Two Views of Human Behavior

Traditional view (neoclassical economics):
- Well-informed
- Stable preferences
- Perfect self-control
- Good at processing information
- Consistently makes decisions to maximize well-being

Behavioral view (behavioral economics):
- Limited cognitive capacity
- Mental shortcuts
- Choice overload
- Imperfect self-control
- Procrastination
- Small factors can influence big decisions

September 2, 2015
What is Behavioral Economics?

- Many public policies and programs are designed based on a traditional economic model of human behavior.
- Traditional economics models presume individuals are calculated and unemotional decision makers who always use all available information to make the best decisions and maximize their well-being.
- Behavioral economics is a mix of psychology and economics that challenges the “traditional” or neoclassical economics view of human behavior.
- Behavioral economics provides a more realistic representation of human behavior.
What is Behavioral Economics?

- Experimental evidence shows that humans often act in ways that deviate from what would be predicted by neoclassical economics, and, moreover, that these deviations are **systematic and predictable**.

- Program and policy designers can leverage these insights about human behavior to improve program performance.
Illustrative Behavioral Economics Principles

- People can only pay attention to and understand a limited amount of information at a given time – *limited cognition, limited attention*

- People give more weight to the present than the future – *psychological distance, present bias, procrastination*

- Small factors can have an outsized impact – *channel factors, hassle factors*

- People are influenced by how they see themselves and others – *identity, social influence*

- People are more motivated by losses than by gains – *loss aversion*
• Research into the psychology of scarcity shows that the pressure of negotiating life under conditions of poverty can place a particularly high toll on cognitive resources, as people often need to make many trade-offs to manage their lives with limited financial resources.
BIAS Interventions

- Increasing child support collections
  - Increasing collection of owed monthly child support payments (Franklin and Cuyahoga Counties, Ohio) and increasing payments made before wage withholding begins (Cuyahoga County, Ohio)

- Right-sizing child support orders
  - Increasing modification applications from incarcerated noncustodial parents (Texas, Washington State)

- Improving child care subsidy recertification processes
  - Increasing on-time subsidy renewal (Indiana, Oklahoma)

- Promoting use of higher quality child care
  - Increasing the number of CCDF voucher recipients who choose QRIS rated child care providers (Indiana)

- Improving engagement
  - Increasing show-up to TANF reengagement appointments (LA)
  - Increasing show-up to Paycheck Plus information meeting (NYC)
BIAS Publications

- “Behavioral Buzz” emails – once per quarter
- “Behavioral Economics and Social Policy: Designing Innovative Solutions for Programs Supported by the Administration for Children and Families” – April 2014
- “The Power of Prompts: Using Behavioral Insights to Encourage People to Participate” – coming September 2015
- Reports from other BIAS pilot tests throughout 2015 and 2016
- Final synthesis report coming in late 2016
BIAS Next Generation

- Launching in September 2015
- Build on lessons of BIAS and go beyond BIAS
  - Work with additional ACF programs
  - Move beyond changing communications, greater emphasis on changing the choice architecture of program and policy design
  - Focus on translating findings into practical lessons for human services practitioners
Questions, Comments, Curiosity?

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Behavioral Diagnosis and Design

1. **Define**
   - Articulate problems of interest

2. **Diagnose**
   - Gather data for process map and insert bottlenecks

3. **Design**
   - Propose behavioral interventions to address bottlenecks

4. **Test**
   - Conduct Rapid Cycle Evaluation using random assignment

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