Rory Sutherland: Perspective is everything

Translator: Timothy Covell Reviewer: Morton Bast What you have here is an electronic cigarette. It's something that, since it was invented a year or two ago, has given me untold happiness. (Laughter) A little bit of it, I think, is the nicotine, but there's something much bigger than that; which is, ever since, in the UK, they banned smoking in public places, I've never enjoyed a drinks party ever again. (Laughter) And the reason, I only worked out just the other day, which is: when you go to a drinks party and you stand up and hold a glass of red wine and you talk endlessly to people, you don't actually want to spend all the time talking. It's really, really tiring. Sometimes you just want to stand there silently, alone with your thoughts. Sometimes you just want to stand in the corner and stare out of the window. Now the problem is, when you can't smoke, if you stand and stare out of the window on your own, you're an antisocial, friendless idiot. (Laughter) If you stand and stare out of the window on your own with a cigarette, you're a fucking philosopher. (Laughter) (Applause) So the power of reframing things cannot be overstated. What we have is exactly the same thing, the same activity, but one of them makes you feel great and the other one, with just a small change of posture, makes you feel terrible. And I think one of the problems with classical economics is, it's absolutely preoccupied with reality. And reality isn't a particularly good guide to human happiness. Why, for example, are pensioners much happier than the young unemployed? Both of them, after all, are in exactly the same stage of life. You both have too much time on your hands and not much money. But pensioners are reportedly very, very happy, whereas the unemployed are extraordinarily unhappy and depressed. The reason, I think, is that the pensioners believe they've chosen to be pensioners, whereas the young unemployed feel it's been thrust upon them. In England, the upper-middle classes have actually solved this problem perfectly, because they've re-branded unemployment. If you're an upper-middle-class English person, you call unemployment "a year off." (Laughter) And that's because having a son who's unemployed in Manchester is really quite embarrassing. But having a son who's unemployed in Thailand is really viewed as quite an accomplishment. (Laughter) But actually, the power to re-brand things -- to understand that our experiences, costs, things don't actually much depend on what they really are, but on how we view them -- I genuinely think can't be overstated. There's an experiment I think Daniel Pink refers to, where you put two dogs in a box and the box has an electric floor. Every now and then, an electric shock is applied to the floor, which pains the dogs. The only difference is one of the dogs has a small button in its half of the box. And when it nuzzles the button, the electric shock stops. The other dog doesn't have the button. It's exposed to exactly the same level of pain as the dog in the first box, but it has no control over the circumstances. Generally, the first dog can be relatively content. The second dog lapses into complete depression. The circumstances of our lives may actually matter less to our happiness than the sense of control we feel over our lives. It's an interesting question. We ask the question -- the whole debate in the Western world is about the level of taxation. But I think there's another debate to be asked, which is the level of control we have over our tax money, that what costs us 10 pounds in one context can be a curse; what costs us 10 pounds in a different context, we may actually welcome. You know, pay 20,000 pounds in tax toward health, and you're merely feeling a mug. Pay 20,000 pounds to endow a hospital ward, and you're called a philanthropist. I'm probably in the wrong country to talk about willingness to pay tax. (Laughter) So I'll give you one in return: how you frame things really matters. Do you call it "The bailout of Greece"? Or "The bailout of a load of stupid banks which lent to Greece"? (Laughter) Because they are actually the same thing. What you call them actually affects how you react to them, viscerally and morally. I think psychological value is great, to be absolutely honest. One of my great friends, a professor called Nick Chater, who's the Professor of Decision Sciences in London, believes we should spend far less time looking into humanity's hidden depths, and spend much more time exploring the hidden shallows. I think that's true, actually. I think impressions have an insane effect on what we think and what we do. But what we don't have is a really good model of human psychology -- at least pre-Kahneman, perhaps, we didn't have a really good model of human psychology to put alongside models of engineering, of neoclassical economics. So people who believed in psychological solutions didn't have a model. We didn't have a framework. This is what Warren Buffett's business partner Charlie Munger calls "a latticework on which to hang your ideas." Engineers, economists, classical economists all had a very, very robust existing latticework on which practically every idea could be hung. We merely have a collection of random individual insights without an overall model. And what that means is that, in looking at solutions, we've probably given too much priority to what I call technical engineering solutions, Newtonian solutions, and not nearly enough to the psychological ones. You know my example of the Eurostar: six million pounds spent to reduce the journey time between Paris and London by about 40 minutes. For 0.01 percent of this money, you could have put wi-fi on the trains, which wouldn't have reduced the duration of the journey, but would have improved its enjoyment and its usefulness far more. For maybe 10 percent of the money, you could have paid all of the world's top male and female supermodels to walk up and down the train handing out free Château Pétrus to all the passengers. (Laughter) You'd still have five million pounds in change, and people would ask for the trains to be slowed down. (Laughter) Why were we not given the chance to solve that problem psychologically? I think it's because there's an imbalance, an asymmetry in the way we treat creative, emotionally driven psychological ideas versus the way we treat rational, numerical, spreadsheet-driven ideas. If you're a creative person, I think, quite rightly, you have to share all your ideas for approval with people much more rational than you. You have to go in and have a cost-benefit analysis, a feasibility study, an ROI study and so forth. And I think that's probably right. But this does not apply the other way around. People who have an existing framework -- an economic framework, an engineering framework -- feel that, actually, logic is its own answer. What they don't say is, "Well, the numbers all seem to add up, but before I present this idea, I'll show it to some really crazy people to see if they can come up with something better." And so we -- artificially, I think -- prioritize what I'd call mechanistic ideas over psychological ideas. An example of a great psychological idea: the single best improvement in passenger satisfaction on the London Underground, per pound spent, came when they didn't add any extra trains, nor change the frequency of the trains; they put dot matrix display boards on the platforms -- because the nature of a wait is not just dependent on its numerical quality, its duration, but on the level of uncertainty you experience during that wait. Waiting seven minutes for a train with a countdown clock is less frustrating and irritating than waiting four minutes, knuckle biting, going, "When's this train going to damn well arrive?" Here's a beautiful example of a psychological solution deployed in Korea. Red traffic lights have a countdown delay. It's proven to reduce the accident rate in experiments. Why? Because road rage, impatience and general irritation are massively reduced when you can actually see the time you have to wait. In China, not really understanding the principle behind this, they applied the same principle to green traffic lights -- (Laughter) which isn't a great idea. You're 200 yards away, you realize you've got five seconds to go, you floor it. (Laughter) The Koreans, very assiduously, did test both. The accident rate goes down when you apply this to red traffic lights; it goes up when you apply it to green traffic lights. This is all I'm asking for, really, in human decision making, is the consideration of these three things. I'm not asking for the complete primacy of one over the other. I'm merely saying that when you solve problems, you should look at all three of these equally, and you should seek as far as possible to find solutions which sit in the sweet spot in the middle. If you actually look at a great business, you'll nearly always see all of these three things coming into play. Really successful businesses -- Google is a great, great technological success, but it's also based on a very good psychological insight: people believe something that only does one thing is better at that thing than something that does that thing and something else. It's an innate thing called "goal dilution." Ayelet Fishbach has written a paper about this. Everybody else at the time of Google, more or less, was trying to be a portal. Yes, there's a search function, but you also have weather, sports scores, bits of news. Google understood that if you're just a search engine, people assume you're a very, very good search engine. All of you know this, actually, from when you go in to buy a television, and in the shabbier end of the row of flat-screen TVs, you can see, are these rather despised things called "combined TV and DVD players." And we have no knowledge whatsoever of the quality of those things, but we look at a combined TV and DVD player and we go, "Uck. It's probably a bit of a crap telly and a bit rubbish as a DVD player." So we walk out of the shops with one of each. Google is as much a psychological success as it is a technological one. I propose that we can use psychology to solve problems that we didn't even realize were problems at all. This is my suggestion for getting people to finish their course of antibiotics. Don't give them 24 white pills; give them 18 white pills and six blue ones and tell them to take the white pills first, and then take the blue ones. It's called "chunking." The likelihood that people will get to the end is much greater when there is a milestone somewhere in the middle. One of the great mistakes, I think, of economics is it fails to understand that what something is -- whether it's retirement, unemployment, cost -- is a function, not only of its amount, but also its meaning. This is a toll crossing in Britain. Quite often queues happen at the tolls. Sometimes you get very, very severe queues. You could apply the same principle, actually, to the security lanes in airports. What would happen if you could actually pay twice as much money to cross the bridge, but go through a lane that's an express lane? It's not an unreasonable thing to do; it's an economically efficient thing to do. Time means more to some people than others. If you're waiting trying to get to a job interview, you'd patently pay a couple of pounds more to go through the fast lane. If you're on the way to visit your mother-in-law, you'd probably prefer -- (Laughter) you'd probably prefer to stay on the left. The only problem is if you introduce this economically efficient solution, people hate it ... because they think you're deliberately creating delays at the bridge in order to maximize your revenue, and, "Why on earth should I pay to subsidize your incompetence?" On the other hand, change the frame slightly and create charitable yield management, so the extra money you get goes not to the bridge company, it goes to charity ... and the mental willingness to pay completely changes. You have a relatively economically efficient solution, but one that actually meets with public approval and even a small degree of affection, rather than being seen as bastardy. So where economists make the fundamental mistake is they think that money is money. Actually, my pain experienced in paying five pounds is not just proportionate to the amount, but where I think that money is going. And I think understanding that could revolutionize tax policy. It could revolutionize the public services. It could actually change things quite significantly. [Ludwig Von Mises is my hero.] Here's a guy you all need to study. He's an Austrian School economist who was first active in the first half of the 20th century in Vienna. What was interesting about the Austrian School is they actually grew up alongside Freud. And so they're predominantly interested in psychology. They believed that there was a discipline called praxeology, which is a prior discipline to the study of economics. Praxeology is the study of human choice, action and decision-making. I think they're right. I think the danger we have in today's world is we have the study of economics considers itself to be a prior discipline to the study of human psychology. But as Charlie Munger says, "If economics isn't behavioral, I don't know what the hell is." Von Mises, interestingly, believes economics is just a subset of psychology. I think he just refers to economics as "the study of human praxeology under conditions of scarcity." But Von Mises, among many other things, I think uses an analogy which is probably the best justification and explanation for the value of marketing, the value of perceived value and the fact that we should treat it as being absolutely equivalent to any other kind of value. We tend to, all of us, even those of us who work in marketing, think of value in two ways: the real value, which is when you make something in a factory or provide a service, and then there's a dubious value, which you create by changing the way people look at things. Von Mises completely rejected this distinction. And he used this following analogy: he referred to strange economists called the French physiocrats, who believed that the only true value was what you extracted from the land. So if you're a shepherd or a quarryman or a farmer, you created true value. If however, you bought some wool from the shepherd and charged a premium for converting it into a hat, you weren't actually creating value, you were exploiting the shepherd. Now, Von Mises said that modern economists make exactly the same mistake with regard to advertising and marketing. He says if you run a restaurant, there is no healthy distinction to be made between the value you create by cooking the food and the value you create by sweeping the floor. One of them creates, perhaps, the primary product -- the thing we think we're paying for -- the other one creates a context within which we can enjoy and appreciate that product. And the idea that one of them should have priority over the other is fundamentally wrong. Try this quick thought experiment: imagine a restaurant that serves Michelin-starred food, but where the restaurant smells of sewage and there's human feces on the floor. (Laughter) The best thing you can do there to create value is not actually to improve the food still further, it's to get rid of the smell and clean up the floor. And it's vital we understand this. If that seems like a sort of strange, abstruse thing -- in the UK, the post office had a 98 percent success rate at delivering first-class mail the next day. They decided this wasn't good enough, and they wanted to get it up to 99. The effort to do that almost broke the organization. If, at the same time, you'd gone and asked people, "What percentage of first-class mail arrives the next day?" the average answer, or the modal answer, would have been "50 to 60 percent." Now, if your perception is much worse than your reality, what on earth are you doing trying to change the reality? That's like trying to improve the food in a restaurant that stinks. What you need to do is, first of all, tell people that 98 percent of first-class mail gets there the next day. That's pretty good. I would argue, in Britain, there's a much better frame of reference, which is to tell people that more first-class mail arrives the next day in the UK than in Germany, because generally, in Britain, if you want to make us happy about something, just tell us we do it better than the Germans. (Laughter) (Applause) Choose your frame of reference and the perceived value, and therefore, the actual value is completely transformed. It has to be said of the Germans that the Germans and the French are doing a brilliant job of creating a united Europe. The only thing they didn't expect is they're uniting Europe through a shared mild hatred of the French and Germans. But I'm British; that's the way we like it. (Laughter) What you'll also notice is that, in any case, our perception is leaky. We can't tell the difference between the quality of the food and the environment in which we consume it. All of you will have seen this phenomenon if you have your car washed or valeted. When you drive away, your car feels as if it drives better. (Laughter) And the reason for this -- unless my car valet mysteriously is changing the oil and performing work which I'm not paying him for and I'm unaware of -- is because perception is, in any case, leaky. Analgesics that are branded are more effective at reducing pain than analgesics that are not branded. I don't just mean through reported pain reduction -- actual measured pain reduction. And so perception actually is leaky in any case. So if you do something that's perceptually bad in one respect, you can damage the other. Thank you very much. (Applause)