

Book review: *Nudge: Improving Decisions About Health, Wealth, and Happiness*
Richard Thaler and Cass Sunstein, New Haven: Yale University Press, 2008.

by Naomi Creutzfeldt-Banda and Sweta Chakraborty

The authors guide us through 18 chapters of examples of how Humans make decisions and recommend how governments and policy makers can influence choices, by “*nudging*.” The authors argue that no set of decisions starts from a well-informed and neutral point; rather that the choices presented to us are framed and influence our behaviours. This is described as “*choice architecture*” and stems from research in how lay people (referred to as *Humans*) make decisions. The authors have utilized such findings from the field of *Decision Science* to provide a collection of what some might consider being common sense approaches to enable *Humans*, who can have difficulties making “the right decisions,” to allegedly choose better.

Sunstein¹ and Thaler² introduce us to their new movement of “*libertarian paternalism*”. This concept suggests that people are free to choose and “opt-out” of undesirable arrangements, in the context of designing policies and maintaining freedom of choice. Within the paternalistic aspect, the authors argue “it is legitimate for choice architects to try to influence people’s behaviour in order to make their lives longer, healthier and better”. Choice architects can take the form of employers, governments, cafeteria workers, etc. who design options to nudge decisions to improve health plans, reduce air pollution, and help children choose healthy food respectively. Within the emerging science of choice, the authors use *Humans* and *Econs* (or experts) as examples throughout the book to illustrate that “a nudge is any factor that significantly alters the behaviour of *Humans*, even though it would be ignored by *Econs*. *Econs* respond primarily to incentives”. The authors also highlight that “it is a false assumption that almost all people, almost all of the time, make choices that are in their best interest.”

Part one *Humans and Econs*, defines *Humans* (i.e. real people, homo sapiens) and *Econs* (i.e. homo economicus) and helps the reader understand how we think and why we take certain decisions, relating to our reflective and automatic systems. The authors talk about framing as a powerful nudge, as “people tend to be somewhat mindless, passive decision makers.” As *Humans* we have self-control problems and put ourselves in “automatic pilot” mode and pay little attention to the task at hand. If these self-control problems and mindless choosing are combined, the result is a series of bad outcomes for real people (i.e. decisions leading to smoking, obesity, poor retirement savings plan). As *Humans* we are easily influenced by the statements and deeds of others. A small social nudge can turn into significant social changes in policies and markets. Therefore, choice architects have to know how to encourage social

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² Richard H. Thaler is the Robert P. Gwinn Professor of Behavioural Science and Economics, and Director of the Center for Decision Research, Graduate School of Business, University of Chicago.

beneficial behaviour and to discourage bad behaviour. Within group behaviour the authors discuss the concepts of collective conservatism and pluralistic ignorance. Social influences are often used strategically for some pet purpose, for example by advertisers or political parties. Regardless of intended outcomes, providing structure within the growing number of choices available allows the choice architect to influence choice selection of *Human* users.

In Part two *Money*, the authors tell us about how people can do a better job at the difficult task of saving, investing and borrowing. There are many examples in this part, including pension plans, savings plans, stock market, credit cards, mortgages – all aimed at making the choices easier for *Humans*, by nudging. The nudges are aimed at preventing people to be exploited and to help “unsophisticated and uneducated shoppers” to take the choice that is right for them, through transparency, for example. The message that the authors convey in this part of their book is that the more choices people are given, the more help with decision-making needs to be provided as choices become more complicated.

Part three *Society*, gives examples of how improved individual decisions would benefit society as a whole. The authors give examples of how Medicare Part D, organ donations, climate change, and marriage could improve with the right choice architecture in place to nudge behaviours and decisions. In regards to Medicare Part D, the authors suggest that their RECAP system of information disclosure and transparency, if applied by insurers and the Medicare website, would be of significant help to seniors in their decision regarding their health care plan. This suggestion of changing default rules is also applied to organ-donation, adopting mandated choice and the influence of social norms. The authors discuss the environment as “the outcome of a global choice architecture system which decisions are made by all kinds of actors.” In this case the suggested choice architecture is feedback and incentives.

In part four *Extensions and Objections*, we are reminded that choice architects have to do *something* to influence the automatic and reflective system to make better decisions for us. However, what if the choice architects have their own agenda? The authors suggest creating rules of engagement that reduce fraud or other abuses that promote healthy competition, that restrict interest group power and that create incentives to make it more likely for the architects to serve public interest. Despite the potential for exploitation, the authors reiterate that unsophisticated choosers are helped by nudges. They conclude that nudging helps those who need help while imposing minimal costs on those who do not.

The authors have produced an influential piece of literature that shows, through a wealth of examples (i.e. food placement in school cafeteria, obesity, music downloads, tax-incentives for polluters), how existing theories of behavioural economics and decision sciences can be practically applied. The book explains in laymen’s terms how decisions can be influenced by the way choices are framed, making such concepts accessible to a larger non-academic audience. This is one example of how *Human* decision-making can be irrational, or influenced by non-relevant factors. Overall, the book aptly describes how lay people are not inherently rational decision makers (*Humans* versus *Econs*), but instead fall prey to heuristics and biases, or shortcuts in decision-making. An example of this would be someone choosing to drive to a destination rather than fly because of the cognitive salience of a recent plane crash. Disregarding the actual base rates statistics of plane crashes as compared to driving accidents is an example of *Human* shortcomings in probabilistic reasoning. If there was some way for authorities to influence decisions so that potential driving related fatalities were

reduced, then surely that would be beneficial to drivers and society as a whole. To this extent, the concept of “nudging,” based on knowledge of how *Human* cognitive processes work, cannot be faulted for its intentions.

While it appears a positive notion to influence *Human* decision-making in a way that would, for example, reduce the amount of unnecessary driving fatalities due to base rate fallacy bias described, the notions of “nudging” and “libertarian paternalism” could be critiqued for being fundamentally technocratic. While *Human* decision makers may be irrational, as deemed by theories in economics, their inherent cognitive shortcuts in decision-making have allowed for efficiency and human progress. Assuming that the *Human* decision maker is incapable of rationalistic reasoning may prove counterproductive, even patronizing. There has been a shift in policy from *the expert knows best* to involving publics in decisions that impact their lives. To this extent, libertarian paternalism, whilst a much improved concept from that of a pure technocratic policy approach, may be perceived as promoting the divide between experts and laypeople.

The authors encourage the reader to actively think about making choices that may not be intuitive, but are in their best interest. With knowledge, *Human* decision-making can overcome the bounds of irrationality. While books like *Nudge*, and Malcolm Gladwell’s *Blink* and *The Tipping Point*, can be dismissed as “pop science” in some academic circles, they do successfully raise public awareness to empirical research otherwise only accessible to those who pursue academic literature. These books promote self-reflection of one’s own psyche, but a widespread evolution in *Human* decision-making may take time. In the meantime, choice architecture can be put in place to ease decision-making. In fact, some of the suggestions for libertarian paternalism in savings have already been enacted into law (Pensions Protection Act 2006 / ATM beep when forgetting your card / automatic enrolment for 401 9K0 plans).

The book itself was consistent in its argument, albeit repetitive at times. The point of the argument was clear and the title well suited for its primary theme. The book contributes to a growing area of commercially applicable academic research. The examples described are well chosen and are based on clever and accessible ideas. For example, CARES (Committed Action to Reduce and End Smoking) is a savings program offered by the Green Bank of Caraga in Mindanao, Philippines. This program gives people an incentive to quit smoking by opening a savings account and depositing the amount of money otherwise spent on cigarettes into the account. After six months and a clean urine test the person gets their money back; if the test is failed then the money gets donated to a charity.

Nudge is US focused (ie. examples given of pensions and health plans), but the examples can provide a basis for comparison to other countries. There also appears to be inherent hypocrisy in the author’s insisting they are preserving the individual’s freedom of choice. However, they have written a book on how to best frame/nudge/influence the way that people make choices by restricting them. Further, the book has adopted theories already prevalent in academic literature and presented them from a different angle. Thus, this book cannot claim to introduce a novel concept.

In conclusion, we believe the book itself is well written, easy to follow, and quite entertaining. The book successfully promotes empirically founded decision-making approaches to a *Human* audience. While these approaches could seem to be common sense,

they are not necessarily intuitive. For this reason, many people could benefit from reading this book to be more aware of nudges and consider their own decision-making behaviour. On a wider scale, introducing the concept of *nudging* has and may continue to prove beneficial in terms of a trend towards a paternal libertarian policy approach. For this reason, policy makers, from local to federal levels, could also benefit from reading this book. Implementing some of the recommended measures could result in general increased rational decision making, while *Humans* are individually encouraged to make decisions that are in their own best interest.