



Nudge

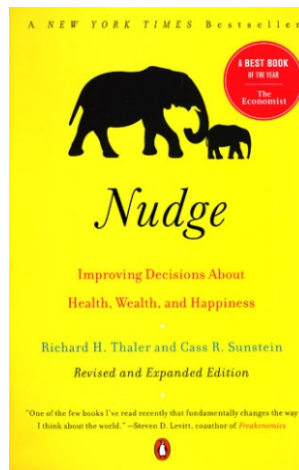
Improving Decisions About Health, Wealth, and Happiness

By Richard H. Thaler and Cass R. Sunstein, Penguin Books, 2008

Nudge is about choices – how we make them and how we’re led to make better ones.

Authors Richard H. Thaler and Cass R. Sunstein offer a new perspective on how to prevent the countless bad mistakes we make in our lives, including ill-advised personal investments, consumption of unhealthy foods, neglect of our natural resources, and other numerous bad decisions regarding health care, our families, and education.

Citing decades of cutting-edge behavioral science research, they demonstrate that sensible “choice architecture” can successfully nudge people toward the best decision without restricting their freedom of choice.



About The Authors



Richard Thaler. Richard Thaler is the Ralph and Dorothy Keller Distinguished Service Professor of Economics and Behavioral Science at the Graduate School of Business, University of Chicago, and Director of the GSB's Center for Decision Research. He is also Research Associate at the National Bureau of Economic Research where he co-directs the Behavioral Economics Project (with Robert Shiller).

Thaler is considered by many to be the inventor of the field of behavioral economics, which integrated psychological research with economic theory. He is also one of the pioneers of behavioral finance, as well as several other offsprings of behavioral economics. For many years he wrote a series of influential articles on "Anomalies" in the Journal of Economic Perspectives.



Cass R. Sunstein is the most-cited law professor on any faculty in the United States (and probably the world). Starting in the fall of 2008, he will be a professor at the Harvard Law School where he will direct the Program on Risk Regulation.

In the winter, he will also be Harry Kalven Visiting Professor of Law at the University of Chicago. "The preeminent legal scholar of our time - the most wide-ranging, the most prolific, the most cited, and the most influential," says Harvard Law School Dean Elena Kagan. As an author or co-author of more than 15 books and hundreds of academic articles, Sunstein has crossed academic borders throughout his career to offer unique insights on law, public policy, economics, and psychology.

Inside This Book Summary

- Why You Need This Book**
- Why Do We Need Lifelines?**
- Following The Herd**
- Why Do We Need A Nudge?**
- Fraught Choices**
- Choice Architecture**
- Save More Tomorrow**
- Nudging High Schoolers Toward College**
- What is Marriage?**
- A Dozen Nudges**





Why You Need this Book

This informative and entertaining book is a must read for anyone with an interest in individual and collective well-being. It will change the way you think, not only about the world around you and some of its bigger problems, but also about yourself.

you might go along with the crowd to avoid their wrath or curry their favor.

For a quick glance at the power of social nudges, consider just a few research findings:


1. Teenage girls who see that other teenagers are having children are more likely to become pregnant themselves.
2. Obesity is contagious. If your best friend get fat, your risk of gaining weight increases.
3. Broadcasters mimic one another, producing otherwise inexplicable fads in programming.
4. The academic effort of college students are influenced by their peers, so much so that the random assignments of first-year students to dormitories or roommates can have big consequences on their grades and hence, on their future prospects as well.
5. Federal judges on three-judge panels are affected by the votes of their colleagues. The typical Republican appointee shows pretty liberal voting patterns when sitting with two Democratic appointees, and the typical Democratic appointee shows pretty

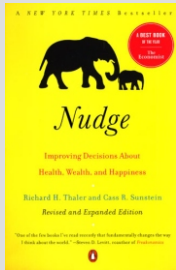
FOLLOWING THE HERD

Social influences come in two basic categories.

The first involves information. If many people do something or think about something, their actions and their thoughts convey information about what might be best for you to do or think.

The second involves peer pressure. If you care about what other people think about you, then

 **About the Book**



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conservative voting patterns when sitting with two Republican appointees. Both sets of appointees show far more moderate voting patterns when they are sitting with at least one judge appointed by a president of the opposing political party.

The bottom line is that humans are easily nudged by other humans. Why? One reason is that people like to conform.

WHEN DO WE NEED A NUDGE?

Choice architecture and its effects cannot be avoided, and so, the short answer is an obvious one. Call it the golden rule of libertarian paternalism: offer nudges that are most likely to help and least likely to inflict harm.

A slightly longer answer is that people will need nudges for decisions that are difficult and rare, for which they do not get a prompt feedback and when they have trouble translating aspects of the situation into terms that they can easily understand.

The key point is that for all their virtues, markets often give companies a strong incentive to cater to (and profit from) human frailties, rather than to try to eradicate them or to minimize their effects.

FRAUGHT CHOICES

Suppose you are told that a group of people will have to make some choice in the near future. You are the choice architect. You are trying to decide how to design the choice environment, what kinds of nudges to offer, and how subtle the nudges should be.

What do you need to know to design the best possible choice environment?

Benefits Now – Costs later. It is seen that predictable problems arise when people must make decisions that test their capacity for self-control.

Many choices in life, such as whether to wear a blue shirt or a white one, lack important self-control elements. Self-control issues are most likely to arise when choices and their consequences are separated in time.

Degree of Difficulty. Nearly everyone over the age of six can tie shoelaces, play a respectable game of tic-tac-toe, and spell the word cat. But only a few of us can tie a decent bow tie, play a masterly game of chess, or spell the name of the psychologist Mihaly Csikszentmihalyi.

Of course, individuals learn to cope with the harder problems. They can buy a prettier bow tie, read a book about chess, and look up the spelling of Csikszentmihalyi on the Web.

They use spell checkers and spreadsheets to help with harder problems. But many



problems in life are quite difficult, and often there is no technology as easy as a spell checker available to help.

People are likely to need more help picking the right mortgage than choosing the right loaf of bread.

Frequency. Even hard problems become easier with practice. We have managed to learn how to serve a tennis ball into the service court with reasonable regularity, but it took some time.

The first time people try to execute this motion, they are lucky if the ball goes over the net, much less into the service box. Practice makes perfect (or at least better).

Feedback. Even practice does not make perfect if people lack good opportunities for learning. Learning is most likely if people get immediate, clear feedback after each try.

If you take the long route home every night, you may never learn there is a shorter one. Long-term processes rarely provide good feedback. When feedback does not work, we may benefit from a nudge.

Knowing what you like. It is particularly hard for people to make good decisions when they have trouble translating the choices they face into the experiences they will have.

A simple example is ordering a dish from a menu in a language you do not understand.

But even when you do know the meaning of the words being used, you may not be able to translate the alternatives you are considering into terms that make the slightest sense to you.

CHOICE ARCHITECTURE

Here are sketched six principles of good choice architecture. As a concession to the bounded memory of our readers, the authors thought it might be useful to offer a mnemonic device to help recall the six principles.

By rearranging the order, and using one small fudge, the following emerges:

- i**Ncentives
- U**nderstand mappings
- D**efaults
- G**ive Feedback
- E**xpect Error
- S**tructure complex choices

Voila! NUDGES.

With an eye on these Nudges, choice architects can improve the outcomes for their Human users.



SAVE MORE TOMORROW

Although automatic enrollment is effective at getting new and young workers to enroll sooner than they would have otherwise, participants tend to stick with the default contribution rate, which is typically quite low.

To mitigate this problem, consider a program of automatic escalation of contributions, developed by Thaler and his frequent collaborator Shlomo Benartzi, called Save More Tomorrow.

Save More Tomorrow is a choice-architecture system that was constructed with close reference to five psychological principles that underlie human behavior:

- Many participants say that they think they should be saving more, and plan to save more, but never follow through.
- Self-control restrictions are easier to adopt since they take place some time in the future.
- Loss aversion: people hate to see their paychecks go down.
- Money illusion: losses are felt in nominal dollars (that is, not adjusted for inflation) so, a dollar in 1995 is seen as worth the same as a dollar in 2005.
- Inertia plays a powerful role.

Save More Tomorrow invites participants to commit themselves, in advance, to a series of contribution increases timed to coincide with pay raises.

By synchronizing pay raises and savings increases, participants never see their take-home amounts go down, and they don't view their increased retirement contributions as losses.

Once someone joins the program, the saving increases are automatic, using inertia to increase savings rather than prevent savings.

When combined with automatic enrollment, this design can achieve both high participation rates and increased saving rates.

NUDGING HIGH SCHOOLERS TOWARD COLLEGE

Good choice architecture doesn't need to originate with a "wonkish" professor and a powerful computer algorithm. It can be the brainchild of a local school official or two.

The major problem, and our principal concern here, is that what is true for investments and prescription drugs is true for education as well.

It is not enough to make lots of choices available and then hope parents choose wisely.



School systems need to put parents in a position to think through their choices, and to exercise their freedom rather than to rely on the default option.

Both parents and children need the right incentives. FDR's "right to education" is not part of the Constitution, but it has become a cultural commitment, and a few simple steps could enable many more children to enjoy that right.

WHAT IS MARRIAGE?

As a matter of law, marriage is no more and no less than an official status, created by the state and accompanied by government entitlements and mandates.

When you are married, you get many material benefits, economic and noneconomic. State law varies, but these benefits fall into six major categories.

1. Tax benefits (and burdens). The tax system offers big rewards to many couples as a result of marriage – at least if one spouse earns a great deal more than the other. (There can a big marriage penalty if both spouses earn substantial incomes.)
2. Entitlements. Federal law benefits married couples through a number of entitlement programs. Under the Family and Medical Leave Act, for

example, an employer must allow unpaid leave to a worker who seeks to care for a spouse; it need not do so for "partners." State laws often grant similar advantages to members of married couples.

3. Inheritance and other death benefits. A member of a married couple obtains a number of benefits at the time of death. A husband or wife can give his or her entire estate to the spouse without incurring any estate taxes.
4. Ownership benefits. Under both state and federal law, spouses may have automatic ownership rights that mere partners lack. In community property states, people have automatic rights to the holdings of their spouses, and they cannot contract around the legal rules.
5. Surrogate decision making. Members of a married couple are given the right to make surrogate decisions of various sorts in the event of the other's incapacitation. When an emergency arises, a spouse is permitted to make judgments on behalf of an incapacitated husband or wife. Partners are far less likely to obtain these benefits.
6. Evidentiary privileges. Federal



courts, and a number of state courts, recognize marital privileges, including a right to keep marital communications confidential and to exclude adverse spousal testimony.

A DOZEN NUDGES

Here are a dozen more mininudges, if you will.

1. **Give More Tomorrow.** Many people have strong charitable impulses, and it is suspected that because of inertia they give far less than they actually want to give. Their Reflective System wants to be charitable, but their Automatic System doesn't get around to it.

How many times have you thought that you ought to provide some help but failed to do so because the moment passed and you focused on other things? A simple nudge would be a Give More Tomorrow program.

2. **The Charity Debit Card and tax deductions.** A related nudge would make it easier for people to deduct their charitable contributions.

An obvious solution is the Charity Debit Card – a special debit card that would be issued by banks and accepted only by charities.

3. **The Automatic Tax Return.** Speaking of taxes and automatic processing, no sensible choice architect would design the current income tax system, which is famous for its complexity. Withholding was a major advance that simplified life for everyone.

4. **Stikk.com.** Many people need help in achieving their goals and aspirations.

Committing oneself to a specific action is one way to improve the odds of success.

Stikk offers two ways to make commitments: financial and nonfinancial.

5. **Quit smoking without a patch.** Organizations already exist to help people make commitments and achieve goals.

6. **Motorcycle helmets.** Many states ban people from riding motorcycles without helmets.

7. **Gambling self-bans.** Gambling raises complex issues, to say the least, and we will not explore in any detail what a libertarian paternalist might do in this area.

8. **Destiny Health Plan.** Insurance companies don't like paying large medical bills any more than patients do. There is room for some creative efforts on the part of such



Companies to work with their Customers to improve people's health while reducing medical bills for all.

- 9. Dollar a day.** Many people are touting "dollar a day" as a model program for helping reduce teenage pregnancies. This is a program by which teenage girls with a baby receive a dollar for each day in which they are not pregnant. So far, the results have been extremely promising.

- 10. Filters for air conditioners; the helpful red light.** In hot weather, people depend on air conditioners and many central air-conditioning systems need their filters changed regularly. The solution is simple: people should be informed via a red light in a relevant and conspicuous place that the filter needs to be changed.

Many contemporary cars notify people when the oil needs to be changed, and many new refrigerators have a warning light for their built-in water filters. The same can be done with air conditioners.

- 11. No-bite nail polish and Disulfiram.** People who hope to change certain bad habits might want to buy products that make it unpleasant, or painful to continue to indulge those habits.

Through this route, the Reflective System can choose to discipline the Automatic System through products that tells the Automatic System to Stop!

Disulfiram causes alcohol drinkers to throw up and suffer a hangover as soon as they start to drink. For some people suffering from chronic alcoholism, Disulfiram has had a strong and positive effect as part of a treatment program.

- 12. The Civility Check.** The modern world suffers from insufficient civility. Every hour of every day, people send angry emails that they soon regret - cursing people they barely know.

A few of us have learned a simple rule: don't send an angry email in the heat of the moment. File it, and wait a day before you send it. The civility check proposal is something that can tell whether the email you are about to send is angry and caution you,

"WARNING: THIS APPEARS TO BE AN UNCIVIL EMAIL. DO YOU REALLY AND TRULY WANT TO SEND IT?"

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