

**SPEECH BY MR TEO CHEE HEAN, MINISTER FOR DEFENCE AND MINISTER-  
IN-CHARGE OF THE CIVIL SERVICE, AT THE GALLUP GLOBAL  
BEHAVIOURAL ECONOMICS FORUM, 26 JUNE 2008, 8.30AM AT THE MARINA  
MANDARIN HOTEL**

Mr. Jim Clifton, Chairman & CEO, The Gallup Organization

Dr. Daniel Kahneman<sup>1</sup>

Distinguished Guests

Ladies and Gentlemen

1. Good morning. I am happy to join you at this inaugural Gallup Global Behavioural Economics Forum.

2. Behavioural Economics brings the insights of psychology to bear in the study of economics. It is one of the most exciting areas of economic research today. And it is a field that holds promise for advancing policymakers' understanding of the likely impact and result of their policies.

3. Conventional economic analysis, which many of us are familiar with, starts with the assumption that humans are rational agents. In other words, we are expected to behave in ways that maximize our individual self-interest. It is no wonder that Economics has been described as the "dismal science".

This rather disheartening characterization of the human spirit leaves little room for what we like to think are the more endearing qualities that make us human – altruism, feelings, or a sense of community; or even some less endearing but nevertheless

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<sup>1</sup> Dr Kahneman is a psychologist and a Nobel Laureate. He won the Nobel Prize in Economic Sciences in 2002. He is currently a Professor of Psychology and Public Affairs at Princeton University.

very human ones, such as inertia, envy, and greed. While this assumption of rational self-interest gives us a powerful tool for analysis, it has its limitations. Blindly applying this assumption to policy problems can sometimes lead to unrealistic analysis, or even inappropriate solutions.

4. The major contribution of behavioral economics is to inform us that human beings do not always act in a completely rational, utility-maximizing manner. On the contrary, we have a number of cognitive biases. By discovering these cognitive biases, behavioral economics can bring economics closer to the real problems that policymakers grapple with.

5. Today, you will have the opportunity to hear different insights from experts and practitioners in behavioral economics. Here, let me just share two examples which I think can be quite useful for Singapore.

6. First, the recognition that *people's behaviors are shaped by those of others around them as well as by social norms*. Standard economic theory assumes that we *independently* know what we want and that our preferences are fixed. This is a reasonable basis for explaining short-term decisions. But it cannot explain longer term changes in preferences.

It also does not take into account the role of social norms and of institutions – both formal and informal – and the effect of changing such social norms in shaping individual preferences and behaviors over time.

7. This insight has important implications for policy making. Economists favor incentives as a way of shaping behaviors. In other words, carrots and sticks - rewarding or subsidizing desirable behaviour, and putting taxes or fines on undesirable behaviour. Many of you will have heard the oft-told joke that Singapore is a “fine” city – a city of many fines for various misdemeanors for undesirable social behaviour such as littering, jaywalking, or spitting.

8. Behavioral economics tells us however that we should also consider how we might shape social norms to achieve our intended outcomes. Less well known is that Singapore is a city of many campaigns. To achieve a diverse range of policy objectives, such as reducing drink driving, promoting recycling, encouraging family formation and so on, policy makers cannot only look at incentives or disincentives, but must also look at shifting preferences and norms over the longer-term.

9. This year, there will be 9 major campaigns in Singapore, sponsored by various government agencies, such as the ‘Anti-Drug Abuse’ campaign and the ‘National Healthy Lifestyle’ campaign, and many minor ones. Hence, while Singapore has certainly taken a carrot and stick approach to many issues, we have also always combined these with active educational programmes to change social norms and influence individual behaviour.

10. Indeed, a member of the public who wrote to a local newspaper last week commented that there were *only* 1,700 fines in the past 5 months for errant smoking, and calculated that since there were 330 environmental health officers, this worked out to only 1 errant smoker booked per officer each month. What, the writer wanted

to know, were the officers doing? Obviously, there are some who want greater weight placed on the enforcement approach. But the reality is that the greater emphasis is placed on education and prevention as these may be more effective, especially in the long term.

11. A particularly notable example of shaping attitudes was to persuade the general public that recycled waste water, or what we call “Newater” in Singapore is acceptable for drinking, and is in fact of better quality than the already excellent water that Singaporeans get from their taps. At one level, gaining acceptance was about appealing to the rational mind of Singaporeans by quoting the facts and the figures, and the science. But the key to overcoming the “yuk” factor, was building trust and social acceptability. So successful has Singapore’s Public Utilities Board been in carrying the message of water conservation and water recycling, that it recently received the overall Grand Prize at the Golden World Awards from the International Public Relations Association.

12. A particularly notable area where Singapore has not yet been successful is marriage and parenthood, that is, encouraging Singaporeans to get married and have more babies. Singapore’s total fertility rate has been below the replacement rate of 2.1 since 1976. In spite of various financial incentives and campaigns since 1987, total fertility rate has continued to fall and has been below 1.3 for the last 5 years.

13. This is in contrast to the situation in the 1950s and 60s, when Singapore was faced with a population that was growing much too rapidly for the economy and

social services to support. We had effectively applied various financial and other disincentives to discourage families from having more than 2 children. Perhaps behavioural economists might see this as a form of 'loss aversion' - where people respond more to penalties and disincentives than they do to reward or incentives. Marriage and parenthood is clearly an area where behavioral economics is the key. And we hope that we will be able to glean important insights from this field, and report progress in this key area in the coming years.

14. Another important insight of behavioral economics is that we are often not capable of making the complex cost-benefit computations that conventional economics – with its assumption of rational agency – assumes we are capable of. Instead, our choices are often shaped by how a problem is presented to us. We also hold certain cognitive biases. For instance, we are strongly influenced by the “defaults” set for us. Participation in voluntary pension schemes is much higher when the default is for people to be in unless they opt out. We are more likely to contribute to charity when the default is for us to make regular contributions than when we have to actively sign up to contribute.

15. Policy makers in Singapore may not have used the terms behavioral economics or cognitive biases, but they were certainly putting these concepts to good use. For instance, when government recently announced the CPF Life scheme, an annuity plan for retirees, there were about a dozen plans that Singaporeans could choose from when they reached 55. We could have required Central Provident Fund members to select their own plan from among these options. But this is a new and potentially complicated program. Many older Singaporeans may not be able to work

out which plan was best for them. Hence, we decided that the default would be a standard plan which we think would be appropriate for most Singaporeans. At the same time, Singaporeans retained the flexibility to choose another plan if they so desired. Other policy areas where we have made use of “defaults” while giving people the choice to opt out or to make different decisions are in organ donations and medical insurance.

16. To help our policymakers learn more about the insights and principles of behavioral economics, and to apply them to policy making where appropriate, the Civil Service College has begun to introduce these ideas to the public sector. The College hopes to make behavioral economics a key part of the skill set of our policymaking community.

17. Today, we are very privileged to have with us one of the founding fathers of behavioral economics to speak to us. As some of you will know, Dr Daniel Kahneman won the Nobel Prize in Economic Sciences in 2002 for his seminal work in this area. His achievement was all the greater because Dr Kahneman is a psychologist who, I am told, never took a formal economics course.

18. I understand that other Gallup scientists will be sharing insights on how behavioral economics concepts can be applied in furthering the well being and engagement of people in cities and societies. This is an important topic. It also complements the World Cities Summit taking place this week, which looks at the sustainable development of cities.

19. In closing, let me congratulate The Gallup Organisation for organising this forum that brings together thought-leaders, researchers and practitioners in behavioral economics. I wish all of you an engaging and exciting day ahead.

20. Thank you.