

Do People Like Nudges? (Sunstein, 2015)

A *nudge* is the use of psychological insights to *motivate* non-rational agents to behave in a certain way¹. The key word is *motivate*, which excludes commanding or restriction behaviours. As discussed in previous summaries², humans do not behave efficiently – or as economists would want – because of psychological biases. The idea is to point out behavior which will improve people's welfare. For instance, an automatic enrolment for a retirement savings plan in which anyone could opt-out. Procrastination, a phenomenon psychologist's call present biased³, will improve retirement savings and welfare of retirees.

One Sentence Summary

Americans prefer nudges when (i) they perceive the motivations of *nudgers* are not unacceptably manipulative, (ii) safeguard most people's interests and values and (iii) they incentivize people to make choices when facing guaranteed losses.

Main Findings

Through a survey, the author identified six principles that characterized American's taste for nudges. In this summary I will only present five out of six. The first one, if American's perceive that a *nudge* has an illegitimate goal, they will reject it. For instance, nudges that promote a religious group will encounter high levels of disapproval. The second, *nudge's* values should be aligned with most people's values and interests. Specifically, there is support for a wife to automatically adopt their husband's last name on marriage. Yet, there is no support for the husband's automatic adoption of their wife's last name.

As the third principle, a *nudge* that induces a guaranteed loss should have an active choice mechanism. Making American automatically donate a part of their salary to a charity, as another income tax, will certainly face massive disapproval. Unless they are giving the option to actively select if they want to donate or not. The fourth principle states that if the charity is government-run it will face absolute rejection.

Closely related to principle one, the fifth principle states that unacceptably manipulative *nudges* will be disapproved. All *nudges* are manipulative, but most are acceptable. For example, making people smoke less is acceptable, but motivating women to not assist college isn't.

¹ For a more complete definition of a nudge I encourage the reader to read the introduction of "*Nudge: Improving Decisions About Health, Wealth, and Happiness*" by Richard Thaler and Cass Sunstein.

² See Anomalies the Endowment Effect, Loss Aversion, and Status Quo Bias (One-page econ #3) and How are Preferences Revealed? (One-page econ #5).

³ See Sticking to Your Plan: Hyperbolic Discounting and Credit Card Debt Paydown (One-page econ #11) for an example of present bias.

Concluding Remarks

Nudges are widely used. The Behavioral Insights Team is a public institution who oversees and creates public policy using nudges as part of the U.K. government. Nudges have a relatively low cost. For example, changing the default option could be done in one day by an IT team. A more expensive part is to diagnose what default option is the best. In any case, those costs tend to be much lower than complex public policy. Knowing which *nudges* could have majority support can increase the rate of *nudging* policies that replace or augment current public policy.

References

- Sunstein, C.R., 2015. Do People Like Nudges? SSRN Electron. J. <https://doi.org/10.2139/ssrn.2604084>.