

# Behavioral Political Economy: Cognitive Biases in Policymaking in Bosnia and Herzegovina

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*Abstract:* This paper examines the potential of applying behavioral methods in the implementation of public policies in Bosnia and Herzegovina, starting from the theoretical framework of behavioral political economy. The paper traces the evolution from classical political economy and public choice approaches to modern theories that incorporate cognitive biases and heuristics. In particular, it examines effects such as loss aversion, status quo bias and framing are considered, as well as their influence on citizens and decision-makers. The paper also provides an overview of international experiences, ranging from the Behavioral Insights Team in the United Kingdom to OECD guidelines and initiatives in transitional and post-conflict societies, with the aim of identifying relevant models and transferable lessons. In addition, the paper analyzes the specificities of the institutional framework of Bosnia and Herzegovina, by showing how the divided competences between different levels of government and low trust in institutions amplify the application of cognitive biases and hinder reforms. As part of the discussion, the paper highlights potential benefits and obstacles for integrating behavioral methods into the implementation of domestic policies through experimental approaches, capacity building, and enhanced collaboration between academia and public administration.

*Keywords:* Behavioral political economy; Cognitive biases; Public sector; Bosnia and Herzegovina

## Introduction

The process of public policymaking has long assumed that political actors and administrations act completely rationally, relying on the full availability of necessary information, as well as on objective assessments

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of costs and benefits. However, the development of behavioral economics and psychology has shown that decisions in the real world do not emerge in this way through rational choice, but are made in the context of limited attention, cognitive biases, and heuristics. This is particularly important for political economy since these insights raise an important question of how cognitive biases shape the processes of formulating, implementing, and evaluating public policies, and how they affect the final outcomes of political and economic reforms.

Bosnia and Herzegovina ('BiH') is a country shaped by a combination of different specificities, such as the ongoing transition process, a deep division of power, and the characteristics of a post-conflict society. In such a political-economic environment, the process of adopting various policies can often be slow, inconsistent, and prone to partial solutions that do not bring the expected results.

All the above characteristics make the country a particularly interesting context for applying the concept of behavioral political economy. While traditional political economy assumes predictable preferences and rational maximization of the interests of actors, the behavioral approach assumes that decisions are shaped by various cognitive and emotional constraints that can be empirically investigated and theoretically explained.

International experience shows that integrating behavioral methods into public policymaking can lead to greater efficiency, enhance citizen trust, and reduce the overall costs of implementing reforms. Examples include the *Behavioral Insights Team* from the United Kingdom and the OECD initiative, which demonstrate the possibilities of designing policies that take into account the actual behavior of decision-makers. In the Western Balkans, the application of these approaches is still sporadic, and in BiH, it is almost non-existent, which opens up space for theoretical discussion on this topic, as well as on the reasons for their absence, and the ways in which these methods can be applied.

The aim of this paper is to provide an overview of key concepts and findings from the domain of behavioral political economy, and to critically examine the possibilities of their application in the context of BiH. Instead of empirical testing, the emphasis is on systematizing existing theoretical contributions, mapping potential biases that characterize policymaking in BiH, as well as identifying obstacles to their application.

Given all of the above, the key objective of this paper is to fill the current research gap in the domestic literature by integrating the previously separate research units of decision-making psychology and political economy, all in the context of BiH. In this way, the paper seeks to open space for a new research area that connects psychology, economics, and public policy.

## **Theoretical Framework - From Standard to Behavioral Political Economy**

### *Classical Political Economy and the Public Choice Approach*

When discussing classical political economy, the theory assumes that economic principles can be applied to the political process, which means that political actors act rationally and selfishly, maximizing their utility under certain constraints, similar to how market actors do. Earlier models of political decision-making often assumed an idealized government that seeks to maximize social utility, but modern approaches reject this assumption and treat the state as a collection of individuals with self-interests (Buchanan & Tullock 1962). Therefore, public actors act in a manner very similar to market actors, as they are driven by self-interest (Downs 1957; Buchanan & Tullock 1962).

Public choice theory stands out in particular as a school of thought that directly applies economic policy instruments to the political decision-making process. Public choice theorists consider government as a set of rational individuals with their own goals and motives (Buchanan and Tullock 1962). On the other hand, voters try to maximize their benefits by, for example, supporting policies that suit them personally, while politicians try to maximize their own political support, power, or some form of personal benefit. Collective decisions therefore arise from the interaction of individual choices of all actors. An example is Anthony Downs' economic model of voting, where voters choose the option that brings them the greatest expected benefit, and political parties adjust their platforms to win over the so-called median voter (Downs 1957). However, the rational model also predicts the existence of counterintuitive behavior through the voting paradox. In this case, a strictly rational individual will not vote because the probability that his vote will decide the outcome is very small, meaning that the expected benefit from voting will not outweigh the cost

of voting (Downs 1957). In this context it is important to emphasize the concept of rational ignorance, where voters have little incentive to inform themselves in detail about politics, given that their individual vote rarely changes the outcome, and thus, it is rational to save time and remain uninformed (Downs 1957). For this reason, public choice theorists explain low political engagement by saying that the political process lacks market feedback because the individual does not bear the indirect consequences of his vote (Schnellenbach & Schubert 2015). James Buchanan and Gordon Tullock (1962), founders of the public choice school, emphasized that political actors can be viewed under the same motivational assumptions as market actors, although the collective outcomes and institutional context are more complex.

### *The Development of Behavioral Political Economy*

The beginnings of behavioral economics date back to the end of the last century, emerging as a response to the previous assumptions about the existence of perfect rationality in classical economics. At that time, Daniel Kahneman and Amos Tversky demonstrated that, in reality, *cognitive biases* exist, i.e., deviations in judgment compared to what a rational actor would predict (Tversky & Kahneman 1974). They also introduced the concept of mental shortcuts, so-called *heuristics*, illustrating how people consistently make mistakes in assessing probabilities, risks, and the different options available. The same authors further developed *prospect theory* (1979), demonstrating that people experience losses more intensely than equal gains, which is known as *loss aversion*, and that the presentation of certain outcomes affects choices through the *framing effect* (Kahneman & Tversky 1979; Tversky & Kahneman 1981).

At its very beginning, behavioral economics focused exclusively on market decision-making by consumers and investors. On the other hand, it was often argued that the state could correct the “irrationalities” that arise in the market, assuming that policymakers are rational and well-intentioned. However, such an approach reinforced the assumption that there is a well-intentioned creator in politics, implying that the government always acts in public interest and possesses reliable information (Schnellenbach & Schubert 2015). It is important to note that, over the past fifteen years, behavioral methods have been increasingly applied to political economy as researchers have begun to study the effects of cognitive biases on political

actors themselves. This shift has resulted in the emergence of behavioral political economy as a genuinely new field, which examines how heuristics, emotions, and bounded rationality influence the outcomes of political decisions (Schnellenbach & Schubert 2015). Crucially, cognitive biases extend beyond market consumers and are often just as, if not more, pronounced among voters and politicians. Due to the weak individual incentives for rational behavior in collective decision-making, political processes are dominated by “boundedly rational” patterns of behavior (Caplan 2007; Schnellenbach & Schubert 2015). As the authors point out, cognitive biases and heuristics can play at least as important a role in politics as in the market, because feedback and learning mechanisms in politics are weaker than in the market economy (Schnellenbach & Schubert 2015).

Several authors have documented the development of behavioral political economy. Daniel Kahneman and Amos Tversky laid the foundation for understanding human tendencies towards heuristics and biases, which were later applied to the segment of political economy. Richard Thaler and Cass Sunstein introduced the concept of *nudges* – small interventions in the choice structure that exploit biases to direct people’s behavior towards more desirable decisions (Thaler and Sunstein 2008). Examples include placing healthy food in a prominent place in supermarkets, or automatically enrolling workers in a pension plan with the option to opt out. Such policies directly acknowledge the existence of heuristics and biases in citizens, as demonstrated in examples where the status quo bias and loss aversion are used in the “Save More Tomorrow” program, which increases the saving rate by leveraging people’s tendency to stick with default options (Thaler & Sunstein 2008).

Other authors, such as Bryan Caplan, have made significant contributions by applying behavioral ideas to democracy. In his work, he challenges the classical assumption that voters are, on average, well-informed and make rational decisions, introducing the concept of “rational irrationality”. According to Caplan, individuals consciously choose to be irrational in their political beliefs because it costs them nothing emotionally, because, according to them, a single vote does not significantly affect the outcome anyway, so people can indulge in the “luxury” of erroneous beliefs (Caplan 2007). Moreover, this irrationality is not random, but systematic as predictable biases emerge across the electorate. Caplan (2007) identifies

four widespread voter biases: a tendency to underestimate the benefits of free markets, prejudice against foreign countries and immigration, an overemphasis on the importance of work versus productivity, and an unfounded pessimism that economic indicators are constantly going down. These biases often lead the public to support policies that are economically inefficient, such as protecting domestic agriculture, imposing price controls, or endorsing populist budget waste. The key point is that voters “want to believe what is convenient” rather than confront inconvenient truths, resulting in persistent misconceptions within collective decision-making (Caplan 2007). This is significant, since Caplan’s explanation shows that rather than being simply uninformed, voters can also be biasedly misinformed, holding onto beliefs that are psychologically comfortable and rejecting alternative and available evidence.

In addition to the behavioral factors at the micro level, the development of contemporary political economy has also been marked by a focus on institutions and the distribution of power. Daron Acemoglu and James Robinson have emphasized the importance of political institutions, showing that long-term economic success depends on institutions that are inclusive and balanced in political power. They further assert that societies fail largely because of extractive institutions that privilege the elite and inhibit further development (Acemoglu & Robinson 2012). Although Acemoglu and Robinson’s approach is not “behavioral” in the narrow sense, since they treat actors mostly as rational but constrained by an institutional framework, their work broadens the theoretical framework by interpreting economic outcomes are interpreted not only through individual rationality, but also through historical and political structures. This aspect is very significant given that, in combination with behavioral methods, people act within institutions, guided by their own interests, while at the same time being subject to cognitive biases and limited perception.

Beyond behavioral explanations, several foundational contributions in institutional and informational economics can further strengthen the argument that reform outcomes are impacted by knowledge structures and value orientations. Stiglitz (2002) highlights that asymmetric information and incomplete contracts can distort public policies and evaluation of reforms, making it even more difficult for citizens to assess long-term benefits relative to short-term costs. Ostrom (1990; 2005) showed that

communities can develop cooperative governance arrangements when trust and shared norms exist, implying that effective policy reform in post-conflict societies requires rebuilding collective capacities for cooperation. On the other hand, Sen (1999) argues that economic policy must place human capabilities and freedoms at its core, thereby reversing the traditional means-ends logic of policymaking.

Therefore, it can be concluded that the standard rational choice model provides some explanations for many phenomena, but it significantly neglects the human side of decision-making. Behavioral political economy seeks to fill this gap by integrating psychology into models of political economy.

Putting this all together, one conceptual model can be proposed in which institutional fragmentation modulates the impact of behavioral biases on policy outcomes. In one such framework, cognitive distortions such as loss aversion or optimism bias are filtered through different layers of governance, where veto points and competing institutional narratives reinforce inertia and reduce policy responsiveness.

### **Key Concepts of Behavioral Political Economy**

There are several psychological methods available in the literature that can be included and applied to the concept of behavioral political economy, namely:

- *Heuristics*, or mental “shortcuts,” that people use to simplify the decision-making process. Heuristics are cognitive rules that reduce mental effort in judgment and decision-making in complex situations, allowing for quick conclusions, but they can also lead to systematic errors or biases (Tversky & Kahneman 1974). In a political context, voters often rely on heuristics instead of detailed analysis when voting for the candidate they have seen the most in the media or use the simple rule “if economic indicators are positive, support the ruling party”.
- *Cognitive biases* are systematic errors in thinking and decision-making that arise from the use of heuristics or other psychological factors. They represent deviations from objective rationality in perception, memory, or judgment (Tversky & Kahneman 1974). An example is

confirmation bias, which is the tendency to favor information that confirms our existing beliefs, or on the other hand, overestimating the probability of events that first come to mind because they are salient or fresh in memory. In politics, voter biases, such as those identified by Caplan (2007), can systematically distort public preferences, for instance, generating excessive skepticism about the market or fear of change.

- *The framing effect* refers to the phenomenon in which the way an option or fact is presented influences a decision, even when it is logically the same thing. People often react differently to information depending on its framing either as a gain or a loss (Tversky & Kahneman 1981). An example is a policy that describes “90% of people will benefit from the reform,” which represents a positive frame, or “10% of people will not benefit,” which represents a negative frame. Although the two previous statements are substantively identical, public perceptions may differ. The framing effect is also very present in political communication, especially the way in which a referendum question or the title of a law is formulated, to gain public support. An example is often the use of the term “tax relief” instead of “tax reduction”, since the word “relief” suggests that the tax is a burden from which citizens should be freed.
- *Loss aversion* is the tendency to subjectively experience losses more strongly than gains of the same value, which can best be illustrated by the example where the pain of losing 100€ is greater than the pleasure of a possible gain of 100€ (Kahneman & Tversky 1979). When looking at politics, loss aversion can be explained by resistance to reforms that will certainly have certain costs today, in exchange for potential gains in the future. Voters often punish governments for policies that they believe will “take something away”, even if these policies benefit them in the long run. On the other hand, policymakers try to mitigate resistance to such reforms by presenting possible changes as preventing losses rather than achieving new gains. This loss aversion is also linked to the *endowment effect*, since we tend to value what we already have more than something of equal value that we do not have (Kahneman *et al.* 1991).



- *Status quo bias* is the tendency to prefer to maintain the status quo and resist change. People show inertia towards new things even when there are reasons to change, for different reasons. Sometimes it is due to their own comfort, fear of loss, or uncertainty. Status quo bias means that the default options or existing policies have a disproportionate advantage simply because they are already in force (Samuelson & Zeckhauser 1988). In practice, citizens will prefer to “leave things as they are”, e.g., keep the existing pension or tax system, vote for a well-known candidate or not change the constitution, unless they have very strong reasons to make a change. In politics, this can also be explained by the fear of voting for some other political option, because a possible change of government brings *uncertainty* (Kahneman, Knetsch & Thaler 1991).
- Within this framework, it is important to emphasize the role of *social norms*. It is known that individuals tend to align their own behavior with that observed in their environment (Cialdini & Goldstein 2004). This is especially pronounced in environments such as BiH, where interpersonal networks and belonging to a local community are strongly valued, and thus can greatly influence behavioral outcomes.

Research conducted in post-socialist and post-conflict countries indicates that reforms have a greater chance of success when there are interpersonal trust and cooperation rather than when identical reforms are imposed from the top-down (D'Agostino *et al.* 2019).

The combination of these heuristics and biases leads to political decision-making in practice that deviates from the idealized model of a perfectly informed, rational voter or politician. Behavioral political economy therefore emphasizes that if we want to better understand these deviations, it is important to consider that political outcomes are not simply the result of “who has what interests”, but also how individuals actually perceived information, and make decisions based on it.

## Literature Review

### *Examples of Integrating Behavioral Insights into Public Policies*

The institutional application of behavioral science to policymaking is usually associated with the establishment of the *Behavioral Insights Team* ('BIT') in the United Kingdom at the beginning of this century, better known as the "Nudge Unit". This team pioneered the use of Randomized Controlled Trials (RCTs) in public policy to determine "what works" in influencing citizens' behavior (Haynes *et al.* 2012, cited in John 2014). BIT demonstrated how small interventions can be used to achieve noteworthy results in public administration practice. For example, tax collection was increased by sending letters that included references to various social norms, informing taxpayers that "most people in their city pay their taxes regularly", thereby creating the conditions for reducing the rate of arrears.

In this context, it is important to emphasize that interventions relying on psychological methods, such the tendency of individuals to follow the majority's behavior, have proven effective and cost-efficient. Hallsworth *et al.* (2014) showed in their study that a previous example of tax collection using the "nudge" method in the UK resulted in the collection of an additional 200 million GBP of tax debts, generating significant revenue to the government at minimal cost. BIT has expanded its activities over the years to many areas, including increasing vaccination uptake and organ donation response, and improving other segment-specific outcomes (Halpern 2015).

The term behavioral public administration refers to the integration of psychological methods into public policy analysis (Grimmelikhuijsen *et al.* 2017). Several experts note that the appeal of behavioral interventions lies in their reliance on simple, evidence-based solutions, a combination that gives them special significance for decision-makers (Strassheim *et al.* 2015). At the beginning of this century, several countries formed special units or teams within governments to apply behavioral methods. The European Commission (EC) (2016) reported that an increasing number of European Union member states are establishing behavioral methods teams or are in the process of establishing them. International organizations such as the World Bank and the OECD have also begun actively promoting the incorporation of behavioral elements into various policies. For example, US President Barack Obama issued an executive order instructing all federal agencies to expand the use of behavioral methods in program design (White House, 2015).

Within Europe, the UK remains a leader thanks to the BIT, which has grown from a government department into an independent organization with global reach (Halpern 2015). The Netherlands and Australia have established teams within different ministries, while the US has a Federal Social and Behavioral Sciences Unit (SBST) (Afif *et al.* 2019; OECD 2017). The EC (2015) established a Behavioral Analysis Unit within the Joint Research Centre, which supports various departments within the EC in designing and testing “smarter” regulatory interventions (Lourenço *et al.* 2016). Through the “Better Regulation” initiative, the EC has incorporated the principle of testing policies before they are fully implemented into its policy guidelines. A JRC report (Lourenço *et al.* 2016) documents a large number of examples in Member States where behavioral methods have been used to improve consumer protection, competition, employment, energy, environmental protection, public health, tax policy, and transport policies. For example, Denmark used “nudge” approaches to increase the rate of retirement savings among citizens by automatically enrolling in savings programs, while France, for example, experimentally tested different forms of food labelling, all with the aim of improving citizens’ health. On the other hand, Germany used psychological insights to encourage voluntary tax payment among the self-employed (Lourenço *et al.* 2016).

It is important to emphasize that scientific experimentation is the core of this approach, because “Test, learn, adapt” has become the motto of behavioral teams (Haynes *et al.* 2012). Before introducing a measure to a larger number of recipients, an attempt is made to test as many variations as possible on a smaller sample of the population, such as different letter formulations, or different incentives, to measure the effect of each available option. Such an evidence-based approach allows for quantifying even the smallest changes in citizens’ behavior and selecting the most effective option. The example of the BIT with tax letters illustrates the very value of the experiment because of the several tested versions of the letters, only those that contained a comparison with the social norm produced a statistically significant increase in the response to pay tax debts. It is also important to emphasize that behavioral teams, which contain a combination of experts from the fields of psychology, economics and public administration, can bring a new and distinct perspective to the design of public services and policies (Dewies *et al.* 2023). This makes public policies more “human-friendly” since the actual behavior and cognitive tendencies of people are respected, instead of assuming full rationality in the decision-making process (Kahneman 2011; Thaler & Sunstein 2008).

Of course, the integration of behavioral methods also carries certain challenges and limitations. Not all “nudging” attempts are equally successful, nor are the effects always significant, as shown by meta-analyses, where average shifts in behavior are often relatively modest, in the range of a few percentage points, although they can be very significant when applied to a large number of people (Hummel & Maedche 2019; DellaVigna & Linos 2020). For this reason, there is emphasis on need to identify contexts where the nudge approach makes sense and where traditional measures such as financial incentives or regulations are more appropriate. Furthermore, behavioral policy advocates believe that nudges are designed to preserve freedom of choice, as they do not force anyone to do something or punish them, and that this achieves mutual benefits in a way that citizens achieve their own interests such as better health or financial security, while society achieves its collective public goals (Sunstein 2014; OECD 2019a).

*Experiences from Transition and  
Post-Conflict Countries – Lessons Learned*

While behavioral interventions initially took root in developed countries, their application gradually spread to transitioning economies and post-conflict societies, including countries in Central and Eastern Europe, as well as in the Balkans. It is important to note that the contexts of these countries often differ, as these areas are undergoing simultaneous democratization, economic transition, and social reconstruction after conflict, which raises the question of the extent to which nudge-based approaches can be effectively transferred from Western countries.

First, the institutional capacity and expertise to implement behavioral interventions in these countries are often significantly constrained. Many transition countries still do not have formal teams within government agencies or ministries dedicated to behavioral policies (Afif *et al.* 2019). However, there are significant advances thanks to initiatives by international organizations. The World Bank has helped governments in some Eastern European countries design and test “soft” interventions through technical assistance programs, as was the case in Poland and Romania, where field experiments were conducted to encourage tax compliance and energy efficiency (World Bank 2018; OECD 2017).

Furthermore, several examples from the Balkans illustrate that behavioral strategies can effectively complement traditional reforms. For example, in 2010, Croatia introduced an opt-out system for organ donation (implied consent), a classic “nudge” using the default choice effect, as all citizens are considered donors unless they explicitly state otherwise. This has made Croatia’s organ donation rate among the highest in Europe. Encouraged by this success, Serbia was also preparing a similar law that would change shift the default in favor of donation (Ninkov 2018). These examples show how a simple change in default rules can be implemented in transition countries with significant social benefits, even on a very sensitive issue such as organ donation. However, public reactions have been divided, as the debate on the ethics of “implied consent” has been ongoing in Serbia, with objections that it infringes on individual autonomy (Ninkov 2018). This example only shows that in post-conflict societies, where citizens’ trust in institutions is often eroded, the cultural and ethical acceptability of behavioral measures is of crucial importance.

International experiences are key, as they highlight the importance of a multidisciplinary perspective. In countries in transition, public policy problems, such as youth unemployment, migration, corruption and others, are quite complex and interconnected with socio-psychological factors. There, behavioral interventions can contribute to policy implementation. For instance, behavioral insights can guide the formulation of public communications to elicit better citizen responses, but it is important to note that they cannot and are not a substitute for broader reforms. OECD (2019b) therefore recommends combining behavioral and classical measures, for example, simultaneously simplifying administrative procedures and sending reminders to citizens, which can yield better results than either of these measures if it were individual. It also emphasizes the need to include behavioral measures in all phases of the policy cycle, from defining the problem, through qualitative research on how citizens perceive a particular problem, through designing the intervention, to monitoring the effects and implementing those solutions that have been proven effective. It is particularly useful to conduct pilot projects at the local level or within smaller populations, which gives countries in transition the opportunity to gain experience through small-scale experiments, and only then can they apply them at higher levels.

In conclusion, the experiences of transitional and post-conflict countries show that behavioral methods can be very important, but it is crucial that they are carefully formulated and adapted to the specificities of each country. Experiences from other countries show that the success of implementing these measures depends on: (a) political will to try and implement new approaches, even if sometimes decision-makers do not agree with them; (b) building public trust in the government's intentions, through transparent communication about why a "nudge" measure is being introduced and what its benefits are; and (c) international knowledge exchange through networks such as the OECD and regional initiatives that can help local teams adopt best practices and avoid repeating the mistakes of others. As Afif *et al.* (2019) point out, countries that have successfully integrated behavioral methods into public policies often begin with small pilot projects and then institutionalized what worked, creating permanent units within the government. The Western Balkans and other transition countries can follow this path by first exploring their specific problems where a behavioral approach can add value, for example, through improving utility billing compliance or reducing corruption at service counters, or reducing corruption at the counter, and then implementing it through experimental pilot interventions with the support of experts. It is this approach, moving from testing to implementation, that can help make public policies in post-conflict societies more effective and closer to citizens.

### **Cognitive Biases in Decision-Making in Bosnia and Herzegovina**

The process of adopting public policies in BiH takes place in an extremely complex political and institutional framework. The state is constitutionally framed as a multi-layered and fragmented structure with four main levels of government: state, entity, cantonal and municipal, with addition of Brčko District, each with different competencies and sources of revenue. This model of fiscal federalism implies a fragmented decision-making system in which there is no single center for creating and implementing reforms, but decisions are made through multiple parallel processes in which actors with different interests participate, and as such can trigger constitutional blocking mechanisms in the event of disagreement with other actors. In such a context, the processes of adoption and implementation of reforms

are subject to slow negotiations and compromises, which amplifies the impact of cognitive biases among both policymakers and the general public. Unlike unitary states, where the reform process is in the hands of a limited number of officials, in BiH there is a large number of political and administrative officials, so heuristics and mental shortcuts are often the primary tools for actors to process complex information.

In this context, it is important to emphasize that recent research based on System Justification Theory suggests that individuals can be rational and support an institutional system even when such a system leads to suboptimal outcomes, because as such it provides psychological stability (Jost *et al.* 2004; Kay & Jost 2019). In the context of BiH and its existing constitutional constraints, this means that political inertia is often in fact strategically rational, rather than purely psychological. Accordingly, elected officials are more motivated to prioritize their work toward short-term political gains.

Recent meta-analytic evidence nuances this argument. A large-scale meta-analysis by Vargas Salfate, Spielmann and Briley (2024), drawing on 1,856,940 participants across 1,627 studies, finds that endorsement of ideologies supporting the status quo is associated with a *weak but positive* relationship with subjective well-being ( $r = .07$ ,  $p < .001$ ). Importantly, the study did not find systematic differences across social status groups, challenging the claim that disadvantaged populations uniquely internalize and rationalize unequal institutional arrangements. These findings suggest that the psychological “palliative effect” of supporting the existing social order operates broadly and may serve as a stabilizing mechanism in contexts where institutional uncertainty and risk associated with reform are high. In the case of BiH, where political and economic systems are perceived as volatile, supporting existing arrangements may offer individuals a form of psychological predictability, even when material outcomes are objectively suboptimal.

This institutional structure contributes to the persistence of the status quo bias in decision-making, as any change requires the consent of multiple levels of government and political actors with different ethnic and ideological preferences, which results in extremely strong systemic resistance. This is especially evident in tax and fiscal reforms. For almost ten years, a reform of the tax system in the entity of the Federation of Bosnia and Herzegovina has been announced, which would reduce the



tax burden on labor, currently the highest in the Western Balkans region. Reducing the tax burden would increase workers' disposable income, thereby also improving their living standard. However, these attempts are often met with resistance from politicians, although analyses indicate that such measures could benefit all actors in the long run. The reluctance to introduce new measures is partly a result of loss aversion. Politicians, aware of this bias, avoid proposing or supporting certain measures even when they are economically justified. Instead, they resort to partial or temporary solutions that maintain the status quo, because the political risk associated with comprehensive reforms is higher.

Similar patterns of behavior are also observable in the pension system. BiH has a divided and financially strained pension system across the entities that require serious structural changes, but the status quo is deeply entrenched. Changes to this system so far have mostly been partial, such as one-off pension adjustments or ad hoc increases for certain categories, instead of systemic reforms that would introduce several additional pillars for pension provision, as is the case in, say, Croatia. The reason for this is twofold, given that on the one hand, politicians are faced with the *rational irrationality* of voters, who prefer occasional increases in income over structural changes that can bring stability in the long term. On the other hand, decision-makers themselves are subject to short-term heuristics, as it is more important for them to gain benefits during their mandate than long-term advantages. The end result is that the reform process is slow and fragmented, and the financial sustainability of the system is largely at risk.

The issue of the minimum wage further illustrates the combination of cognitive biases. Discussions about its increase often focus on nominal amounts and short-term effects on workers, while broader economic effects, such as employment, productivity or price increases – inflation, are completely ignored. Here we can observe the framing effect, where political actors publicly present the minimum wage increase as “help for workers” or “fair distribution”, while opponents emphasize the “danger to employers” and “job losses”. Although in this case both sides are talking about the exact same measure, the way this measure is presented through a certain frame affects how the public will perceive the said measure and therefore may offer resistance or support. This is also consistent with the behavioral theory of temporal discounting, which shows that individuals tend to overestimate immediate outcomes over long-term benefits (Laibson 1997; Frederick *et al.* 2002). Citizens, instead of evaluating all aspects of



the measure, often emotionally rely on only one part offered by politicians, which is typical behavior that is guided by the influence of heuristics and cognitive biases.

Cognitive biases manifest themselves not only in voters but also in politicians, especially those in the executive branch, who may be prone to over-optimism regarding the effects of their own policies or underestimate the costs of reforms, which leads to planning bias, i.e. the systematic underestimation of the time and resources needed to implement a particular measure or policy. At the same time, the status quo bias acts as a “safe harbor” for them because maintaining existing policies reduces political exposure and the risk of electoral penalties.

All the biases explained above interact with each other and form their own vicious circle, in such a way that citizens perceive changes as a threat, politicians then avoid proposing unpopular measures, and the status quo is constantly reproduced. At the same time, the way in which reform measures are communicated to the public is of crucial importance. In practice, it has been proven that through carefully designed framing of information, explanations of benefits and “soft” interventions, psychological barriers and resistance among citizens can be mitigated, as well as increasing willingness to support reforms.

### **Opportunities for Integrating Behavioral Insights into Public Policies in Bosnia and Herzegovina**

Integrating behavioral methods into public policies offers BiH an opportunity to bridge the gap that currently exists between prepared reform documents and their actual impact in practice. Numerous international experiences, from the British BIT to the OECD guidelines, have shown that understanding cognitive biases can increase the effectiveness of interventions, as well as improve the relationship between the state and its citizens. For a country like BiH, characterized by a complex institutional framework and low trust in decision-makers, this approach has added value because it can help align policies with the actual behavior of citizens, instead of relying on assumptions about perfect rationality, which are very rarely fully realized in practice.

The potential benefits of integrating behavioral methods in BiH can be multiple. First, public policies could certainly become more efficient and more cost-effective, since small interventions in the preparation of

public services, or their communication, often produce larger changes in behavior rather than expensive programs based on standard incentives. Examples from other countries show that simple interventions such as optimizing forms, introducing “default” options or personalized feedback can increase tax collection, or improve public health without additional budget allocations. Second, this approach can contribute to increasing public trust in institutions. When citizens recognize that policies are designed to understand their behavior, they are more likely to perceive them as legitimate and useful, which ultimately creates a virtuous circle, so that more efficient and “humane” policies strengthen trust, and greater trust, in turn, facilitates the implementation of future reforms.

However, the integration of behavioral methods in BiH also faces numerous obstacles. First, the lack of political will and institutional disinterest leads to a terribly slow implementation of various innovations and solutions. On the other hand, behavioral interventions often require experimentation, incremental learning, as well as a willingness to accept a result that may not confirm the initial expectations of decision-makers. In a political culture dominated by short-term interests and risk aversion, this can be a serious limitation for the implementation of these measures. Second, the divided political jurisdiction in BiH certainly makes it difficult to implement new solutions, because behavioral intervention in one area, for example, tax incentives for energy-efficient construction, often requires the consent of multiple levels of government, which reduces the speed of action and ultimately the effects of the said measure. Third, low citizen trust in institutions can make it difficult to accept new policies that rely on psychological mechanisms. If the public perceives that their choices are being manipulated by “pushing” for the sake of some narrow interests, there is a risk of resistance to the implementation of the said reforms.

Despite all these obstacles, there are concrete ways to apply behavioral measures to the decision-making process in public policies in BiH. One is certainly to start with small experiments, pilot projects, for example at the local level. Such pilots allow institutions to test different approaches on a limited sample and quantify the results before deciding on full implementation of the measure. For example, a municipality could significantly increase the cost of establishing a trade if it is registered through the standard in-person method at the municipal counter and simultaneously introduce free online registration. In this way, the

municipality applies “nudging” to direct citizens’ decisions towards online registration, which can demonstrate the benefits of the behavioral approach and reduce resistance to change.

Another key element is capacity building within public administration. Behavioral approaches are not and cannot be a substitute for standard economic policy instruments, but rather an enhancement of them. In order to implement such enhancement, institutions need to have people trained to prepare different interventions, as well as a procedure that allows for rapid testing of innovative ideas. This implies the establishment of small interdisciplinary teams or departments within existing ministries, agencies or local authorities, along the lines of the BIT in the UK or “nudging” units in Germany, Canada and other countries.

The third way is the cooperation between academia and public administration. Universities and research centers in BiH could play an important role in transferring knowledge and developing new methodologies for the application of behavioral methods. By connecting the academic community in the fields of psychology, economics, and political science with the practical needs of institutions, a policy lab could be developed to serve as a practical incubator of innovation. Students and researchers could, in cooperation with municipalities or agencies, design and test small interventions, thereby simultaneously developing capacities and encouraging a new generation of experts in the field of behavioral policy. The key contribution of this method would be to show the public that such partnerships and interventions can be based on scientific evidence, rather than on traditional political manipulation.

Ultimately, BiH has a great opportunity to learn from international experiences, while developing behavioral policy models at its own pace. It is important to emphasize that starting out does not require large resources, as small, well-designed experiments in one municipality or agency can show how positive results can be achieved quickly and easily.

### *Limitations and Ethical Considerations of Behavioral Interventions*

Although we have seen that behavioral interventions offer new possibilities in the implementation of public policies, it is important to emphasize that there are also certain limitations. First, nudges often focus on automatic

decision-making processes, which means that they can improve compliance without changing basic values. On the other hand, there are authors who argue that nudges can even be manipulative or paternalistic, which can consequently reduce the importance and possibilities for the development of autonomous civic activism (Sunstein & Reisch 2018). Moreover, cultural and institutional differences may also limit the extent to which behavioral models developed in the West can be transferred to post-conflict societies such as BiH. It is very likely that behavioral effects observed in societies with high levels of trust may not translate effectively to a society with persistent institutional fragmentation. Furthermore, Gigerenzer (2007; 2015) indicates that heuristics can serve the purpose of adaptive strategies that can lead to effective decisions characterized by uncertainty. Therefore, it is important to emphasize that different behavioral approaches must be carefully adapted to local specificities, openly communicated and combined with structural reforms, rather than being presented as their substitute.

#### *Directions for Future Research and Policy Implications*

Future research in the field of behavioral political economy in BiH should be directed towards the empirical validation of the concepts and theories presented. Given the divided level of jurisdiction in BiH, and especially through ethnic segmentation, experimental research and results should carefully consider group identity, institutional trust, and perceived fairness. In this context, it is worth emphasizing that Randomized Controlled Trials could be conducted at the local level to investigate the effects of framing and default values between administrative units. Similarly, joint experiments could further help to quantify the strength of the effect of the status quo bias or the fairness heuristic in different fiscal policy scenarios.

#### **Conclusion**

This paper shows that integrating behavioral methods into the analysis and design of public policies provides entirely new possibilities for a better understanding of the decision-making process in BiH. Starting from a theoretical overview of classical and behavioral political economy, the paper shows how standard models based on rationality neglect the psychological mechanisms and heuristics that shape the behavior of voters, politicians,

and the general administration. Cognitive biases, such as loss aversion, the status quo effect, and framing, are critical factors that influence the results of decisions. A review of the literature and international experiences reveals that many developed countries and international organizations have already applied behavioral methods through special units, while transitional and post-conflict states are just entering this process.

Based on the analysis of the institutional framework of BiH, several factors promote the emergence of cognitive biases and hinder the implementation of reforms. Complex division of responsibilities, the way in which fiscal policy is conducted, as well as low trust in institutions, create an environment in which heuristics and mental shortcuts frequently override rational decision-making. Examples from tax policy, the pension system and minimum wage regulation illustrate how status quo bias and loss aversion manifest themselves in both citizens and policymakers. The discussion demonstrates that the integration of behavioral insights into public policies within BiH can bring significant benefits, from increasing efficiency and reducing the costs of implementing reforms, to strengthening public trust, but also underscores serious obstacles in the form of political will. Small pilot experiments, capacity building in public administration, as well as systematic cooperation with the academic community represent feasible strategies.

Therefore, this paper represents primarily a theoretical framework for future empirical research, as it synthesizes the main concepts and international experiences, and places them in the context of the institutional specificities of BiH. In this way, the paper can serve as a basis for the preparation of specific behavioral interventions in public policies.

In addition to these aspects, it is necessary to further emphasize that there is a need for additional research for several reasons. First, the empirical basis on behavioral factors in public policies in BiH is practically non-existent, leaving ample opportunities for original scientific research and comparative studies with other transitional and post-conflict societies. Second, the application of behavioral methods requires an interdisciplinary methodological framework that includes experimental and quasi-experimental methods, qualitative and quantitative techniques, as well as close cooperation with institutions to access data and test pre-prepared interventions. Third, it is necessary to analyze the ethical and normative aspects of such approaches in the context of BiH, where trust in institutions

can significantly affect the acceptability of certain reforms designed with the application of behavioral methods. Finally, this paper seeks to contribute to the establishment of a new research direction in domestic political science and economics literature, which is the combination of behavioral methods with the analysis of public policies and political economy in BiH.

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## **Bihevioralna politička ekonomija: kognitivne pristranosti u kreiranju politika u Bosni i Hercegovini**

*Sažetak:* U sklopu ovog rada istražuju se mogućnosti primjene bihevioralnih metoda u primjeni javnih politika u Bosni i Hercegovini, polazeći od teorijskog okvira bihevioralne političke ekonomije. Kroz rad je prikazan razvoj od klasične političke ekonomije i pristupa javnog izbora prema savremenim teorijama koje uvažavaju kognitivne pristranosti i heuristike. Posebno se razmatraju efekti kao što su averzija prema gubitku, *status quo bias* i *framing*, kao i njihov uticaj na birače i donosiocje odluka. U radu se također daje pregled međunarodnih iskustava, počevši od "Behavioural Insights Team"-a u Ujedinjenom Kraljevstvu do OECD-ovih smjernica i inicijativa u tranzicijskim i postkonfliktnim društvima, a sve u cilju kako bi se identificirali modeli i primijenile naučene lekcije. Dodatno, dio u radu je fokusiran na specifičnosti institucionalnog okvira u Bosni i Hercegovini, tako što pokazuje kako podjeljena nadležnost između različitih nivoa vlasti i nisko povjerenje u institucije utiču na veću nivo primjene kognitivnih pristranosti i otežavaju provedbu reformi. U sklopu diskusije ukazuje na potencijalne koristi i prepreke integracije bihevioralnih metoda u primjenu domaćih politika kroz različite eksperimente, izgradnju kapaciteta i saradnju akademije i javne uprave.

*Ključne riječi:* bihevioralna politička ekonomija; kognitivne pristranosti; javni sektor; Bosna i Hercegovina