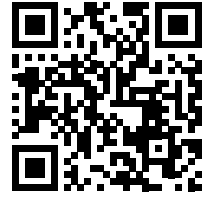


Chitchatting with Dan Ariely



Dan Ariely

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Abstract: The lecture consisted of a chitchat between Professor Dan Ariely, the moderators and the audience, on topics related to behavioral economics, rationality versus irrationality, and trust, in addition to some insights from the Professor about his books and his work with governments around the world, with which it has developed projects to shape or improve rational choices, aiming to obtain better results for the greatest number of people.

Keywords: behavioral economics, rationality, irrationality, trust



JOÃO: Well, today our chitchat is very special! I think it is enough to say that the Professor Dan Ariely was elected by Bloomberg, one of the 50 world's most influential thinkers. Anyone who is familiar with behavioural economics knows who he is and what he represents. So, we are very honoured to have his participation here today. Most of his work is dedicated to showing why us, human beings, are so predictably irrational. By the way, this is the title of one of his books, "Predictably Irrational: The Hidden Forces That Shape Our Choices". He is a psychology and behavioural economics professor at Duke University, where he leads the Center for Advanced Hindsight. Besides that, he is the co-founder of the Kayma labs, which is coordinated by Thaís Gargantini (presenter of this lecture) in Brazil. He has also had with several books among the best-selling of The New York Times, including the one I mentioned before and "The Honest Truth About Dishonesty" as well. Moreover, Professor Dan Ariely has a column in the Wall Street Journal called "Ask Ariely". And, that is exactly what we are going to do here.

Thaís, I believe you are more familiar with the Professor, since you know him better than me, do you want to make any comment before we call him to the stage?



THAÍS: Yes, I would like to comment on something. Anyone who has seen the TED Talks of Dan, knows that he has only half a beard. Because he had an accident when he was younger, so he has many scars. And that is why hair does not grow on the other half of his face. But actually, I say it is, because it is part of accepting our history. And, this is one of the reasons why I admire him even more. Thus, let's connect with the Professor now.



JOÃO: Professor Dan Ariely, welcome to the Innovation Week! Thank you for being here with us! Thaís and I are going to conduct the interview. And we are going to receive questions from the audience. Hence, we are going to start this conversation, Professor Ariely, with the concept which you really focused through your career, in other words, everything has been done based on the idea of trust. So, we can start this conversation by talking about the reason why this kind of behavior, specifically, is so important and why it should be encouraged. And also, “How can it be applied to governance?”



DAN: Well, this is a long question. But I will give a short version of the answer. Then, after that, you can decide if you want to ask anything else about it. First of all, in practical terms, there is evidence that the contribution of trust to the Gross Domestic Product is very high. Imagine what would happen in a society which has a lot of trust. For example, we would hire the right person for the job, not necessarily a family member. We would not need to rely on contracts for everything. And we would not fear that the person would deceive us, if there was more trust. Contrary to what happens with a society without trust. Which has a lot of bureaucracy and nobody trusts anyone. Then, there is a lot of dishonesty. And, you end up not hiring the right person. So, much is lost with this. Imagine, for example, a government that trusts their citizens. In Denmark, it takes between half an hour to one hour to open a new business. Because there is a lot of trust. How long do you think it takes in Brazil?



JOÃO: I have no idea. Do you know, Thaís? I just know that it takes a long time.



DAN: Indeed, it takes a long time. So, this is one thing. The other thing, for what we perceive, is that trust makes us think in the long term, not in the short term. Then, imagine a society from a long time ago, like, a small village, with just a few hundred people. What happens in this case is that our face is our reputation. If you treat someone bad, they will tell other people. And because of this, these other people will probably not treat us well. In a small village which deals with trust this way, if people start to betray each other, this will be very bad. Since, in a small society if you behave poorly, people will know and will treat you badly as well. Therefore, we will not do this so easily.

On the other hand, in the current large economy, in the big global community we have nowadays, suddenly this thing called “reputation”, does not play the same role. Because people do not think long term. They act in a selfish and short term way. In other words, they do not think about the longevity of the society. This is the basis of human nature. In this sense, if we live in a small community, we trust each other. However, nowadays, trust is no longer something very common in the large centers. That is why we think of mechanisms which we could develop to improve these things.



THAÍS: Great! Dan, there is one thing I would like to ask you. “Why did you decide to work with government agencies, with the government?” We know that it is a very hard job and there are many challenges.



DAN: Yes, there are many challenges. So, in general, every time I look at a new project, I try to multiply the number of people who we could help. For instance, I make a project in a classroom, helping 30 kids. In other words, whatever the intervention is, I always try to make things on a larger scale.

Therefore, when we work for the government, indeed, it is complex and hard, etc... But the potential for change is amazing. For example, I very often work with the Israeli government. We made some studies and implemented a new method to label food. Thus, from April of this year, food in Israel, instead of having a list of ingredients saying what is healthy and what is not, we included a big red circle, in case the food is not healthy. Besides that, we also made a gradation between what is healthy and what is not. And, when we tested it, the model was very successful. If you want an intervention like this, at the national level, it could reach many people.

Another project we made was with the British government. In which we tried to make people pay more IVA or VAT taxes. In this case, we changed the order of filling this information, from the beginning of the form to the bottom of it. The idea was the following: the questions which people fill in first, they usually think more about the answers. But when the question is in the end, people are already more distracted and tend to fill in without noticing. Then, it is too late. This experiment, basically, created an enormous amount of income to the country, hundreds of millions of pounds sterling. Therefore, these are the reasons why I wanted to work for the government.

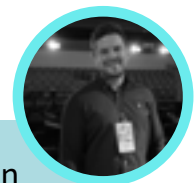


JOÃO: “What do you see as a major challenge at the user level, so that behavioral economics becomes more widespread?” Once you work for the government, you might notice that there is a lack of knowledge about behavioral economics.



DAN: I think the first thing would be: People, in general, especially the politicians, do not like to admit that they don't know something. However, one of the essences of science is to say: "Look, I have an idea and I think it might help, but I am not sure how much it will help, nor which idea will be better, will help more the work".

For instance, in the experience we had in Israel, in which we did not know what would be the best alternative. The companies, in general, do not like to hear: "I do not know or we do not know". Hence, I think the consultant's condition is to say: "We have the answer for you". This is something very uncomfortable, when you are going to try something and you do not yet have a ready-made solution. So, this is a problem.



JOÃO: When we talk about experiments, there are concerns in terms of ethical issues and of behavioral economics. Because some might feel this is a way of manipulating people. And this has been a challenge. Thus, I would like to know, what do you think about this, of the possibility of manipulating people, especially the vulnerable ones. Accordingly, I want to bring an example of what Thaís mentioned before, about computer science and the idea of creating incentives to women, to girls, to study engineering. In this sense, these girls might be in a vulnerable situation, of "not knowing". So, in a way, we are influencing their choices. Even though, sometimes, people try to put this as if it was something neutral. But there is something behind it. So, I want to hear your comments about this.



DAN: So, these questions about interventions and manipulation are very important and also incredibly complex. It is not easy to solve.

I am going to give an example of how complex it is. We made a study, in which we created a type of Tamagotchi, a turtle, in people's phones. Thus, the turtle would be happy when people give her medicine or make her do exercises. On the other hand, it would get sadder and sadder, when people did not give the medicine or did not take it to exercise. In this sense, the turtle itself did not have much power, since it could not change much of its behavior. However, we gave it some superpowers, among which was the superpower of deleting apps from the phone.

Hence, the turtle would analyze the most frequently used app, for example, WhatsApp, so, this app would be the first one to be deleted. Therefore, whenever the turtle was sad, it started to delete the apps. Then, when later the person went to check their cell phone, they would realize that they had lost some apps.

One of the possible uses of this app was, for instance, to people who had just gone through heart surgery. So, it was as if we said: "You just had a heart surgery". And, we think in this person as someone who is going home, is going to exercise, sleep well, take the medicines, etc.. However, we know that, in three weeks, you are going to get back to your previous behavior. Thus, when the app is installed, it is going to force you to behave well. So, people allowed us to install it and, most of them became healthier and lived a more peaceful life. Here is the essence of your question.

If we assume people are completely rational and capable of making their choices, then, we would not have moral issues. Let's assume that people are making the right choices, making rational choices and, if they are eating unhealthy food, it is because they want to. Because they think it is the right thing for them. Or yet, if people use cell phones while driving. In the case of behavioral economics, when you think about these subjects, you realize people have a lot of irrationality. Hence, the question that arises is, "What is the moral limit?"

For instance, I am a doctor, what is my obligation and where does it end? Is it enough if I tell the patient to do exercises and take the medicine? Or, should I help them in some other way? Another thing we should notice is that we created an environment where it is difficult for people to act on their long-term benefits. The world is full of temptations. On the one hand, you do not control what you eat, your alcohol and cigarette consumption. In other words, we have many temptations ahead of us in society. Isn't it?

Therefore, is it correct to provide such temptations for people in the name of freedom? Will we allow all the companies to tempt people to eat unhealthy food, drink alcohol, smoke, spend a lot of money or have easy access to credit cards?

On the other hand, we do not feel comfortable helping people fight it. In view of this, every year I study behavioral economics and decision-making. Because I am worried about our ability to make decisions. Not because I think people are stupid. People are just very busy. They are busy with their lives; they do not have time and are not able to think about everything. Besides that, suddenly, the world starts tempting us. Every time we go to the supermarket, we have that situation in which people are not interested in their long-term care. Anywhere you go, there are donuts and other temptations. Indeed, it is not easy!

That is why we try to manipulate people. We try to reformat their environment, to make people behave better. And, we make sure that we are doing it for the right reasons. And, that we are actually improving everyone's welfare.



JOÃO: In your relationship with governments all over the world, “Do you think this approach can be misused?” If yes, “How can we protect ourselves from it?” We are public servants as well, so “how can we protect ourselves from the misuse of this approach?”



DAN: Well, every time we have new discoveries, they can be used for good or for bad. If you study ways of making people think long-term, someone can try to use it to make something bad. For me, an important step in the face of all this, is the welfare analysis, the way the economists understand welfare analysis. So, surely, the total amount of welfare that the new discoveries bring, exceeds the evil that they might bring. If we analyze the unintended consequences that may be generated, they are related to the situations that people will choose. For instance, when we look at unhealthy eating. When we ask people, “Do you think you are eating in a healthy way?” Most people will say: “No.” Then we ask them: “Do you want some help with this, to know what is best to eat?”, “Would you like to have some self-control and eat healthier food?” and traditionally, people will answer: “No, I am fine! I have no self-control issues. I know everything I need to know.” If that is the case, if people say they do not need any help regarding their eating. I would not interfere. But if people say they want help, then, yes, I would consider helping.

If we compare the percentage of people who say they need help and the percentage of people who say they do not need help, they are fine. Usually, 95% of people say that they are fine and 5% say they need help. Therefore, is this, in fact, the reality? On the other hand, if the percentage was the opposite, 95% of people saying that need help and 5% saying they do not need it, then, I would be very worried.

In this sense, I should say that I like data and science. And I believe we should certainly value data. However, there are some cases in which we should analyze how distant people are from their ideal. Therefore, if there is a gap between where we would like to be and where we in fact are, then we should be worried. If this gap is not so big, perhaps this is not so worrisome.

Furthermore, we also have a kind of paternalism meter, to help us understanding when can we be more paternalistic or less. We have some elements to talk about this. When the decision is big and the consequences are serious, then, I am willing to be more paternalistic. For instance, with regards to savings, when people get disorganized with their finances and reach their 80's without having saved enough money. Hence, it is already too late.

Then, I have to be more paternalistic, when there is no second chance to something. In other words, I am willing to be more paternalistic when the decisions are big and the mistakes can be very substantial. Moreover, I am willing to be more paternalistic when there is a very large knowledge gap between people's decisions and their professions. As in the case of health, for example.

On the other hand, there are many things that I am willing to give up on being paternalistic, concerning human behavior, for the sake of freedom. We have to evaluate very well those things, especially as public servants. Namely, we have to weigh these things to find out if what we are promoting is right and meet people's needs. If we think that they are not, then, how can we make proposals that are more in line with people's interests? In this sense, we know that taking out people's freedom is not good. However, having bad results is not good either.

The last example about this topic: a person who uses a cell phone while driving. Should we allow those people to do that, even though they might kill someone or die? I do not think so! Just giving cell phones to people, knowing that they use them all the time, then only suggest that they should not use them while driving, would not be the right approach. Therefore, we have to think of something more extreme to deal with this situation.



JOÃO: Since you said that you love data, I have some great questions from the audience, regarding randomized control experiments. Thus, one of the participants spoke about how we are predictably irrational. For instance, there are some experiments made with small groups, based on what you said, about external validation. “How could it be applied in other contexts?” I mean, in larger groups or in other situations.

I have another question related to it, “How can you be sure that these results are valid in other contexts?” And also concerning this topic, there is another great question here, “For how long these results are valid? How can we know how long a behavior strategy will last or work?” Sometimes, we trust the results, but behaviors are dynamic, they change. So, these last questions concern the sustainability of the interventions.



DAN: Very good questions. So, answering to them, science starts with easy things and moves to harder and more complex things. I was very glad to know that someone in the audience agrees with this level of irrationality. I wrote this book a few years ago. But now, I work with governments and large-scale experiments. And, we are expanding those ideas. At that moment, experiments were simple studies made in labs. Over the years, we moved on to large-scale studies, with big companies. Therefore, scientific processes are constantly developing.

Besides that, when we have experiments made in labs, we can give the recipe to someone else and it can be reproduced. And, if something works in the lab, it is more likely to work in real life than not, in terms of probability. Then, now it is time to try it in real life, or in large-scale or in another country, etc. Thus, everything is a continuous learning process, and we never stop studying.

The second question is about the matter of the dynamics of the world. And this is very important! One of the amazing things about social science is that the world is dynamic, contrary to what physicists say. They say the world is the same and the rules of the universe do not change. They have been saying this for a long time. However, for the social scientist, the rules change. For example, the attention. Attention was not very important, as a psychological function, forty years ago when we just used to look at things and receive instructions. But now, we have Facebook and cell phones with their constant notifications. So, the matter of attention became very important in different ways.

For instance, Tinder. The world of romantic life was very different twenty years ago. Then, technology comes and we start wondering, what are the fundamental technological changes and what are the new things that we have to study and understand.

In addition to that, we now have digital currencies. Namely, my children are now thirteen and seventeen and I am wondering how to raise children who are financially responsible, once digital money allows us to make many things that physical money does not. On the other hand, the physical money, if I hand it over to my sons, I know what they spent it on. And if we do something more extreme, I can give them a limited amount of money to spend on certain categories of things.

Therefore, the technological development of the world is creating many interesting opportunities, but it has also raised many questions. So, we have to continue studying as the world changes. And yet, we have to recognize that things that used to work ten years ago, might not work anymore today.



THAÍS: Ok! So, I would like to ask you a question about the three years we were in Kayma, in Israel, where we made many projects. And, the process of building trust, in which we begin to have more and more knowledge about the government. “Could you share with us a little bit of how this journey was? What was it like, the process of getting more and more government trust, the development of experiences with real people and the partnership with the Israeli government?”



DAN: I believe trust has many different facets when you work with the government. Hence, the first issue is trust in scientific methodology and in behavioral economics. Besides that, many people from the government are lawyers and economists, so they know about this. Therefore, it was very important to make the public servants recognize that people are irrational and we have to think about it. Finally, we could implement a code to deal with it, and it was very, very important.

In this sense, the first experiments we made were in order to create that trust. The experiment consisted of sending text messages to people who had an appointment in the health service, once in Israel there was a large percentage of people who had appointments and did not show up. So, we started sending messages to people and they started not to cancel. And this was very important to the health system. Moreover, in case they cancel the appointment, we could put someone else in their place. Then, they let us change this message.

From there, we started to ask ourselves about some points. Namely, what do people care about? About how much will it cost? With the fact that they want to be healthy for their family members? With the doctors or nurses who are waiting for them? Therefore, how could we use that information? So, there are many different versions about that subject. And, what we were shown is that by sending a very similar message to the one we had in the beginning, though including the information that another citizen could use their appointment if they did not show up, had very positive results. Well, this was a very simple and cheap intervention. However, it was incredibly powerful.

Because, this already existed; if you did not show up, someone would go in your place. But using a different approach to this in order to be able to optimize the work was very important. Therefore, this was a demonstration that our work could generate different results.

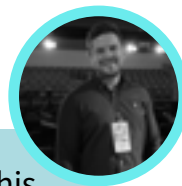
Another example that we studied with the authorities was of how to develop a form about the needs of the citizens. Thus, at the same time we made questions to people, we would also give them the safety that, if they need help, there would be support, several services and things that could be done to solve their problem. For example, if people have some issue with a tax authority, they could come to us and get help. The number of people who filled in the form was relatively high, if I remember well, nearly 40% of people. This resulted in the improvement of this framework for the tax authorities. In addition, people began to realize that they could solve these problems.

So, the following part was to make people take part in those experiments. As I said before, this is very hard. Then, we started on a small scale. In order to reduce the risk, we also said that we were doing a survey, something small. And yet, we said that it would not have any negative impact. So later, we could increase the scale. In Israel, for example, if someone hires a disabled person, they can get back the money spent with adjustments. Namely, if you need ramps, a wheelchair or something like that. But, as you can imagine, the government is “very worried” about this kind of process. Since, you will take more than a year to be reimbursed.

For this reason, many contractors do not care about this, because they believe that they will not take back the refund money. Thus, we wanted to encourage people, companies, to hire disabled people. However, the lack of trust made this irrelevant.

Therefore, on a small scale, we wanted to reduce bureaucracy, so that, instead of taking a year for this reimbursement, it would take only two weeks. From this initiative, people could trust this. However, we did not open this up to everyone, we just did it with a small number of contractors. Because we wanted to be sure that nobody was trying to cheat. Or, if they did, they would do it at a very basic level. So, we tried to reduce our exposure to risk, by doing a small experiment.

The third thing is that, we discovered that there is a great deal of mistrust between different ministers of the government. In order to help this situation, we tried to basically be very transparent and support everyone. In face of this, we discovered that they trusted us more than the other ministers. Hence, what we did was something that the government was incapable of doing without us. Despite being shameful, it is very good to know that there are people, like us, who can fill in this gap.



JOÃO: I do not want to miss the opportunity to link this conversation to the other one we had on Thursday, at this event. In this sense, Professor, you came here to talk to us about how the government should prepare for artificial intelligence, engineering, bioengineering, and how we can transform humanity and our daily life. And, if this is true, everything indicates that there is a revolution ahead.

Thus, from the perspective of behavioral economics, how can we delegate our decisions related to algorithms, in a scenario where we started to see progress, for instance, in bioengineering. In other words, we began to compensate for our irrationality. For example, “Do you think we can suppress our appetite for drugs?”. Since, if you do not ingest anymore, you are actually changing your behavior at the biological level. Then, “How can behavioral economics deal with this new world? Is this relevant to the new world?” and “What do you think are the most relevant challenges the world will face in the coming years?”



DAN: I only have two minutes and this is a very complex question. So, I can use the excuse that the time is ending. But I am going to tell you that there is a very important question to be asked, concerning what we are trying to conquer as human beings. For instance, let's think about unemployment.

There is no doubt that there will be a higher level of unemployment when technology starts taking these places. However, we understand human beings and we understand that employment is not only about money. It is about the sense of purpose, of meaning, of contribution to society. And, when people do not have this sense, this purpose, they do not feel as part of something. They do not feel motivated. Therefore, we understand how it influences these changes. So, we should think about how to redesign this new world, in a way that fits everyone. In this sense, an economist would analyze the situation by saying: “Ok, we have a high level of unemployment”.

But some people think that humanity is about more than just overcoming unemployment. We can think about mental health, about connecting with other people. We can also talk about volunteering, which gives people meaning for life. Consequently, all of this brings a range of very interesting questions. Thus, is it science, or philosophy, or philosophical sciences or social sciences? Thank you very much! I am sorry my time was too short. I have to go to my next meeting. Bye, Bye!



JOÃO E THAÍS: Thank you very much, Professor!



