

# **Libertarian Paternalism as a New Government Concept**

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Libertarian paternalism is relatively new concept introduced to economy by professor Richard Thaler. This term, which may sound oxymoronic at first, combines two basic principles: freedom of individual choice with paternalistic guidance of some higher authority such is government or executive board etc. They should intervene in life of individual so they would make better not only their life but life of a society as a whole. This intervention should of course be non-violent and gentle. The question remains if even this noble goal justifies the higher authority to make an intervention to freedom of people's choice. Between different economic approach this is subject of dispute. And the concept of libertarian paternalism is based on uniting those two principles. Crucial attribute of such system is that whoever disagree with it doesn't have to comply and can opt-out from it without being persecuted by law.

## **Definition of libertarian paternalism**

Richard Thaler defined this term with Cass Sunstein in their 2003 paper Libertarian Paternalism. In 2008 they published a book called Nudge which develops their thoughts on the subject as well as comes with surprising evidences of libertarian paternalism working in various areas across the field of exploration. Authors define term *architecture of choice* as a way to explain people's reasoning of choice in ordinance with existing rules.

Government or any other authority can raise people to practicing specific type of behavior. An individual doesn't always see every impact of his decision, so he doesn't have to realise this type of behaviour is in his best interest, but when he finds out which positive benefits this behaviour produces, he will be interesting in it.

This concept also brought a lot of criticism. Most used criticism is that even the goal of architecture of choice is noble, it is still manipulating with people and intervening to freedom of choice of individuals. Some authors even say that this system is worse than direct regulation because it is hidden manipulation of people.

This theory is therefore part of behavioral economy. Research in this field is conducted by combining of theoretical economy with psychology or sociology. Behavioral economists react on paradoxes of neoclassic theory of rational choice and they often use experiments as way to disprove this theory. Although behavioral economy can't be given equal to experimental

economy because it also uses non-experimental methods such as even scanning of human brain.

Currently theory of libertarian paternalism can be seen in several branches of people's life.

### **Examples of nudging**

Based on the example provided in the book *Nudge*, Britain implemented libertarian paternalism system on pension funds. In order to increase low pension saving rates among private sector workers the government mandated employers to establish an "automatic enrolment" scheme in 2012. This meant that workers would be automatically placed into a firm's scheme, and contributions would be deducted from their pay packet, unless they formally requested to be exempted. The theory was that many people actually wanted to put more money aside for retirement but they were put off from doing so by the need to make what they feared would be complicated decisions. The idea was that auto enrolment would make saving the default for employees, and thus make it easier for them to do what they really wanted to do and push up savings rates. The results were great: Since auto enrolment was introduced by the government in 2012, active membership of private sector pension schemes has risen from 2.7 million to 7.7 million in 2016.

Probably the most known example of libertarian paternalism system is difference between organ donating in Germany and Austria. These countries, which are very similar in history, culture etc. have very different percentage of post-mortem organ donors: 99,98% in Germany and only 12% in Austria. The difference is caused by implementing contradictory systems, as in Germany is opt-out system and in Austria opt-in system. This basically means in Germany everybody is organ donor by default and if somebody doesn't want to be he/she has to tell it to the authorities (it is free, costs only time). In Austria it is the other way around. If one wants to be the organ donor, he/she has to actively register as one. This big difference in percentages means the people don't care what happens to their body after death (if they don't have religious or other reasons to not donate) and it's better to implement opt-out system which will benefit whole society.

In Czech Republic there was a lot discussed implement of a system which could be perceived as libertarian paternalism. One problem of public health in Czech Republic is that lot of people don't go to regular checkups with their doctor. So, there was a proposition from the government that whoever will be going regularly to their doctor will have reduction on their health insurance payments. Of course, citizens don't need to follow this politics, they have freedom of choice.

But whole society can benefit by simply following this implication by government. Of course, payments to state budget would be lower but it would be more than balanced by lower health expenditures which will be caused by overall healthier population.

Last but not least, nudging is used by New York taxi drivers where they use predetermined rates of tip for customers to choose from. This lead to significant increase of tips value in the whole taxi industry.

### **Nudge in the EU**

Recently European Union focused part of their politics to research how to apply libertarian paternalism and nudging to their politics. On 23.06.2016 there was a public hearing organized by European Economic and Social Comitee in Brussels. Topic of the hearing was “Towards applying nudge thinking to EU policies“.

The growing commitment towards behavioral policymaking is not a prerogative of international and supranational organizations, such as the EU and the OECD. The number of states implementing some behavioral thinking when regulating is also growing rapidly. After the United Kingdom and the United States, the first to pioneer the application of behavioral insights into policymaking, Australia, Singapore and many others are progressively joining the growing number of states experimenting with behavioral informed policymaking. On the occasion of the reform of Italian school system, the government employed – for the first time – the term nudging in an official policy document. Speculations immediately ensued as to whether Italy was turning to behavioral policymaking. The unusually fancy-packaged document launched the largest, more open, transparent consultation ever aimed at gathering the input of all stakeholders, ranging from teachers to students.

In June 2014 The European Nudging Network was founded with the aim to gather and exchange good practices among researchers, practitioners, stakeholders and policy-makers interested in Nudge throughout the European Union and beyond. The TEN’s goal is to ensure a scientifically and ethically responsible dissemination of applied behavioural insights throughout Europe and beyond. We do that through a range of Open Access online resources and member activities. TEN listes dozens of nudge examples in their database in order to achieve better understanding and collecting nudges.

Over the past seven years, the European Commission has been applying behavioural insights to its policy-making. This activity has been growing at a steady pace and is now supported by a

dedicated team at the Joint Research Centre, the European Commission's in-house science and knowledge management service. This team is part of the EU Policy Lab, a multidisciplinary space for openly exploring and re-examining policy issues, engaging with stakeholders and co-creating more user-centred solutions.

The way in which behavioural insights are applied will vary according to the phase of the policy-making process at which they are introduced. At the initial stages of policy preparation, they can help identify and better understand the issue or problem. At the implementation stage, they can be embedded into EU policy instruments. And at the final stage, application, they can be used to nudge behaviour directly. While the first two stages apply to EU processes, the third one requires cooperation with other authorities and actors.

As noted earlier, behavioural science provides empirical findings in spite of a unifying theory of behaviour. Sometimes, this evidence base will be enough for improving regulations. However, at other times, primary, context-specific evidence will be required.

The introduction of behavioural insights into policy-making is welcome, because they challenge traditional assumptions in policy-making which are largely inspired by neoclassical economic thinking. In line with good evidence-based policy-making, they make us question and test how people behave instead of assuming we already know the answer.

In the European Commission, the benefits of behavioural insights applied to policy-making are increasingly recognised and have now been embedded within the institution's "better regulation" toolbox. The Joint Research Centre, in supporting this process, is developing ties with other practitioners in the public sector and in academia, contributing to an open environment of mutual learning.

However, for all their promise and potential, it would be a mistake to raise expectations and see behavioural insights as some sort of silver bullet that will do away with tough policy problems at a lower cost. Behavioural sciences certainly enrich the variety of insights that inform our understanding of the problems. In this sense, they only complement – but do not replace – more traditional tools (e.g. incentives, regulation or information disclosure) available to policy-makers for addressing them.

### **Goal of PhD thesis**

The main theme of PhD thesis should be conducting of an experiment to prove viability of libertarian paternalism and „nudging“ as option of governance. Because we don't have option

to create and pass new laws to implement this politics in bigger scale we decided to do smaller experiment in environment we can influence and know a lot about: university. Main goal of the research will be focused on student's groups. The goal of the experiment is to find out if slight change in study parameters will lead to change of behavior of students which will be in favor of everyone involved. The biggest problem will be to correctly set up those parameters, so they will motivate students but also, so they won't be too easy and favourable it would lead to overusing them.

Expected results are that most of the participants will use this default variant so they can make better results.

PhD thesis will therefore use basic approach for behavioral economy, which is experiments (and experimental economy). We can use older experiments for inspiring about setting up parameters of research. Basic question is whether this should be a laboratory or field experiment and if it should be one-shot or repeated experiment. Experiment will be orchestrated on sample of university students. For better understanding, the results can be compared with results on other universities.