



Nudge

Improving Decisions About Health, Wealth, and Happiness

by Richard H. Thaler & Cass R. Sunstein
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Take-Aways

- People don't choose freely, even when they think they do.
- The context in which you make a decision always shapes your choices.
- People often make mistakes, especially in complex or emotional situations.
- Because people make mistakes, organizations need flexible, forgiving systems.
- Set up choices in a way that takes advantage of how humans make decisions. You can nudge people in beneficial directions.
- To help people make better decisions, give them clear, frequent feedback.
- To facilitate better decisions, design a default option that benefits people unless they explicitly choose otherwise.
- Help people understand the implications of their choices by offering examples.
- Use the RECAP approach to make decisions: "Record" how a chosen plan of action works, "Evaluate" it and "Compare Alternative Prices."
- To improve voters' decisions, make public policies as transparent as possible.

Rating (10 is best)

Overall

9

Applicability

10

Innovation

8

Style

9

Relevance

What You Will Learn

In this Abstract, you will learn: 1) What factors influence the choices people make; 2) How to help people make better choices; and 3) How to think about “choice architecture.”

Recommendation

In this lovely, useful book, Richard Thaler and Cass Sunstein examine choices, biases and the limits of human reasoning from a variety of perspectives. They often amuse by disclosing how they have fallen victim to the limitations of thought that they are describing. The fact that these educated, articulate professionals can fool themselves so often demonstrates how tough it is to think clearly, a point the authors emphasize and even repeat. Humans fall prey to systematic errors of judgment, but you can harness this problematic tendency productively, including by helping others make better decisions. Some of the authors’ suggestions may not be practical, but many are – and all are interesting. *getAbstract* recommends this book to anyone who wants to know how to shape responsible decisions.

Abstract

People and Choices

People make choices all the time. They choose what to wear, what to eat, how to invest their money and what candidates to support. However, while they often choose without coercion, they do not choose without influence. The context in which people make decisions influences them noticeably, and often deliberately. Those who organize choices and present them are “choice architects,” and their choice architecture can affect public and private decisions so markedly that they deserve heightened attention.

The things that influence people are not always rational, and people are not always aware of what is influencing them. Consider the black flies painted in the urinals in Amsterdam’s Schiphol Airport. Men using urinals often don’t aim well and make a mess. However, if you give them a target, even a painted fly, spillage plummets (in this case, by 80%).

Every choice presentation is weighted, because the way you offer a choice shapes it. This means that your choice is not between framing choices or not framing them, but between framing them consciously and ethically, or framing them unconsciously. Get people to act better, you can make a law and punish them for not following it. Or you can design their choices to “nudge” them toward better decisions. They’re still free to do as they want, even to act self-destructively, but you’ve increased the odds that they will act sensibly instead. This “libertarian paternalistic” approach tries to care for people by guiding them, rather than regulating them. Being nudged can help, because under some circumstances, even when you know better, you don’t always act rationally.

This idea contradicts a popular stance expressed as “just maximize choices,” meaning the more options, the better. Sounds good, but it just isn’t true. People have trouble with decisions because the brain has two distinct systems. The “automatic system” provides immediate emotional responses. Answers come quickly, easily and often intuitively. You use this system when you know something really well, such as when you speak your native language, or when you act out of habit. On the other hand, the “reflective system”

“A nudge...is any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding options or significantly changing their economic incentives.”

“Small and apparently insignificant details can have major impacts on people’s behavior.”

“Choice architects can make major improvements to the lives of others by designing user-friendly environments.”

“A well-designed system expects its users to err and is as forgiving as possible.”

“Humans are easily nudged by other humans. Why? One reason is that we like to conform.”

“If choice architects want to shift behavior and to do so with a nudge, they might simply inform people about what other people are doing.”

requires conscious thought, for instance, the extra effort you might expend to learn and speak a foreign language. You can train your reflective system, but it moves more slowly and, at first, using it seems laborious.

Thumbs Up

To reason about things more easily, people apply “rules of thumb” to common situations. Unfortunately, that brings a cluster of biases into play. One is “anchoring,” in which a familiar fact influences your later reasoning. People also make decisions based on “availability.” They judge risk based on how easily they can obtain related information. If you’ve been through an earthquake, you’re more likely to buy earthquake insurance, even if you live in a place where earthquakes are highly unlikely. If you present choices to people who are reasoning based on vivid but nonrepresentative experiences, help them reason better by offering examples in which things worked out well. A third heuristic that leads people astray is “representativeness.” People judge a situation based on how similar it seems to past situations. People who are guided by representativeness see patterns that aren’t there (like gamblers who feel they are on a hot streak).

Human beings also tend to be overly optimistic. For instance, 90% of all drivers believe they have above-average skills. People also value gains and losses disproportionately. Once something is yours, you want to keep it. You don’t want to sustain a loss. The related “status quo bias” occurs because people like things to stay the same. To help them make productive choices that feel comfortable, do something as simple as setting their current situation as their default option (for example, when it is time to renew insurance plans), rather than asking them to evaluate all their alternatives anew each time. The downside of this bias is “mindless behavior” based on inertia. For example, if you start eating and get distracted, say by a TV show, you’ll probably keep eating on autopilot. To fight such tendencies, set up incentives that involve you emotionally, like a weight loss bet with a friend. Finally, people see things differently based on how an issue is framed. You are more likely to agree to an operation if you’re told that 90 out of 100 people who had it are still alive five years later than if you’re told that 10 out of 100 people die from it.

“Social influences” also have a strong impact. You’re more likely to do something if you see it done often or if your peers do it. The desire to go along with the social climate is so strong that it can change your perception of reality; you might really see an object differently if your peers insist it looks a certain way. This means that you can guide people to better behavior just by telling them what others are doing. You can also make an action more likely by “priming” it, that is, asking people how likely they are to do something, such as vote, makes them more likely to do it. People learn to make good decisions when they get many chances to try, when they receive clear feedback and when they can control their impulses.

Dueling Decisions

People need assistance in making decisions when the stakes are high (health-care choices), when the situation is complex and rare (buying a house), or when human nature would lead them astray (saving money versus gambling). If the benefit is immediate (ice cream tastes good), but the risks or costs are delayed (your arteries will clog and you’ll get fat), receiving guidance about healthful choices can help. Some think that the best choices come from having totally free options in a free market, but that’s not the case. People make faulty decisions if they believe wrong data, lack key facts or fall under the influence of someone who misleads them for selfish financial interest.

"In complex situations, the Just Maximize Choices mantra is not enough to create good policy. The more choices there are, and the more complex the situation, the more important it is to have enlightened choice architecture."

"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."

"Even the most sophisticated investors can sometimes find the decision about how to invest their money daunting, and they resort to simple rules of thumb."

"Although rules of thumb can be very helpful, their use can also lead to systematic biases."

Use choice architecture to design a "path of least resistance" that benefits people. The simplest way is to establish a default that is easy to use, automatic and uncomplicated. Assume that people will make mistakes, and design your system accordingly. Makes it easy for people to correct their errors or change their minds. Ideally, the system should work even if people make minor but common mistakes. For example, ATM machine designers use this sort of choice architecture by requiring you to take back your credit card before the machine will spout cash. Design your system so people get feedback. Make it easy to understand. "RECAP" ("Record, Evaluate and Compare Alternative Prices") is a helpful tactic you can use to guide people who are making hard-to-compute decisions, like choosing among cell phone plans. Such a program would document cell phone use, for example, and provide clear data on exactly what different choices cost, like a call to another country. Divide a complex decision into distinct elements or stages, and compare them by attributes (price to price, speed to speed). Finally, offer incentives, such as rewards or savings, but be sure decision makers can link the reward to the decision.

Nudging People about Money

Most people know they should save money, but many don't save enough and may not even be sure what amount is enough. Most savings advice goes against human nature and asks people to make complex calculations. To help people save, nudge them. When it is time for employees to enroll in your firm's retirement plan, make signing up the default. People can choose not to sign up or can quit any time, but inertia and the status quo conspire to keep them from doing what's good for them. Try a "Save More Tomorrow" program that "invites participants to commit themselves in advance to a series of [savings account] contribution increases" as their wages rise. This approach recognizes that people fear loss, and may perceive savings as a loss of disposable income, so it links increases in their savings rate to parallel increases in their salaries. When people earn more, the company automatically deducts more in savings. They don't have to decide to save.

Even when people invest, human nature often leads them to invest in the wrong places at the wrong time. Because people follow each other, a market surge in a sector will bring in new investors long after those stocks have become overvalued. People tend to overinvest in their companies' stocks and to diversify poorly. Help investors in your organization by providing a default option or a limited number of options (say three choices, based on their risk tolerance). Expect people to err, and give them chances to rebalance and diversify their accounts over time. Provide information on how investing translates into results. Simplify other financial decisions by applying the RECAP process. For instance, send an annual statement spelling out what fees your organization charged and for what; clarify the sources of debt and the implications of borrowing. People dealing with governmental programs particularly need such services. For instance, if you're designing a retirement investing plan, you could require everyone to use one plan, removing all options. Or you could offer guided choices, say by establishing well-designed default selections, including letting people invest on their own.

Nudging People about Health

In the U.S., problematic changes in Medicare Part D demonstrated the role of choice architecture. This voluntary program was meant to help seniors pay for prescriptions. But the program tried to maximize choices and caused patients a lot of trouble. For example, plans differed from state to state, so some patients faced being randomly enrolled, with complex local criteria for when coverage started and stopped. The plan was so complex that bewildered patients swamped their pharmacies, many seniors were

“When markets get more complicated, unsophisticated and uneducated shoppers will be especially disadvantaged by the complexity.”

“If incentives and nudges replace requirements and bans, government will be both smaller and more modest. So, to be clear: We are not for bigger government, just for better governance.”

“Libertarian paternalists care about freedom; they are skeptical about approaches that prevent people from going their own way.”

left out and many ended up in the wrong program. The choice architecture went awry. To fix the situation, planners could use RECAP to educate people about the program.

Organ donations save lives; However, the U.S. has a shortage of donors and many people die before they get the organs they need. How could choice architecture make organ donation more likely? The government could institute “routine removal,” where states assume the right to harvest organs, but this violates common practice and many religions. At present, many states use “explicit consent”: people have to actively sign up to be organ donors. Switch that to “presumed consent” by changing the default, and you’d get more donations while maintaining self-determination. One milder variation might be “mandated choice,” requiring people to choose one way or another when they get their drivers’ licenses.

Environmental dangers pose sweeping challenges, yet they are hard to correct because people don’t see the relationship between their actions and the unwanted results. To nudge people to make better environmental decisions, clarify these links. Putting informative labels on food is a great start. When the Environmental Protection Agency compiled data on toxic chemicals stored across the U.S. and required companies to disclose whether they produced such chemicals, many firms voluntarily improved their practices to stave off being put on an “environmental blacklist,” even though it carried no formal sanctions.

Nudging People about Social Issues

One way to resolve the social controversy over same-sex marriage and to nudge people toward more thoughtful marital decisions is to take government out of the marriage business. Governments would formalize civil unions between any two people to settle next-of-kin issues and certify legal partners. Individual organizations could take care of marriages and define them freely. If a church wanted to limit marriages to a man and a woman, it could. Any group could sanction marriage as it chose, creating a free market for marriage, rather than the existing government monopoly. Government could and should establish defaults to provide for children’s welfare, no matter who is in the civil union. Today’s one-size-fits-all model of marriage nudges couples to take things for granted, and not to discuss what model really would work best for them. People need a nudge toward discussing things before making commitments.

School quality is another area that needs better choice architecture. School choice should be broadly available. To make it work better, school systems should publish clear, accessible information about school quality (test scores, nature of the facilities). Schools also should nudge students to go to college. Such a nudge can be as simple as requiring high school seniors to apply to at least one college before they can graduate or teaching them the pragmatic benefits of attending college, such as higher income. Government action should be as transparent as possible. Government should provide background on how it makes decisions, who votes and what their votes imply for the average citizen. This would help the less powerful members of society without markedly inconveniencing more sophisticated citizens.

About the Authors

Richard H. Thaler teaches at the University of Chicago Graduate School of Business and is author of *Quasi Rational Economics*. **Cass R. Sunstein** teaches at the University of Chicago Law School and is the author of *Infotopia*.