



**drishti**

## Behavioural Economics for New India

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This article is based on editorial "India's cautious adoption of behavioural economics" that appeared in the Live mint on 16 July 2019. It analyses the economic survey's bet for Behavioural Economics Theory to bring social change, which in turn, will help India transit to a \$5 trillion economy.

The Economic Survey 2019 has drawn on **Nobel Laureate Richard Thaler's Behavioural Economics Theory** to lay out what it describes as an "ambitious agenda" for behaviour change that will bring in social change, which in turn, will help India transit to a \$5 trillion economy by 2024-25. Programmes such as Swachh Bharat Mission, Jan Dhan Yojana and Beti Bachao Beti Padhao, provide testimony to the potential for behavioural change in India.

Given India's rich cultural and spiritual heritage, social norms(that play a very important role in shaping the behaviour), can be utilized to effect behavioural change. Behavioural economics is, however, not a panacea to policymaking.

### What is Behavioural Economics?

- Behavioural economics is a method of economic analysis that applies psychological insights into human behaviour to explain economic decision-making
- In reality, decisions made by people often deviate from the various theories of classical economics. Drawing on the psychology of human behaviour, behavioural economics provides insights to 'nudge' people towards desirable behaviour.
- The US academic Richard Thaler has won the Nobel prize in economics in 2017 for his pioneering work in this field.

### What are the learnings of the economic survey on Behavioral Economics?

- 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.

- Many Indian schemes that employ insights from behavioural economics have met with success. For example:
  - The **Swachh Bharat Mission (SBM)** and the **Beti Bachao, Beti Padhao (BBBP)** scheme, **Give it up** (LPG subsidy).
- The Survey, therefore, lays out an ambitious agenda for behavioural change by applying the principles of behavioural economics to several issues, including gender equality, a healthy and beautiful India, savings, tax compliance and credit quality.

## How Behavioural Economics can be applied in the Indian context?

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- Recently, behavioural economists have discovered the efficacy of a new class of policies called “**nudge**” policies. Nudge policies gently steer people towards desirable behaviour even while preserving their liberty to choose.
- According to **Nudge theory**: People need reminders and positive reinforcement to sustain socially desirable behaviour.
- According to the Organisation for Economic Cooperation and Development, there are more than 202 government institutions using behavioural insights around the world.
- Examples of nudge policies:
  - **For increasing tax compliance in India:** Citizens can be sent variations of text messages on how their taxes make a difference to public services.
  - **For reducing drop out rate in poor families:** Parents can be informed about the average income gains from spending one more year in school for children.
  - **To increase savings rate:** People can be offered specially designed savings accounts that locked up funds until a self-specified target was met.
- Behavioural economics is, however, not a panacea to policymaking.

## What are the limitations of Behavioural Economics?

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- ‘Give It Up’ -LPG subsidy was a comparatively easy policy to be induced by behavioural economics as it requires only a one-time action of affluent households, whereas task is very difficult in case of Beti Bachao, Beti Padao and SBM, as it requires continuous effort to dislodge mind-sets that prevailed for decades.
- Community-led sanitation schemes, part of the SBM, did include steps to change behaviour, but advertising campaigns such as the Beti Bachao Beti Padhao scheme did not target specific states where child sex ratios were already skewed (although it was effective in Haryana, which also has a very poor sex ratio)
- The applications of behavioural insights appeared to be a result of **confirmation bias** (to the extent that past policies were viewed with a behavioural lens).

- Survey held, reducing corruption, discouraging the conspicuous display of wealth and **inculcating a sense of pride of being the highest taxpayer in a district (by naming buildings after them)** would go a long way in ensuring behavioural change vis-à-vis tax compliance

But this could easily lead to a backlash among lower taxpayers, and hurt tax morale disproportionately.

In this scenario, government regulation, taxes and free-market policies should be clubbed with a nudge effect to increase the efficacy of policymaking. If it is implemented diligently than Indian policymaking will be transformed:

- From BBBP to BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi)
- From Swachh Bharat to Sundar Bharat
- From “Give it up” for the LPG subsidy to “Think about the Subsidy”
- From tax evasion to tax compliance

And the dream of New India 2022 can be realised.

#### ***Drishti input:***

Examine the efficacy of Behavioural Economics Theory to bring social change for success of welfare programmes and policy making in the long run.