

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

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When I was seven years old, I was motivated by the “smiley faces” that my teacher would give out if I did my homework well. The power of a sticker with a smile on it started to fail as an incentive when I was about 12 years old. In short, smiley faces are for motivating kids. So it is highly unlikely that such a simple gesture could be effective at getting adults to change their consumption behavior, right?

It turns out the smiley faces are motivating for adults as well. In a study conducted in California, nearly 300 households started to receive in their electricity billing statements an indication of how their consumption compared to the mean user. This was done to try to motivate big users, to reduce their consumption. And it worked quite well. Those who were shown that they used above average KWh reduced their consumption. However, those below the average slowly raised their consumption. In a separate treatment, those with low energy use also received a smiley face on their bill, while those with high use received a frowning ‘emoticon.’ With this simple visual feedback, the ‘boomerang effect’ of low users increasing their usage had disappeared (Schultz et al. 2007).

Nudge is filled with this type of story—small, transparent gestures that can radically affect outcomes. Richard Thaler and Cass Sunstein, both well-known names to behavioral economists, produce an argument based on social psychology that because humans are prone to make mistakes, choices can be designed to help minimize these mistakes. Since human decision-making is prone to phenomena like anchoring, framing, status quo bias and inertia, “choice architecture” can drastically affect the outcome, and perhaps for social welfare we can ‘nudge’ decisions in the right way. For example, to become an organ donor in many states in the US you have to fill out a form. Despite the fact that many people do want to be organ donors, the inertia prevents them from ever filing. By changing the architecture of choice

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where ‘organ donor’ becomes the default setting, the 90,000 people on the organ waiting list, might be better served.

Another example of a simple nudge affecting outcomes is the Toxic Release Inventory in the United States. This simple regulation mandating the disclosure of potentially hazardous chemicals an industry releases or stores, has predicated a massive reduction in toxic releases across the country. The author’s suggest a similar reporting regulation for greenhouse gas emissions might go a long way in reducing emissions without ‘requiring’ any behavioral change by firms.

Moving easily from psychology, to economics, to policy the authors cover a range of topics where nudges could be very effective for improving social welfare. From health care plans and mortgage choices to credit cards and marriages, the authors detail simple steps like information disclosures that should be *de rigueur*. For example how would thermostats that tell users the cost per hour affect their energy consumption? How would slow automatic increases in pension contributions (tied to salary raises) affect the level of savings? Nudges should be simple and transparent. Some for simple tasks, like the “look left” signs painted on the roads in London for tourists. Other nudges could for decisions that are complex, infrequent, and when people have poor feedback—such as deciding on a health care plan (this decision is likely foreign to the more advanced universal health care users in Europe, but an agonizing decision for US citizens).

Why should nudges be used? The authors claim that they should be used in cases where users benefit (as based on their own criteria). Market investments, retirement funds, health plan choice are all complicated choices, and results show that the under-privileged lose out, through higher interest rates, poorer care coverage etc... They stress the freedom of individual choice—“Government should respect freedom of choice, but with a few improvements in choice architecture, people would be far less likely to choose badly” (p. 144).

Personal goals can also benefit for simple and transparent nudges. How many of us are trying to become healthier, lose weight, or quit smoking? How’s this for a nudge. Go to www.stickk.com and put your money where your mouth is. This ingenious website uses insights from behavior economics and social psychology (discussed in *Nudge*) to help people stick to their plans. You put up your goal “I’m going to jog 3 times a week.” Put up some money (say \$20/week). Then when you fail to meet your goal, that money will be donated to either a charity or an anti-charity (the National Rifle Association and George W. Bush Library are examples of the latter). You can bring friends and referees in on the game to ensure compliance and cheer you on.

This book is a thoroughly good read and should appeal to anyone interested in social policy, behavioral economics, and human psychology. It is well written, funny, and enlightening and the authors have some real gems of advice for improving the choices individuals and society make – such as when the author’s are discussing a study looking at ways to convince electricity consumers to conserve energy and they suggest that giving homeowners a device which makes “annoying sounds, such as cuts from ABBA’s Gold: Greatest Hits” when electricity use went too high could be a very effective nudge.

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References

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