



THE FREEDOM TO MAKE BETTER CHOICES

BY DUNCAN STUART



Nudge

By Richard H. Thaler and
Cass R. Sunstein

Richard H. Thaler and Cass R. Sunstein are both professors at the University of Chicago, and where the Chicago school was once famous for the Milton Friedman doctrine of free markets, economist Thaler and his law professor friend Cass Sunstein have swung the pendulum the other way.

In *Nudge: Improving Decisions About Health, Wealth, and Happiness* (Penguin, 2009), they argue that totally free markets can lead to disasters precisely because individuals are actually not very good decision-makers. As behavioral economists argue, we are riddled with little psychological tics in our decision-making processes. We buy things, then suffer remorse. We get confused by choices and often make no choice at all.

Whereas some researchers focus on people's day-to-day decisions, Thaler and Sunstein develop an argument that is political—and is bound to cause heated debate. They propose that in the face of our decision-making weaknesses, governments and businesses can help “nudge” us in the right direction. The elephant in the room can be benign.

TEAM TIP

What small changes can your team make that have a big impact on how you work?

Libertarian Paternalism

Thaler and Sunstein call their viewpoint “libertarian paternalism” and suggest that it would be a good thing for some gentle nudging of the citizenry in the right direction. As Thaler recently said in *The New York Times*, “In light of human limitations, Cass Sunstein and I argue for policies that we call libertarian paternalism. Although the phrase sounds like an oxymoron, we contend that it is often possible to design policies, in both the public and private sector, that make people better off—as judged by themselves—without coercion. We oppose bans; instead, we favor nudges.”

How does a government take this step without imposing laws and edicts? A primary argument is that defaults can be set that counter the human tendency to procrastinate or make no decision. One example is the “Save More Tomorrow Plan” that Thaler developed in 1996 as an employer-sponsored retirement plan. Instead of presenting the details and asking employees to consciously sign up to increase their savings each time they got a pay rise, the plan presented the details and asked employees basically to check a box if they wished to automatically increase their savings as their pay went up in the future, that is, to pre-commit.

Such schemes have been very successful, by offering people the freedom to choose, though with a different default than before. As Thaler argues, “Since it is often impossible for private and public institutions to avoid picking some option as the default, why not pick one that is helpful?”

Another form of nudge might be the act of disclosure. Thaler and Sunstein argue, for example, that credit-card companies should issue annual statements that tell us how much we've spent this year on late fees and interest.

Again, we have the complete freedom to use our cards as we want, but the additional information may help us reframe our own spending strategies. Or how about stickers on new cars that show how much gasoline each vehicle would burn over the next five years under typical usage. Hold that Hummer.

Choice Architecture

These are examples of what the authors call helpful “choice architecture.” Nice phrase. The architecture puts our options on more clear display.

I must say, I like the thinking here, and it gives credence to agent-based simulation modeling I've carried out whereby small changes can lead to big effects. But this volume is about more than modeling and mere theory. One cannot help but think that the book has been timed to coincide with the present economic meltdown. The free market, the totally free market, the authors implicitly make the case, needs quite a nudge itself. Rather than seeking highly regulated solutions, the better response might simply be a series of tweaks to the choice architecture that influences our spending, saving, health-care, and borrowing patterns.

The authors present a clear argument, and no doubt it will cause heated and lively debate. This book has landed like a rock, right in the center of the current and somewhat stagnant economic pond. It will definitely cause ripples. ■

Duncan Stuart is the director of Kudos Organisational Dynamics in New Zealand. Previously in broadcasting and then engaged in marketing management and corporate communications, he made the shift to market research. Duncan is widely recognized by his colleagues, having won Best Paper and People's Choice awards at five NZ Market Research conferences in a row. He also volunteers at Savong's School in Siem Reap, Cambodia, and is the author of *The Whale of the Moon* and *A Coming of Age: 30 Years of NZ Film*.