, the number of jobs advertised as flexible on Indeed rose by 20 per cent when employers were given a simple prompt when placing an ad. Jobs advertised as flexible received 30 per cent more applicants.[28]

Ideas to research and test

- Assess the effectiveness of prompting jobseekers on job sites towards positions in adjacent professional fields or geographic locations. Alter information on job sites and jobseeker services to highlight suitable training opportunities.

- Test the effectiveness of prompts on job sites to encourage employers to consider flexible working arrangements and broader ways for applicants to demonstrate their ability to fulfill the role.

- Target re-employment services at sectors likely to transition workers from furlough to unemployment. Assess ways to channel jobseekers into sectors where demand is likely to grow, and towards training in skills that are likely to be in high demand in the future.
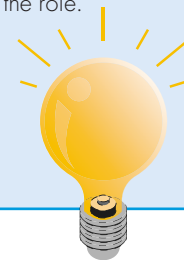
Meso level: *shape markets to drive innovation and productivity for the benefit of all*

We're paying more than we should for goods and services: mark-ups in price over cost have increased across advanced economies, and especially the UK.[29] The UK's long-tail of low productivity businesses indicates that the best ideas on how to improve products and services are taking a long time to spread across the economy.[30]

Many behavioural interventions, such as those in the previous section, focus on shifting the actions of individuals. These can often be very effective, but in many markets they are not enough. Even with regulatory and policy intervention, markets can get stuck in a problematic equilibrium where customers get a bad deal and there are poor incentives for suppliers to innovate and improve.

In traditional policy thinking, there is a longstanding (and heroic) presumption that markets clear and weed out manipulative or exploitative commercial strategies. In fact, suppliers often have incentives to exploit behavioural biases and make it harder for customers to understand whether they are getting the best deal. For example, typical terms and conditions for online platforms take around 30-45 mins to read in full and require a reading age of 18.[31] These frictions increase cognitive load - when faced with too many tasks, we find it hard to process and action them. This undermines our ability to make the best choices for ourselves. On the flip side, suppliers often make it easy to sign up to deals like payday loans in situations where some friction would most likely help consumers to make better decisions.

Those on lowest incomes often get the worst deals, experiencing a 'poverty premium' of £490 per year for essential goods and services, enough for a family holiday, children's clothes and shoes, or keeping a house warm in winter.[32] More subtly, there is growing evidence that low level debt and money worries create an additional 'cognitive' or 'mental tax' that leads to worse decision-making more generally.[33]

We need to focus on fundamentally shaping markets and changing the axis of competitive pressure towards providing high quality, value for money products and services. And we need to look beyond consumer and regulated markets, to public sector purchasing, business-to-business and labour markets.

Rec 3. Measure whether markets are delivering for consumers and small businesses

We do not have good information about the state of competition across the UK economy - a key reason why the UK Government commissioned the Competition and Markets Authority (CMA) to publish 'annual state of competition' reports from 2020.[34] These reports should allow policymakers to start actively identifying markets that aren't working well.

However, high level measures of market performance such as overall levels of switching can often mask behavioural market failures - in particular the extent to which providers deliberately exploit behavioural biases to make it hard for customers to make good choices. As a result, these issues often escape policymakers' attention.

Ideas to research and test

- Develop standardised 'Sludge' Audit measures to compare providers across markets on how difficult it is to complete key tasks such as terminating a contract, adjusting privacy settings or making a complaint.

- Develop standardised comprehension measures to compare providers' terms and conditions and privacy policies.

- Develop standardised measures across markets on how difficult it is to find and compare information on quality and price.

Rec 4. Prioritise market transparency

Many markets suffer from a fundamental problem of missing information. This leaves buyers unable to make good decisions. Suppliers have little incentive to innovate, become more efficient and drive up productivity.

Rec 4.1 Bring transparency to business and government procurement markets

Consumer markets often benefit from reputation systems that align the incentives of suppliers with those of customers: an increase of just one star in Yelp ratings leads to a 5-9 per cent increase in restaurant revenues.[35]

Business-to-business and business-to-government markets lack this transparency. Buyers cannot easily assess quality of service, giving providers poor incentives to improve. Many of these markets - training, business and legal advice, overseas distribution and accountancy - are strategically important for business growth and productivity. If they don't work well, they hold back our small businesses.[36]

Ideas to research and test

- Kick-start databases, comparison and feedback sites to help businesses find the best advisors, accountants, training providers, consultants and logistics companies for them. Use behavioural insights to design these tools to make sure they are accurate and trustworthy sources of information.[37]

- Collate and release public sector data that can inform the wider market – for example, on the quality of service of training providers used by the public sector.

## *Rec 4.2 Get employers to compete on job pay and quality*

As the COVID-19 crisis hit, millions of workers were supported through the furlough scheme - with 7.5 million workers on the Coronavirus Job Retention Scheme in mid May.[38] As businesses reopen, the immediate focus is to get people back into work.

On the surface of it, the years leading up to the COVID-19 crisis were remarkable for job market resilience, especially in the UK. Unemployment stood at 3.9 per cent for the first three months of 2020.[39] However, real wages largely stagnated after the financial crisis,[40] and an estimated 12.8 million working days were lost due to work-related stress, depression or anxiety in 2018/19.[41] The opportunity to make labour markets deliver good jobs was lost.

Data on job quality is poor. Job platforms and employer review sites like Glassdoor crowdsource reviews but do not always systematically collect data on dimensions that correlate with life satisfaction. In the aftermath of COVID-19, policymakers should build a market that encourages good work - not just any work.

Ideas to research and test

- Show employers how they compare to others on job quality and provide evidence-based ways on how to improve. Relevant metrics for job quality could include pay, hours of work, opportunities for progression, job content, working conditions, stability and predictability, mental and physical health, and interpersonal relationships.[42]

- Expand data collection on job quality by collecting information via JobcentrePlus and getting employers to publish their data.
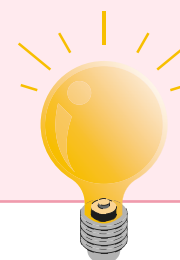
## *Rec 4.3 Make it easier to see the environmental and social impacts of pensions and other investments*

Climate change remains the most serious systemic threat world economies are facing. Financial markets need to be reshaped to help tackle this threat. As Mark Carney, previous Governor of the Bank of England put it in 2019, "sustainable investment needs to go mainstream".[43] 68 per cent of people in the UK say they want their investments to contribute to solving societal and environmental challenges, and 52 per cent of UK savers would save more money if they knew their savings made a positive difference in the world.[44]

However, uptake of environmental, social and governance (ESG) investments is low, likely due to a combination of structural and behavioural factors. For example, default funds for defined contribution plans often score relatively poorly on ESG indicators. There may also be misperceptions that ESG-labelled products deliver weaker returns, despite studies that show ESG investments are often associated with good financial performance.[45]

Ideas to research and test

- Use the forthcoming Pensions Dashboard[46] to provide retail investors with easy to understand information on the proportion of their portfolio that is made up of ESG investments, how ESG investments compare against other investment types, and how to switch.

- Test ways of encouraging pension fund investment in ESG, for example, through simplifying the portfolio choices, or making ESG funds the default choice. Test whether investing in socially impactful investments encourages savers to increase their pension contributions, thus achieving two aims at once.

- Test ways of encouraging investment in ESG through cash and share ISAs. Test whether ESG-friendly share ISAs encourage people to save more.
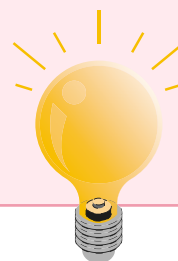
Rec 5. Attack switching costs

In some markets, frictions to switching are so severe that consumers and small businesses either do not switch at all or rely on third parties and brokers that charge high fees and do not always offer the best possible deals. Citizens Advice has found that consumers who do not shop around face a 'loyalty penalty' of £877 a year for basic services such as broadband, mobile, savings accounts, insurance and mortgages.[47]

According to Ofgem, the 'loyalty penalty' for microbusinesses buying energy is likely even higher.[48] The complexity of the market and lack of accessible information means that intermediaries thrive: in 2016, 1 in 5 microbusinesses recalled being contacted over 50 times by energy brokers in just 12 months.[49] These intermediary markets are built on market failure - if the underlying market was working well, they would not exist at all or be much smaller in size. They add cost and drag down productivity.


*"It's hard to find the energy to change
our energy supplier."*

Rec 5.1 Design and test how to build trust and drive take-up of Smart Data initiatives that help consumers compare and switch energy, telecoms and financial providers

Smart Data is "the secure and consented sharing of customer data with authorised third-party providers."[50] It makes it easier to enable automatic switching and services that help consumers easily compare and choose better deals. For example, it means that consumers can agree for their energy usage data to be used by a comparison website to provide them with the best offers available. The UK Government recently introduced a cross-sectoral Smart Data working group to accelerate Smart Data initiatives - initially focusing on telecoms, energy and finance. Designed well, Smart Data offers huge potential to reduce switching costs.

Ideas to research and test

- Design and test ways to make Smart Data initiatives work effectively.
  For example, how to reduce friction costs for consumers to agree to sharing
  data and how to build trust in the system.
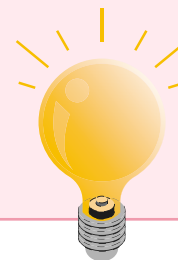
Rec 5.2 Extend Smart Data-style provisions to cover online platforms

Currently, Smart Data mainly covers consumer banking, energy and telecoms. Expanding Smart Data to online platforms and business markets, paired with well-designed prompts to encourage consumers to make use of this data could further improve consumer experience, choice and competition.[51]

Ideas to research and test

- Give consumers access to personal data used to power recommendation engines on platforms for
  buying music, books, TV and films. Allow consumers to take this data to other providers
  if they want to switch or multi-home.

- Allow self-employed gig workers to easily download and transfer ratings
  and reviews from one gig platform to another.
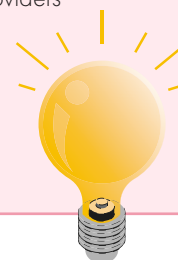
Rec 6. Kick-start market disruptors and disseminate what works

Barriers to entry in some markets are so high that providers face little market pressure to deliver high quality services. Often, this results in markets that are effectively missing, for example, around 12 million people in the UK lack access to affordable credit.[52] Incumbent financial institutions do not have strong incentives to serve these customers well, as they tend to be less profitable and developing new products to suit them can require significant upfront investment.

Policymakers often respond to challenges like this by regulating providers to mimic market competition: setting coverage obligations, regulating price and quality, subsidising to fill missing markets; and minimising regulatory barriers where possible. However, we can do more to kick-start innovation in key markets.

Rec 6.1 Use challenge funds and prizes to kick-start market disruption

Innovation funds are a targeted approach to kick-start missing markets. Examples include Nesta's Open Up challenge, which distributes a £1.5m challenge prize across 12-15 selected fintech businesses that have come up with innovative solutions to help consumers manage their money better.[53] Winning businesses receive a combination of financial support, expert advice and promotion of their product.[54]

Challenge funds could be an especially useful tool for regulators to inject competition and choice into parts of the market that are underperforming, for example, savings products for low income households. Challenge funds could

also be paired with 'regulatory sandboxes'. Regulatory sandboxes are used by some regulators to encourage innovation in a controlled environment, but suffer from the drawback that many start-ups struggle to put aside the time and resources to run tests alongside servicing existing clients and business development.[55]

Ideas to research and test

- Develop challenge funds to target missing markets, for example, high quality savings and debt products that work for low income consumers or the market for comparison sites in business-to-business markets.

- Test pairing these challenge funds with organisations that can help the best products and services reach customers that would benefit the most. For example, Citizens Advice Bureaus and housing associations can help reach low income consumers and assist collective switching.

- Test pairing challenge funds with regulatory sandbox-type initiatives.
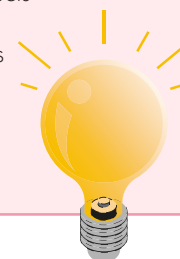
6.2 Reduce costs of innovation through shared equipment, facilities and support

Innovation doesn't just happen in big corporations. 'Home inventors' are responsible for the mountain bike and one-dollar glasses. Around 6 per cent of UK consumers are 'home inventors' who develop or modify existing products to suit their needs.[56] However, the vast majority of their ideas are never adopted more widely due to lack of knowledge, facilities and motivation to take the next step. For inventors like these, common resources such as equipment and platforms to link them with businesses that can take their ideas forward or offer support may be more effective than traditional grants or loans.

Such common resources - albeit on a different scale - can also benefit small businesses. As put forward by the Royal Academy of Engineering, purpose-built test facilities or equipment could be used by multiple companies in late-stage R&D - for example, using existing airfields to test drones or existing factories to test new approaches to automation.[57]

Ideas to research and test

- Evaluate the impact of makerspaces that offer resources and equipment to small innovators. Test approaches to improving the support available at makerspaces and ways of encouraging under-represented groups such as women to participate, drawing on behavioural science.

- Test whether some financial barriers to R&D can be alleviated through developing common resources.
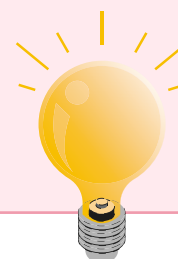
6.3 Speed up diffusion by actively disseminating 'what works' to businesses

In theory, well-functioning markets should accelerate the diffusion of new ideas. In practice, there are frictions in the way. It's hard to measure how quickly new ideas spread from business to business, but the size of the gap in productivity between superstar frontier firms and the rest suggests that diffusion isn't happening as quickly as it should.[58] Anecdotal data supports this view: over a fifth of British small and medium enterprises reported in 2017 that they use or expect to use fax machines to sell their goods and services.[59]

There are many reasons for these potential frictions, such as lack of competition, or a lack of time, skills and knowledge to spot and implement new ways of working.[60] This suggests a role for Government or publicly funded intermediaries to diffuse innovation and best practice much more directly.

Ideas to research and test

- Collate, systematise and diffuse what works in areas such as management practices, building on existing 'What Works' and 'Be the Business' initiatives.

- Make diffusion and adoption a key outcome of innovation funding programmes.

- Collect and publish feedback on innovative suppliers to the public sector.

Macro level: *Bring human behaviour into the design of macroeconomic policy*

In response to COVID-19, the Bank of England cut interest rates and announced a range of schemes to support lending, including relaxing capital requirements on banks to support an extra £190 billion in lending.[61] The UK Government's fiscal response to the COVID-19 crisis is expected to cost almost £200 billion.[62] But even outside of crisis periods, fiscal policy to support economic growth is substantial: measures such as business tax reliefs alone cost billions every year.

Behavioural science is increasingly a core part of tax agencies' tools to increase tax *compliance*.[63] However, it is largely absent from the design of hugely significant programmes to stimulate growth and stabilise economies when crises hit. Out of the three areas covered in this outline report (micro, meso, and macro), macro is the area where behavioural insights has been least applied.

Most fiscal and monetary policy works by using financial incentives to shift behaviour. However, choices about how much to spend, borrow and save are affected by a wealth of psychological factors that mean that the *design and framing* of the financial incentive, not just the size of it, matter. For example, lotteries or prize draws can create bigger shifts in behaviour than the equivalent amount spent in flat cash incentives.[64] Labelling makes a difference: households receiving the winter fuel payment are almost 14 times as likely to spend the money on fuel than would have been the case had their incomes been increased in other ways.[65] Financial incentives can even be counterproductive for prosocial activities when people already have strong motivations to be seen to be doing good.[66]

Rec 7. Plan ahead for the next shock

Stimulus policy is vital to counteract downturns and secure long-term economic recovery. However, getting the design right is hard. Measures often have to be rolled out extremely rapidly - often over a matter of days and weeks - as illustrated by the response to COVID-19.[67] There is little time for policymakers to weigh up different objectives, trade-offs and practical challenges; or build in new advances that have been made in other policy areas such behavioural science, data science and testing.

As we recover from the COVID-19 crisis, we have a unique opportunity to document gaps in fiscal policy knowledge and capabilities - and invest in them before the next crisis strikes.

7.1 Build channel and data infrastructure to target stimulus spending where it's most needed

Typically, monetary and fiscal stimulus is broad-based: for example, interest rate cuts, asset purchase programmes, tax holidays, wage subsidies and furlough schemes. They are often run through existing channels like the tax system. This can also mean that they are blunt in nature, untargeted, and slow to reach those most impacted. For example, in the US, it was reported that it could take up to 20 weeks to send out economic impact payment checks,[68] and in Spain, the Red Cross set aside funding for furloughed workers who were waiting for government financial assistance to come through.[69] In the UK, the furlough scheme - whilst unprecedented in size and design - still resulted in employers having to wait around a month after lockdown before they could apply; and there are gaps in provision, for example those who started in work too recently to be registered on company payrolls.

After rollout, it can take months for the impact of interventions to show up in the official data, making it difficult to rapidly readjust and retarget where necessary. Academics in the US have built a real-time COVID recovery tracker[70] drawing on credit card, jobs board and administrative data. It has allowed them to deliver fast feedback - within weeks - on which US COVID-19 recovery policies are working and which ones are not. Early findings show that business loans did not have a substantial effect on employment levels. They also find that stimulus checks increased spending most among low income households; and that spending only increased once households had received the cheque, not at the point of announcement (contrary to what some economic theory would predict).[71]

Ideas to research and test

- Assess what data can be used to quickly identify emerging financial problems among households and businesses in crises to inform eligibility criteria and design of stimulus policies. This should go beyond government administrative data (which often has a lag) to more real-time data such as bank transactions, credit card spending, and retail footfall from mobile apps. Undertake advance analysis on how robust different sources of real-time data are, and their limitations. For example, google search data is more reliable for estimating unemployment over inflation or consumer confidence.[72]

- Test the feasibility of using data to send at-risk households and businesses targeted prompts towards relevant support, including cash and loans.

- Ahead of the next crisis, build channels that make it easier to get cash to the right businesses and people quickly, investigating alternatives to running the process through the tax system - for example direct payments via the banking system, government digital wallets, payment providers and terminals, and online marketplaces. Assess their feasibility based on speed, ability to reach important target groups, risk of fraud and longer-term impact on competition.
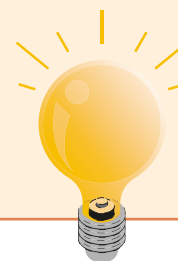
Rec 7.2 Build evidence on how to structure, design and frame spending stimulus

People react differently to receiving the same amount of money depending on how it is delivered and labelled. A study in Italy found that household consumption responded more to lump sum payments, compared to regular wage increases.[73] Another study in the US found that consumers were more sensitive to an increase in gasoline tax compared to a same-sized increase in the pre-tax price.[74] These studies are few and far between, but point to how significant the design of fiscal stimulus can be to its effectiveness.

> **Ideas to research and test**
>
> • Undertake systematic analysis of how framing and structure of stimulus policies affects spending patterns among different groups, drawing on natural experiments (where they exist) and analysis of past individual and business-level spending behaviour during economic shocks. Use this to build a framework to guide policymakers on using behavioural insights to design and communicate stimulus policies.
>
> • Countries across the world have enacted a huge variety of stimulus responses to the COVID-19 crisis, from tax holidays to stimulus checks to voucher schemes and employment subsidies.[75] Often sectors have benefited from several types of stimulus. For instance, in the UK, a VAT cut and a voucher scheme were developed to support restaurants. This offers a unique opportunity to build evidence on how behavioural responses differ depending on the type of stimulus and how it is designed and framed.

Rec 8. Reward businesses that invest, grow and boost their productivity

Business tax reliefs are used across the world to boost business investment in R&D, skills and capital. They often dwarf direct spending on grants and loans, costing billions every year. For example, in 2019-20, UK corporation tax reliefs through the R&D tax credit and patent box schemes cost around £6bn, compared to a budget of £1.3bn for the Innovate UK element of UKRI.[76]

Table 4: UK Government spending on business tax reliefs

Type of tax relief	Estimated cost in £bn in 2019-20
Annual investment allowance	4.0
Corporation tax - R&D tax relief: SME schemes	2.5
Corporation tax - R&D tax relief: Large company & RDEC schemes	2.3
Corporation tax - Patent box	1.2
Corporation tax - film tax relief	0.6
Capital gains tax relief for entrepreneurs	2.1
Enterprise investment scheme	0.6

Source: National Audit Office, The effective management of tax reliefs, 2014; IFF Research, Capital Gains Tax Relief - Research on Entrepreneurs' Relief and and Business Asset Rollover Relief, 2015

Overall, reliefs such as for R&D are successful in generating additional business investment.[77] However, detailed qualitative studies on business decision-making find that, despite their cost, reliefs have relatively little influence compared to other factors, especially over choices to invest for the first time.[78] Small businesses often only find out about reliefs after investment decisions have been made. And a tax relief claimed months or years down the line doesn't help with upfront investment costs, which loom large in decision-makers' minds.

Rec 8.1 Redesign business tax reliefs to better target underlying barriers

Upfront costs are a substantial barrier to investment, especially if businesses also struggle to access finance. This is exacerbated by our tendency to be overly influenced by immediate, tangible costs compared to more abstract, longer-term benefits.[79]

Schemes such as the UK's Advance Assurance for small first-time R&D tax relief claimants can help reduce uncertainty over whether future claims will be accepted, by allowing businesses to apply in advance of sinking investment costs. These are not necessarily a complete solution in themselves - they can add extra administration cost for tax offices and, if not designed well, can take away one of the main advantages of tax relief schemes over grants, which is that decisions on what investments to take are left to the market and businesses rather than governments. However, they do have an advantage in making the benefit of future tax reliefs much more salient at the point businesses are making decisions over how much to invest.

Ideas to research and test

- Make it easier for small first-time claimants to use schemes such as Advance Assurance to secure finance. For example, prompting businesses to share Advance Assurance certificates with lenders; or giving lenders data on which businesses have been granted Advance Assurance.

- A further extension to Advance Assurance schemes is to effectively turn a small part of the tax relief into an upfront payment. There are challenges and risks to doing this: the primary one being how to claw back payments if an investment later turns out not to qualify - or if the investment doesn't take place at all. However, given how significant a barrier upfront costs are, it is plausible that even relatively small payments may have a disproportionate impact on decision-making, and are therefore worth testing.

- Prompt small businesses that apply for Advance Assurance schemes or tax reliefs towards business support and advice that can help them realise the gains of their investment and boost productivity. In the case of R&D reliefs, this could include connecting businesses to cutting-edge research organisations and facilities, or advice on managing intellectual property.
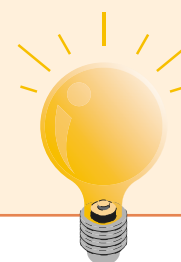
Rec 8.2 Prompt businesses to invest at timely moments

Small businesses don't have time to investigate all the potential support and incentives available to them. Only 39 per cent of SME employers have heard of Local Enterprise Partnerships and only 24 per cent have heard of Growth Hubs, the UK's main local business-facing support presence.[80] Generalised campaigns can help - but targeted campaigns that address specific business sectors and make financial incentives salient at timely moments of decision-making may be even more effective.[81]

Ideas to research and test

- Raise awareness and understanding of tax reliefs, incentives and other support among under-investing sectors with targeted campaigns.

- Use data to identify and test timely moments to prompt action. For example, test prompting re-investment of tax relief proceeds when businesses receive confirmation that their claim has been accepted or when credits are paid. Other potential timely moments could include recruitment of new employees (when businesses may be more likely to consider investment in training); or budget-setting periods (when businesses are deciding on future investment plans); or wider economic or sector shocks (for example, disruption to business practices following COVID-19 may be a timely opportunity to encourage investment in digital infrastructure that allows customers to be served remotely).
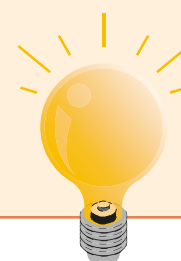
Rec 9. Make social trust an integral part of economic policy making

A 10 per cent increase in social trust is associated with a 1.3-1.5 per cent increase in relative economic productivity.[82] Personal and institutional trust can make financial, product, and labour markets work better, and improve business productivity as well as well being.[83] Social trust is likely to shape and be shaped by investments in other types of capital: for instance, higher education appears to change individuals' social and cultural attitudes and boost wider social trust.[84]

However, despite its importance, social trust is not routinely incorporated into economic policy decisions. The Bennett Institute, which defines social capital as the 'glue that holds societies together' has developed a set of indicators covering trust in institutions and individuals.[85] These indicators have been adopted by the UK Industrial Strategy Council.

Ideas to research and test

- Routinely include measures of impact on social trust when designing and evaluating economic policies across Government, including education, healthcare and business and economic policies, building on existing validated measures and indicators.

- Experiment and build evidence on how to improve social trust to increase economic growth. Examples of ideas in this paper that could improve social trust include market transparency (Recommendation 4) and supporting innovation through shared equipment, facilities and support such as makerspaces (Recommendation 6).

- Test how to design spaces to boost social trust as part of planning reforms and infrastructure projects. The environments we live in shape how we feel and behave, and a well-designed space should make social connections easy. Inexpensive projects to restore vacant land not only reduce crime, but increase the use of outdoor spaces for socialising and improve mental health.[86]

- Test whether the components of a university experience that boost social trust can be replicated in the design of further education and apprenticeships.

Rec 10. Challenge, test, measure, learn

Macroeconomic policy is one of the hardest areas of policy making to implement testing and trialling. Policies are by nature broad-based, and during crisis situations need to be rolled out very quickly. It often isn't practical to set up gold-standard evaluations like randomised controlled trials. That means that we need to think more creatively about how to build in opportunities to challenge, test, measure and learn.

Rec 10.1 Use debiasing tools to improve the quality of decision-making

Policymakers aren't immune to decision-making biases. Judgements and decisions are affected by the way in which options are framed, optimism bias, confirmation bias and group reinforcement.[87] Fortunately, policymakers can build processes and tools into their work to improve the quality of decision-making and challenge pre-existing assumptions underlying policy design.

Ideas to research and test

- Routinely incorporate tools such as pre-mortems[88] (in which participants imagine the proposed initiative has already failed, which helps clarify potential risks); red teams[89](which engage in critical thinking and probing to uncover potential blind spots and weaknesses in a proposed initiative); and reference-class forecasting (to reduce optimism bias) into decision-making.

- Create routes for diverse views to be fed into policy design, assemble diverse teams and build in opportunities to change course and revisit assumptions.[90]
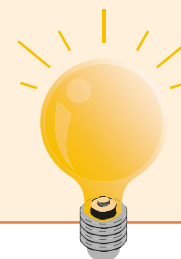
## *Rec 10.2 Undertake rapid testing before rolling out new policies*

Rapid online or lab testing can be undertaken within days and offer insights on the potential impact of policy designs under consideration. The box below is an example of an online experiment on how to encourage consumers to go to restaurants as businesses reopened after COVID-19 lockdowns.

Rapid testing is especially well suited to testing communications. During economic shocks, good communication is vital to build credibility that Governments and central banks will act to support the economy - giving investors, businesses and consumers confidence to continue investing and spending. A classic example is the ECB's Mario Draghi's 'Do whatever it takes' speech, made in the midst of the Eurozone crisis and credited with significantly reducing spreads on 10-year Eurozone government bonds.[91]

Successful communication is largely seen as an art - not something to test and measure. But in fact, we don't need to guess what will work. BIT's own work with the Bank of England demonstrates how using online experiments to test different variations of public-facing webpages can tell us how to build understanding and trust.[92] Similar work in response to COVID-19 has helped build evidence on what works to communicate public health messages to encourage people to wash their hands.[93]

Ideas to research and test

- Where possible, undertake rapid testing of competing policy designs before rollout to gather insights on what is likely to work and allow time for adjustment and fine-tuning.

- Routinely test key economic policy communications before they go out - website information, press releases and speeches.
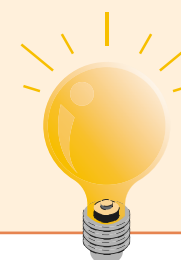
Box 3: Using online experiments to rapidly test and adjust new policies

Governments around the world are looking for ways to encourage consumers to go out and spend as lockdown is eased. One approach is to offer government subsidies and vouchers, for example, the UK's 'Eat Out to Help Out' scheme offered a 50 per cent discount on meals eaten in restaurants.

Ahead of the scheme, BIT launched an online experiment with over 5,000 participants to test their willingness to visit a restaurant. Participants were confronted with one of eight scenarios and asked if they thought it was safe to visit the restaurant and whether they would be willing to go.

The scenarios differed in:
- Whether participants were told they had a £10 voucher to spend
- Whether the waiter at the restaurant was wearing a mask
- Whether the restaurant displayed a COVID-19 Secure sign explaining the steps the restaurant has taken (e.g. risk assessment, cleaning/hygiene)
- Whether the restaurant displayed a (fictional) COVID-19 safety rating similar to existing food hygiene ratings
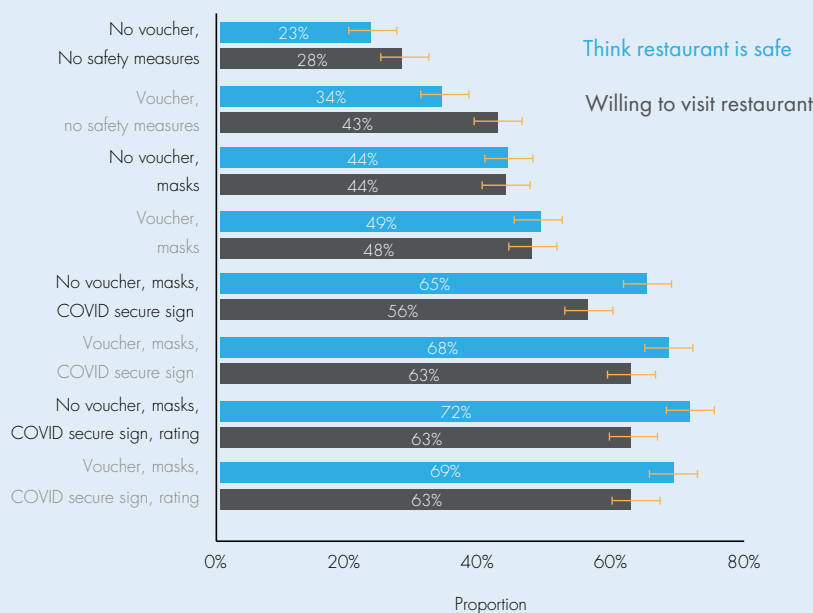
The experiment found that a £10 voucher increased willingness to visit a restaurant from 28 per cent to 43 per cent. Early figures suggest that the scheme did indeed boost visits, with 100 million meals claimed under the scheme.[94]

The experiment also found that visible safety measures would likely offer an extra boost to consumer confidence: vouchers combined with staff wearing masks and displaying a COVID secure sign amplified the willingness to visit restaurants to 63 per cent. This means that encouraging or requiring restaurants to display visible safety measures could offer an additional, low-cost way of encouraging spending after the scheme closes.

## Rec 10.3 Build monitoring and evaluation into macroeconomic policy changes

It can be politically difficult to introduce more monitoring and testing into policy making. However, the success of the Education Endowment Fund (EEF), set up in 2011 with funding from the UK Government, shows that it is possible, politically feasible and hugely valuable to test and evaluate what works in delivering public services. The EEF has tested over 190 high potential programmes with over 1.3 million children and young people, generating evidence on how to help students make faster progress at school.[95]

Bringing this same ethos to economic policy making will help build a better picture of what works and what is good value for money. However, it is undoubtedly more challenging: for macroeconomic policy, it often isn't possible to conduct randomised controlled trials or robust evaluations that rely on some businesses or individuals not being affected by the change. This means we need to look for other ways to generate useful evidence to help policymakers make better decisions.

BIT is interested in finding out more about how people read our reports. If you're reading this, please click on this link (http://bit.ly/BIT2020b) to let us know you've read this far.

Ideas to research and test

- Explore how to get fast feedback on how well schemes are being implemented, for example 'report a problem' online forms, analysis of real-time data such as social media, and complaints can offer an early warning sign that policy design or implementation needs adjusting.[96]

- Often tax reliefs are particularly poorly monitored and evaluated.[97] Routinely collect and publish data on take-up of reliefs and their main beneficiaries. Undertake regular quantitative and qualitative analysis to understand why actual costs differ from estimated costs over time.

- Work with local areas to test and experiment with different tax designs where possible, collecting and analysing data to develop evidence on what works. For example, in the UK, freeports offer the opportunity to introduce different tax policies within defined geographical areas.[98]
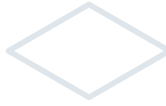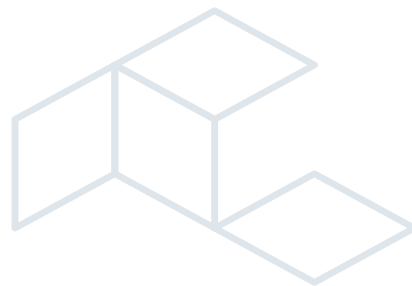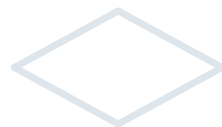
3. Next steps:
we want to hear from you

The recommendations set out in this ten-point plan pose an ambitious agenda; and our initial ideas to test and explore are likely to be just the beginning. These ideas have the potential to transform the way we do economic policy, from the micro to the macro, and shape an economy that truly works for citizens.

However, turning this vision into reality requires policymakers, regulators, funders and researchers across disciplines to collaborate. Together, we can marry behavioural science with data science and traditional economics to develop new, feasible and effective solutions to our economic problems.

We would like to hear from policymakers and regulators who are interested in working with behavioural and data scientists on solutions to the economic policy problems they are grappling with. We would like to hear from other researchers, from across disciplines, who can see the benefit in collaborating to develop new policy interventions. We would like to hear from funders who would like to contribute to upgrading economic policy to create economies that are prosperous, sustainable and inclusive.

If you are interested in working with us to fund or collaborate on these ideas, we want to hear from you. Contact our Director of Economic Policy, Nida Broughton (nida.broughton@bi.team).

Endnotes

1   IMF, The Great Lockdown: Worst Economic Downturn Since the Great Depression, 2020

2   IPPR Commission on Economic Justice, Unfair and in need of reform, 2018 BIT survey of 1000 UK adults, conducted 6-9 November 2020

3   Bettinger, E. P., Long, B. T., Oreopoulos, P., & Sanbonmatsu, L. (2012). The role of application assistance and information in college decisions: Results from the H&R Block FAFSA experiment. The Quarterly Journal of Economics, 127(3), 1205-1242.

4   BIT, Encouraging People into University, 2017

5   BIT, One letter that triples energy switching, 2018

6   BIT, Applying behavioural insights to reduce fraud, error and debt, 2012

7   Citizens Advice, Against the clock, 2016

8   Office for Budget Responsibility, Economic and Fiscal Outlook March 2019, 2019

9   Money and Pensions Services, UK Strategy for Financial Wellbeing 2020-2030, 2020

10   Ipsos Mori, Britons spend less and prepare to save more as Coronavirus outbreak affects jobs and businesses, 2020

11   Standard Life Foundation, Coronavirus Financial Impact Tracker, 2020; The Resolution Foundation, The economic effects of coronavirus in the UK, 2020. The Resolution Foundation found that up to a fifth of households are struggling to pay their bills.

12   ONS, Coronavirus and the social impacts on Great Britain, 2020

13   UK Finance, Press Release, Lenders approve almost 1.5 million payment holidays on credit cards and personal loans, May 2020

14   EY, How do you find clarity in the midst of the COVID-19 crisis?, 2020

15   Forbes, After Announcing Twitter's Permanent Remote-Work Policy, Jack Dorsey Extends Same Courtesy To Square Employees, 2020

16   LSE, Who will suffer most from Brexit? Effects by region, sector, skill level and income group, 2020

17   UK 2070 Commission, Final Report, 2020

18   NEST Insights, The real impact of phased auto enrolment contribution increases, 2019

19   Thaler, R. H., & Benartzi, S. (2004). Save more tomorrow™: Using behavioral economics to increase employee saving. Journal of political Economy, 112(1), 164-187. Karlan, D., McConnell, M., Mullainathan, S., & Zinman, J. (2016). Getting to the top of mind: How reminders increase saving. Management Science, 62(12), 3393-3411.

20   Cole, S., Iverson, B., & Tufano, P. (2017). Can gambling increase savings? Empirical evidence on prize-linked savings accounts. Saïd Business School Research Papers.

21   Resolution Foundation, Save it for another day: pension tax relief and options for reform ,2016

22   Stepchange, Strengthening the saving safety net, 2017; Money and Pensions Advice Service, Emergency savings: how much is enough

23   CEBR, £23 billion in excess savings set to accumulate in Q2, as consumer spending declines dramatically, 2020. CEBR estimates there will be excess household savings of around £23 billion in total, due to decreased expenditure.

24   StepChange, Becoming a nation of savers, 2015

25   BIT, Applying behavioural insights to labour markets, 2018

26   BIT, Applying behavioural insights to labour markets, 2018

27   Ortego-Marti, V. (2017). Differences in skill loss during unemployment across industries and occupations. Economics Letters, 161, 31-33.

28   Government Equalities Office, Encouraging employers to advertise jobs as flexible, 2019

29   HM Government State of Competition Annex 2, 2020

30   Andy Haldane, The UK's Productivity Problem: Hub No Spokes, 2018

31   BIT, The behavioural science of online harm and manipulation, and what to do about it, 2019

32   Davies, S., Finney, A., & Hartfree, Y. (2016) The Poverty Premium, University of Bristol.

33   Shah, A. K., Mullainathan, S., & Shafir, E. (2012). Some consequences of having too little. Science, 338(6107), 682-685.

34   HM Government, State of UK competition report: commission to the CMA, 2020

35   Luca, M. (2017). Reviews, reputation, and revenue: The case of Yelp.com, Harvard Business School NOM Unit Working Paper

36   For further discussion, see BIT, Boosting businesses: applying behavioural insights to business policy, 2019

37   BIT, The behavioural science of online harm and manipulation, and what to do about it, 2019

38   Resolution Foundation, The economic effects of coronavirus in the UK, 2020

39   ONS, Dataset Labour market statistics time series, 2020

40   Jennifer Castle, David Hendry, Andrew Martinez, The paradox of stagnant real wages yet rising 'living standards' in the UK | VOX, CEPR Policy Portal, 2020

41   Health and Safety Executive, Work-related Stress, Depression or Anxiety Statistics in Great Britain, 2019

42   Matthew Taylor, Good work: the Taylor review of modern working practices, 2017.

43   Mark Carney, Remarks by Mark Carney given during the UN Secretary General's Climate Action Summit 2019, 2019

44   HM Government, Investing in a better world, 2019

45   Pensions and Lifetime Savings Association, ESG risk in default funds: Analysis of the UK's DC pension market, 2017

46   Money and Pensions Advice Service, Pensions Dashboard Vision, 2020

47   Citizens Advice, Excessive prices for disengaged consumers, 2018

48   Ofgem, Ofgem announces strategic review of microbusiness energy market, 2019

49   Ofgem Micro and small business customer engagement in the energy market, 2016

50   BEIS, Next steps for Smart Data: putting consumers and SMEs in control of their data and enabling innovation, 2020

51   BIT, The behavioural science of online harm and manipulation, and what to do about it, 2019

52   The Young Foundation, Credit where credit's due?, 2016

53   Nesta, Open Up Challenge 2020, 2020

54   Nesta, About Open Up Challenge, 2020

55   Deloitte, A journey through the FCA regulatory sandbox, 2018

56   Gambardella, A., Raasch, C., & Von Hippel, E. (2017). The User Innovation Paradigm: Impacts on Markets and Welfare. Management Science, 63(5), 1450-1468.

57   Royal Academy of Engineering, Increasing R&D investment: business perspectives, 2020

58   Ian Goldin, Pantelis Koutroumpis, François Lafond and Julian Winkler, Why is productivity slowing down? The Oxford Martin Programme on Technological and Economic Change, 2020

59   The Economist, What fax machines and floppy disks reveal about Britain's productivity problem, 2017

60   Behavioural Insights Team, Nudging firms to improve productivity: a rapid literature review, BEIS, 2019

61   Bank of England, Our response to Coronavirus, 2020

62   Office for Budget Responsibility, Coronavirus policy monitoring database – July 2020, 2020

63   See, for example, OECD, Behavioural insights for tax administration, 2019; BIT, Applying behavioural insights to reduce fraud, error and debt, 2012

64   For example, An experiment in a London borough found that lotteries increased voter registration, especially among poorer residents, and the actual size of the prize (£1,000 vs £5,000) did not impact outcomes. John, P., MacDonald, E., & Sanders, M. (2015). Targeting voter registration with incentives: A randomized controlled trial of a lottery in a London borough. Electoral Studies, 40, 170-175.

65   Blow, L., Crossley, T., & O'Dea, C. Labelling matters: households spend 40% of Winter Fuel Payment on fuel. But poor pensioners still cut back on food in cold weather, 2011

66   See, for example, Ariely, D., Bracha, A., & Meier, S. (2009). Doing good or doing well? Image motivation and monetary incentives in behaving prosocially. American Economic Review, 99(1), 544-55.

67   See, for example, Whole of Government Response to COVID-19

68   House Committee on Ways and Means, Expected Timeline for Economic Impact Payments As of April 16, 2020, 2020

69   DW, Despite record coronavirus aid, millions still slip through the net, 2020

70   see Opportunity Insights Economic Tracker

71   Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner and the Opportunity Insights Team, How Did COVID-19 and Stabilization Policies Affect Spending and Employment? A New Real-Time Economic Tracker Based on Private Sector Data, 2020

72   Tinbergen Institute, Can Google Search Data Help Predict Macroeconomic Series?, 2019

73   Zizza, R., & Adamopoulou, E. (2017). Regular versus lump-sum payments in union contracts and household consumption. ECB Working Paper, 2013.

74   Li, S., Linn, J., & Muehlegger, E. (2014). Gasoline taxes and consumer behavior. American Economic Journal: Economic Policy, 6(4), 302-42.

75   EY, COVID-19: How are governments responding to the call for stimulus?, 2020

76   Innovate UK UKRI, Delivery Plan 2019, 2019

77   Dechezleprêtre, A., Einiö, E., Martin, R., Nguyen, K-T., & Van Reenen, J. (2019) Do Tax Incentives for Research Increase Firm Innovation?, CEP Discussion Paper No 1413.

78   BIT, Boosting Businesses: applying behavioural insights to business policy, 2019

79   O'Donoghue, T. & Rabin, M. (1999) Doing it now or later, American Economic Review, 89(1), 103-124; Thaler, R. (1981). Some empirical evidence on dynamic inconsistency. Economics Letters, 8(3), 201-207; Zauberman, G. (2003). The Intertemporal Dynamics of Consumer Lock-In. Journal of consumer research, 30(3), 405-419.

80   BEIS, Longitudinal Small Business Survey: SME Employers (businesses with 1-249 employees) – UK, 2019

81   See for example Broughton, N. & Wu, H., 'Business Basics: Nudging firms to improve productivity - rapid literature review of behavioural factors and best-practice business prompts', BEIS Research Paper No. 2019/17, 2019.

82   More specifically, Total Factor Productivity; Bennett Institute, Valuing Wealth, Building Prosperity, 2020

83   Algan, Y. & Cahuc, P., (2014). Trust, Growth, and Well-Being: New Evidence and Policy Implications," In Handbook of Economic Growth (Vol. 2, pp. 49-120). Elsevier.

84   Huang, J., van den Brink, H.M., Groot, W. (2011). College Education and Social Trust: An Evidence-Based Study on the Causal Mechanisms. Social Indicators Research, 104(2), 287-310.

85   The Bennett Institute, Valuing Wealth, Building Prosperity, 2020

86   Branas, C. C., South, E., Kondo, M. C., Hohl, B. C., Bourgois, P., Wiebe, D. J., & MacDonald, J. M. (2018). Citywide cluster randomized trial to restore blighted vacant land and its effects on violence, crime, and fear. Proceedings of the National Academy of Sciences, 115(12), 2946-2951. and South, E. C., Hohl, B. C., Kondo, M. C., MacDonald, J. M., & Branas, C. C. (2018). Effect of greening vacant land on mental health of community-dwelling adults: a cluster randomized trial. JAMA network open, 1(3), e180298-e180298.

87   BIT, Behavioural Government, 2018

88   Klein, G. (2007). Performing a project pre-mortem. Harvard Business Review, 85(9), 18-19.; Peabody, M. (2017). Improving planning: Quantitative evaluation of the premortem technique in field and laboratory settings. Michigan Technological University.

89   Ministry of Defence, Red teaming: a guide to the use of this decision making tool in defence, 2010; Zhang, L., & Gronvall, G. K. (2018). Red teaming the biological sciences for deliberate threats. Terrorism and Political Violence, 1-20.

90   For further details and other tools to debias decision-making, see Behavioural Government

91   European Parliament, Central bank communication during normal and crisis times, 2018

92   Bholat, D. & Broughton, N. & Ter Meer, J. & Walczak, E. (2019). Enhancing central bank communications using simple and relatable information. Journal of Monetary Economics, 108, 1-15.

93   BIT, Bright infographics & minimal text make handwashing posters most effective – result from an online experiment, 2020

94   HM Treasury, UK diners eat 100 million meals to protect 2 million jobs, Press Release, September 2020

95   EEF, Our Mission, 2020

96   For example, see tools such as Resolver, which allow the public to lodge complaints, including for public services.

97   For example, see PAC calls on Government to account for tax giveaways - News from Parliament

98   HMG, Freeports Consultation, 2020

The Behavioural Economy

A 10 point plan to upgrade economic policy

Authors: Nida Broughton, Lis Costa, David Halpern, Johannes Lohmann, Richard O'Brien, Pantelis Solomon, Stefanie Schultheis, Natalia Shakhina, Hubert Wu

THE
BEHAVIOURAL
INSIGHTS
TEAM

Friends
Provident
Foundation