

Book Review

Richard H. Thaler and Cass R. Sunstein (2nd edition, 2009). *Nudge: Improving Decisions about Health, Wealth, and Happiness*. (Page, 306). (Price. U.K. £9.99)

We make decisions on a daily basis, both in our professional and personal lives. But are we making the best choices? How can we make our decision better? As the title indicates, the book is all about applying a gentle ‘nudge’ for improving our decision so that we act in our best interest.

The book is full of attention-grabbing experiments from the fields of psychology and the behavioral science, in which the authors’ Richard H. Thaler, Professor of Chicago University and Nobel Laureate and Cass R. Sunstein, Professor in Harvard Law School persuade their readers of how we frequently make poor decisions. Beginning with a cafeteria experiment to affect the choices kids make in their consuming behavior, the authors introduce three fascinating concepts: ‘choice architect’, ‘nudge’, and ‘libertarian paternalism’.

The authors believe that decisions can be improved by structuring the choices so that individuals have the freedom to select while still resulting in favorable outcomes. This necessitates the appointment of a ‘choice architect’ to organize the setting in which people make decisions. As a result, choice architecture, both good and bad, is pervasive and unavoidable, and it has a significant impact on decision-making.

Any feature of the choice architecture that changes people’s behavior in a predictable way without prohibiting any options or significantly altering their economic incentives is referred to as nudge. Nudges aren’t the same as mandates. A simple nudging in the school cafeteria experiment was altering the food display by placing the fruit at eye level.

The authors coined the oxymoronic phrase ‘libertarian paternalism’ to justify the nudge philosophy. There are two aspects to libertarian paternalism. It is liberal because options are not restricted or severely hampered. It also features a gentle and non-intrusive form of paternalism, since it strives to guide individuals in the proper direction while making decisions. Choice architects, according to the authors, can safeguard people’s freedom of choice while simultaneously urging them in the direction of bettering their lives. Nudges are all around us; we only need to figure out what they are.

The six principles of good choice architecture is summarized through a mnemonic device: NUDGES

iNcentives, Understandable options, Defaults, Give feedback, Expect error & Structure complex choices.

The book is divided into four parts namely ‘Humans and Econs,’ ‘Money,’ ‘Society’ and ‘Extensions and Objections.’ These four parts are further divided into 16 chapters. First part lays the foundational clarity in distinguishing between humans and econs and

extenuating how we are humans rather than econs. Authors define homo economicus shortly called econs as the ‘ceteris paribus’ human beings portrayed in the textbooks by economists who make unbiased forecasts which can’t be systematically wrong in a predictable direction. In actual life, however, homo sapiens, shortly called as humans, commit planning fallacy or suffer from status quo bias or inertia, causing them to consistently make predictably mistakes.

Moving to the second part of the book, authors convince their readers how humans differ dramatically from econs when it comes to dealing with money. The authors explored how people might improve their money management skills by using numerous examples from saving, investing, and borrowing behaviors.

The authors explore human behavior in areas such as prescription drugs, organ donation, the planet, and marriage in the third part of the book. The mantra of ‘Just Maximize Options’ may not be enough to generate excellent policy in complex settings, thus the choice architect has to ‘keep choices simple’.

Part four includes a dozen nudges called mini-nudges, for instance, the no-bite nail polish, or the civility check or destiny health plan. The collection of such mini - nudges is growing because anyone can submit their own nudges to the website: www.Nudges.org.

The authors have devoted a full chapter to discussing various counterarguments, anticipating substantial objections from hard-line anti-paternalists. The authors used the example of sunlamps for getting tan without going to the beach to show how asymmetrical paternalists believe that choice is based on a cost–benefit analysis. However, asymmetrical paternalists too endorse a class of regulation requiring ‘cooling-off periods’.

In addition to the original edition (2008), the second edition includes a postscript from the 2008 financial crisis as the final chapter. To address bounded rationality, temptation, and social influences, the authors suggest creating a simple default provision. Nudge-like responses should also be an important part of the policy mix.

The beauty of the book is that it explains concepts from psychology and behavioral economics in a way that everyone can understand, even if they don’t have a corresponding educational background. As one reads the book, s/he will find themselves pausing to reflect on their own conduct and understand why their ‘planner’ and ‘doer’ selves are at odds. The book is intended to help policymakers understand the power of nudges in shaping the better outcomes of planned action. Policymakers as choice architects can be more effective in assisting individuals in making better decisions by employing NUDGES.

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