

REVIEWS:

NUDGE: IMPROVING DECISIONS ABOUT HEALTH, WEALTH AND HAPPINESS

R.H. Thaler, C.R. Sunstein

Penguin, 2009

306 pages, ISBN: 978-0-141-04001-1

*Simon Rooze**

Introduction

Since the Culture Wars in the United States (U.S.), government influence has been the subject of fierce debate. 'Nudge', written by Richard H. Thaler and Cass R. Sunstein, tries to soften the often hard-edged ideological lines between libertarianism and paternalism. This book is an attempt to steer people in a direction without imposing any limitation on the choices they can make. To do this Thaler and Sunstein used the term 'nudge', in normal parlance, a gentle push to urge into action. The authors gave it a political philosophical meaning: "A nudge [...] is any aspect of the choice architecture that alters people's behavior in a predictable way without forbidding any option or significantly changing their economic incentives."¹ They illustrate this with the example of Carolyn who is in charge of hundreds of school cafeterias. She finds out that the food placed at eye level is most consumed by the school children, regardless of whether it is vegetables or fast-food. By arranging the cafeteria in such a way that the healthier food will be consumed more, Carolyn can have a serious influence on the consumption and health of the school children. This is an example of influence without affecting the choice the pupils have. Students can still choose to eat candy bars and fast food.

Thaler and Sunstein use this example to show not only the way a nudge can be used, but also that there is no neutral design. The choice architect consciously constructs the context in which a decision is taken. Since the design is conscious the choice-architect has the responsibility to anticipate human behaviour. Carolyn knows that whatever decisions she makes regarding the arrangement of the cafeterias, it will have an influence on the eating-patterns of a number of children and their health. Hence she has to decide what would be best for the children and frame the context in a way that will make them healthier. Libertarian paternalism offers the option to nudge, to influence without serious constrains. In order to keep open a number of choices, a nudge must be avoidable with only very limited cost. For the school children the cost will be reaching to a higher drawer or

* *Simon Rooze recently received his Master degree in European Studies and his Bachelor in Philosophy.*

¹ R. Thaler and C. Sunstein, *Nudge: Improving decisions about health, wealth and happiness*, London: Penguin 2009, p. 6.

walking a bit further if they want unhealthier products. Although there may be some constraints (which there would be anyway, according to the authors) freedom of choice is guaranteed by libertarian paternalism. The paternalistic aspect lies in the idea that it is legitimate for choice architects to influence people in order to make their lives longer, healthier and better.

Humans and Econs

The originality of this book lies in what Thaler and Sunstein see as human behaviour. They stress that there is an important difference between normal humans and what they call 'Econs', the humanlike creatures that respond to the economic laws written in textbooks. Man is not a *homo economicus* with the superpower to process all information to oversee market conditions or the discipline to always do what is in his and society's best interest. To emphasise this, they refer to the rates of overweight and obesity (respectively 60% and 20% in the U.S.). In other Western countries similar figures can be found.

Another example in which humans fail to live up to the textbook image is the planning fallacy. Humans are extraordinarily bad at predicting the future. Obviously people have difficulty choosing an optimal diet or making a correct prediction. When choices are maximised, as is the case in optimal market conditions, many humans have great difficulty deciding which choice is the best. The authors therefore question the rationality of decisions people make. Too often judgment is flawed and wrongly biased.

What makes us so fallible? The human brain has two systems: an automatic and a rational. The automatic system is fast, responds instinctively in associative way and is unconscious. On the other hand there is the reflective system, which works slowly, deductively and consciously. In many instances the automatic system takes over, for example if we have to decide if something is the right price. In a situation where we have to calculate a certain amount of euros into dollars we switch to the reflective system. In order to cope with the many tasks and complicated situations humans face, we tend to simplify using rules of thumb. Using these rules of thumb as heuristic principles the automatic and reflective Systems interact. Thaler and Sunstein distinguish three rules of thumb: (1) anchoring, (2) availability and (3) representativeness. *Anchors* are used to estimate, for example, the population size of an average city in U.S. The number to begin with is a number you know, and then you adjust it in what you think is the right direction. Anchors serve as points of reference and can be used as a nudge. People give more to a charity if the given amount of money to donate is set higher. They donate more if the average amount is set on 100 dollars instead of 10 dollars. The second rule of thumb, *availability*, builds on past experiences. People assess the risk of an earthquake or terrorist attack as likelier or more dangerous if they have already experienced one. The availability of past experience often leads to misjudgment concerning the likelihood of an event. The last form of biased judgment is *representativeness*. This is a classical prejudice, for example that a woman is more likely to be a

librarian than a manager of a construction company. All three of these rules of thumb are examples of biased judgment and can lead the mind easily in to quicksand.

Thaler and Sunstein give many examples of biased judgment and note that when aware of human flaws it is possible to find solutions for them in the form of nudges. Many people have problems with self-control, especially when combined with mindless choosing. In order for the 'planner' to overcome the lazy 'doer' in us (the Homer Simpson stereotype) it is necessary to find smart ways to control our inhibitions. An example is given of two friends, John Romalis and Dean Karlan, who decided to lose weight. If one did not reach his goal before a certain time, he would have to pay the other \$10,000. After both men achieved their goals they found a solution for not regaining weight. They agreed that they could always call each other to ask for a weigh-in. If one was overweight, he would have to pay the other 10,000 dollars. Loss aversion, Thaler and Sunstein explain, is one of the strongest drives. On one hand it can lead to inertia, because people must have a chance of winning roughly two times more than they risk to lose. But on the other hand it can be a strong motivator if something is at stake. Based on this principle Dean Karlan began the website stickk.com. On this website you can post your goal and an amount of money that you are willing to put at stake. If you fail to accomplish your goal, the money you put at stake can be donated to a charity or even an anti-charity such as a political party you don't like.

Nudges in Government Policy

The scope of the book is much wider than weight issues only. Thaler and Sunstein cover a broad range of subjects including privatisation of social security, credit markets, mortgages and health care. Their general critique is that decisions in these fields for most people are too complicated. In markets that lack transparency, information may be so difficult to process due to different standards and products so complex that even the people who sell them are puzzled. In these market conditions a maximisation of choice is not something that will help people to make better decisions. The authors suggest possible solutions such as automatic enrolment in pension plans, default settings for the asset allocation and a strategy of "Save More Tomorrow". The last is based on the idea that people often think they should save more, but because of loss aversion (they would have less money to spend that month) are reluctant to change their contribution. By offering the participants a pension plan to raise their saving rate over time they don't feel the pain immediately. All the suggestions made are directed at making it easier and faster for people to decide upon things that are in their best interest, without imposing set rules. Although these plans would be best for most people, they can also have a serious impact on government budget, certainly in the field of social security and health care. What is missing in Thaler and Sunstein's exposé is a principle debate. The pragmatic nature of the subject seems to avoid questions that discuss whether government

should get involved in these fields. This undermines the legitimacy of measures taken in the form of nudges, but also that of possible costs that will come forth from changing choice architecture.

The two most controversial subjects the authors write about are organ donation and marriage. In the case of organ donation, according to the authors, it is important to increase the number of donations by signing up more people as donors. Research has shown that more people are willing to donate their organs than those who are actually registered donors. From this, they conclude that it is the whole process of registration that deters people. Their suggestion is to change the choice architecture by changing the default from explicit consent into presumed consent. Every national would then be a donor unless they would register otherwise. Also in this case Thaler and Sunstein avoid a principle discussion; they only focus on how choice architecture can be used to nudge people in what is presumed the right direction. People wary of government influence will not like to be tricked into some plan even if they can opt out. Moreover the integrity of the human body is so fundamental that government should be reluctant to make laws that can violate it. Besides that, there are many other problems when no explicit choice is made, specifically in situations where people are ill-informed or in doubt. The objection from the authors against presumed consent is mainly pragmatic. They think the family of the donor can be a problem if they dissent and that presumed consent would be hard to sell politically. As an alternative system they propose the mandated choice in which people are obliged to make a choice. However, the efficacy of this can be questioned because there is no proof that this will make more people sign up as a donor.

The most far-reaching idea suggested by the authors is that of privatising marriage. The recent uproar in the U.S. about same-sex marriage can be resolved according to Thaler and Sunstein by terminating the laws that govern marriage a whole. Marriage as we know it now is something 'old fashioned' as the authors put it. Instead, they propose that the privatisation of marriage would create a civil union between any two people. Marriage would then be a strictly private matter that could only be performed in private organisations. The authors also argue that it is unconstitutional to exclude people from official marriage. "... suppose that whites and blacks were told that they could have access to all of the material benefits of marriage but that they would be in a status called 'civil union' rather than 'marriage'. Exclusion from the institution of marriage – from the official status – would itself be an offense to interracial couples. In fact, it would violate the Constitution in many legal systems."² Even the protection of children, which is one of the reasons for official marriage, is not sufficient to preserve this. The opinion of the authors is that private marriage and civil union do not offer less protection than official marriage does. Thaler and Sunstein disavow some important benefits of official marriage. Firstly, they seem to deny that some government control can be necessary to prevent

² *Idem*, p. 214.

undesirable situations like brother-sister marriage and polygamy. Secondly, marriage is traditionally bound to the age people are ready to reproduce. There would be no age-limit to marriage, although there would be for civil union and sexual relations. In this situation it would be possible for a 9 year old to marry a 52 year old. Thirdly, official marriage is not only nationally acknowledged, but also internationally. Civil union between any two partners would make it difficult to decide what the nature of a relation is. In a marriage the bond is clear, but in a civil union the motive is of no importance. In case of migration, international inheritance or family reunification this could cause serious problems. The authors concluded that in the free market, many people were not able to judge rationally and could use some nudges like default-settings for their pension plans. Now for marriages they expect people to have clear ideas what they want, for example how they will arrange financial responsibility in their civil union. Official marriage, with all the standard agreements as a default setting for a durable relation, seems unacceptable to them. Although they make some suggestions to replace the arrangements now found in marriage to the civil union, choosing an official form for a durable relation will get more complex.

A nudge seems to be an ambiguous thing. As Thaler and Sunstein recognise it can be used to do good and to do harm. They acknowledge that the recent financial crisis was partly caused, because people bought financial products they did not understand and got exploited. They got nudged into something bad. However, while they make some proposals to reform the market from a consumer's perspective, they completely ignore the bankers, the financial choice architects that made the products which caused the financial crisis. In a way bankers earning enormous wages got nudged into taking large risks without being sufficiently responsible. Could there be (meta-)nudges that would help choice architects to make better decisions? Maybe it is possible to think of nudges that work as checks and balances, but in the end it boils down to morality. In the last chapter in which they discuss some objections, they decide that nudges from private organisations are more dangerous than that from public organisation, because the latter has the intention to do good for society. But despite good intentions, public organisations can do harm. They explain that an architect will not stop designing buildings when he has a conflict of interest with his clients. According to Thaler and Sunstein a choice architect is in exactly the same position, conflicts of interest can arise, but should not be a reason to do nothing at all. It would be unrealistic to expect them to find a final solution for human fallibility, but the paternalistic aspect of liberal paternalism is a bit meager. Moral judgment seems almost absent not only in their account of the financial crisis, but also in many of the other fields in which they suggest nudges be used.

The importance of liberal paternalism

The authors stress that liberal paternalism is no oxymoron, but a middle ground alternative, 'the real third way' as the concluding chapter is named. Previous attempts to find middle ground between liberalism and social

democracy, like the Third Way movement in nineties of the last century, were pervaded by a lot of talking, as Thaler and Sunstein write. The Third Way movement, born out of the failure of socialism, tried to implement the traditionally more right-wing ideas of deregulation and privatisation into (social) democratic thinking. As the former Dutch prime minister Wim Kok once said, social democracy had to 'lose its ideological feathers'. The pragmatism going hand in hand with middle ground alternatives ended in many cases in technocratic policies that were not supported by clear political ideas, but grew out of vague consensus. The ideological appeal of Third Way thinking was difficult to find. Does the same go for the Third Way attempt of Thaler and Sunstein? The current situation differs much from that in the nineties. The financial and economic crisis has shown to some degree that deregulation and privatisation has its limits. Humans have shown not to be the *homo economicus* that would protect us against economic bubbles and misjudgment. In a way the old-Third Way made the economic crisis possible. Now what can the new-Third Way do about the economic crisis? In a post-scriptum the authors try to answer this question. Their solution would be to simplify financial products and make the market more transparent. Nudges could be part of the solution by the way information and choices are presented. Human investors would then be less susceptible to think that house prices will rise eternally and less susceptible to borrow and spend more and more by refinancing their houses. Still, their answers are mainly pragmatic and not aimed at finding an alternative to the current situation in terms of new political ideas. Therefore they seem to fall in the same trap as the Third Way-movement in the nineties.

This book might be more than just an interesting theoretical exercise. Sunstein was appointed head of the OIRA (Office of Information and Regulatory Affairs), an organ within the Executive Office of President Obama, which oversees the implementation of government policy. Most scholars tend to stay in their ivory tower, but Sunstein will have the opportunity to test his ideas in reality. Although much critique on his and Thaler's liberal ideas is possible, the originality and great value of this book is the new perspective on how important it is that government realises that it has to deal with real humans and not Econs. The attention of the authors to human behaviour and the way choice architecture nudges people can be of great value in resolving some of the underlying causes of the economic crisis. The importance of this book is not only a new interesting idea, but also a document that can have a serious influence on the government policy of the U.S.