

Internal Assessment: Comparative Economic Development
Submission to: Gargi College, University of Delhi

| BOOK REVIEW |
 - Shreya Singh (191742)

Nudge: Improving Decisions about Health, Wealth, and Happiness
 - ***Richard H. Thaler and Cass R. Sunstein***

The decision-making process is perennial and cannot be avoided, and the fallacious assumption of rationality in decision-making remains the core of homo economics. *Nudge: Improving Decisions about Health, Wealth, and Happiness*, co-authored by Richard Thaler and Cass Sunstein, **explores the psychology of decision-making.**

While Econs (homo economicus) are assumed to be reflective thinkers in constant use of their prefrontal cortex, Humans (homo sapiens) more than often take instinctive decisions based on emotions. Those decisions are susceptible to biases and may lead to blunders. A good rule of thumb would be that everything matters. This may be both paralyzing and empowering, and hence it becomes crucial to discern the need for the right 'nudges': subtle pushes that attract attention and influence real-world choices without restraining the freedom to make those choices. With billions of bits of information daily and burdened lives, it can be hard to make good choices. Since people often make predictably irrational decisions, they can be encouraged to make better ones. **Nudging enables people to think, often in new and different ways, to elicit the desired response.**

Professor Thaler and Sunstein dispel the view that they are trying to impose their vision of a good life on others. Instead, they adopted the endearing oxymoronic term "**libertarian paternalism**" to describe their general approach. It can be described as a relatively soft and non-intrusive type of paternalism. Even though the recommendations try to steer people in the right direction, people are free to resist nudges as choices are not blocked, fenced off, or significantly burdened. It preserves freedom of choice while allowing choice architects to influence human behaviour.

The principal insight is that the '**choice architect**' – the being in charge of organizing the context in which choices are presented - will inevitably bias decisions in either direction and thus, no decision setting is neutral. Furthermore, context exerts powerful subliminal influences on most decisions, often causing people to choose an alternative that defeats their purpose.

Nudges are omnipresent. However, they do not always have our best interests at heart. Seeming small or insignificant features of situations can have an impact on human behaviour. Since people typically avoid paying attention or simply conform to the default choice, the status quo bias plays a major role in causing inertia. The default attracts a large market share, and thus the choices must be designated consciously keeping in mind the consequences of the

architecture. To facilitate better decisions, it is key to design a default option – like company pension-scheme programs - that benefits people. Those who wish to deviate from the default should be provided with relevant details so that they can make an informed decision. Another idea strongly presented in the book is that people are ‘loss averse’, alongside explaining the consequences of this aversion. The way in which choices are framed or contextualized can also dramatically influence decision-making.

Some may believe that **wise decisions are a result of free choices in a free market, but that is not true.** People often make regrettable decisions if they believe false data, lack true facts or are misled by someone with selfish interests. Once we recognize the influence of heuristics and biases, we can make better choices to improve our health, wealth, and happiness and help others do the same. We favour nudges over bans, mandates, and prohibitions. People primarily benefit from a nudge in complex and infrequent situations. Without a nudge, people may end up making ill-informed decisions due to asymmetric information or a bewildering array of choices. Since choice architects organize the context from which people make decisions, in many ways, we’re all choice architects or at least have the power to become one. As the authors suggest, the best philosophy for us is libertarian paternalism. The book further presents a list of policies to which we should apply this principle and several examples on how to use psychological concepts to modify human behaviour in real-world scenarios. They pose thought-provoking options to improve the current status of domains as disparate as social security, organ donation, malpractice insurance, education, and energy conservation and offer a unique take on many contentious issues like medicare and same-sex marriage.

For mortgages, education loans, and credit cards, they proposed the **RECAP - Record, Evaluate and Compare Alternative Prices** - approach to guide people while making hard-to-compute decisions. In 2005, the personal savings rate for Americans was negative for the first time since the great depression. Since savings for retirement is something many find difficult to handle, nudges along with immense willpower overtime are required. Another domain in which we see nudge is safety. The painted lines at the dangerous s-curve on Lakeshore Drive nudge people to remind them to be aware and not speed through that area. On driving up to the most dangerous part of the curve, the lines are closer together which gives the illusion of speeding up, so one would ideally tap the brake and slow down. Many more evidence show that structuring choices can be done in ways that preserve an individual's right to choose, and it has been efficacious. While a few suggestions may not be the most practical, all are unique and interesting.

Many may find Nudge overly political. It seems evident that Thaler and Sunstein's program of libertarian paternalism will not be equally appealing to those on the left and the right. Although we realize the need for nudges, the broader socio-political question of who gets to be the choice architect remains. I do think we need to be influenced for the better, but there remains a concern: in the end, our decisions will be guided by people who may not have our best interests in mind. In the growing capitalist economy, social responsibility has taken a step back. It would not be false to assume that nudging could be used for unscrupulous manipulation by

corporations and governments to reap gains. Thus, various factors pose a threat to the newly established collective awareness.

The postscript of the book focuses on the financial crisis and humanistic characteristics -bounded rationality, limited self-control, social influences – as one of the causes for the bubble. While a major part of the blame lies on the greed of those who were too big to fail and solely nudges could not have been responsible for controlling the crisis, they would have played a major role in resisting temptations, managing complexity, and avoidance of being misled by social contagion. **A response to complexity would require greater transparency and mandating disclosure.**

A powerful lesson from this book is the realization of our ignorance of how everything around us influences our behaviour and its persistence. Some realize it and some do not. Those who do, become choice architects will hopefully affect others' lives in a positive way. Recent research suggests that nudging cannot be relied upon to provide consistently high levels of change. The involvement of various other factors will cause nudging to happen at the marginal rather than global level. Thus, other actions, like legislation, can have a profound effect on bringing change. **With every page of Nudge, belief in the existence of free will fades away. In an era where information overload paralyzes decision-makers, this witty unpacking of what the authors call "choice architecture" gives an insight into what sways people when they are faced with choices. It is both, fascinating and a little alarming.**

There are many ways in which incentives influence behaviours, and the heart of the book can be summarized through a clever mnemonic device: **NUDGES (Incentives, Understandable options, Defaults, Give feedback, Expect error, Structure complex choices)**. Humans fall prey to systematic errors of judgment, but this problematic tendency can be harnessed productively in several ways, including helping others to make better decisions. As an avid believer of the humanistic approach and the need for behavioural changes at individual and population levels, I believe the book leads the way towards the promotion of health and well-being of all.
