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NUDGE: IMPROVING DECISIONS ABOUT HEALTH, WEALTH AND HAPPINESS.

Authors: R. RICHARD H. THALER and CASS R. SUNSTEIN Penguin Books, London, 2009

Reviewed by: Frank Ratnakumar

BOOK REVIEW

Nudge: Improving Decisions About Health, Wealth and Happiness grabbed international attention when one of its authors, Richard. H Thaler was awarded Nobel Prize in economics for his work on ‘Behavioural Economics’ which reshaped economics and had far reaching implications for public policy. Behavioural Economics began its journey in the 1950s when Herbert Simon introduced the concept of “bounded rationality of humans” in economics. Earlier Milton Friedman’s famous assumption (F twist) that false assumptions can make surprisingly precise predictions dominated economic thinking. Against psychological wisdom, economists assumed that human beings are rational, capable judges of probabilities, and capable of maximizing their economic well being.

The behavioral economists standing on the shoulders of Amos Tversky, Daniel Kahneman, Baruch Fischhoff, Paul Slovic and others of the same ilk tried to incorporate mathematical alternatives with psychological foundations into economics. Based on psychological foundation behavioural scientists introduced four behavioural principles into economics: Prospect

theory, Learning evolution, Hyperbolic discounting and Social utility. Building on the foundations of earlier behavioural economists, Richard Thaler and Cass Sunstein, both professors at the university of Chicago came up with 'Libertarian Paternalism'.

They describe 'Libertarian Paternalism' as designing choice architecture to influence people's behavior in order to make their lives longer, healthier and better".

The book is divided into four parts:

Part I : Humans and Econs,

Part II : Money

Part III: Society

Part IV : Extensions and objections and a postscript on the Financial Crisis of 2008.

In the introduction they claimed that 'choice architecture' could make the lives of people better, provided they are designed with the intention of helping people make good choices. Libertarian paternalism could help in many domains including environmental protection, family law, school choice etc., The aim of Libertarian paternalism seems to be better governance rather than bigger government.

In part I : Humans and Econs, they explained the established psychological phenomena like biases, two kinds of thinking (automatic and reflective) rules of thumb, anchoring, availability, representativeness, optimism and over confidence, gains and losses, status quo bias and framing, with suitable examples. Next, they moved on to 'resisting temptation' and explained how people underestimated the effect of arousal. With simple examples drawn from everyday life they explained temptations like overuse of credit cards, overeating etc., They also identified some psychological behaviours like 'following the crowd' 'the spotlight effect'. 'Priming' etc. Under the caption, "when do we need a nudge", they explained, 'fraught choice and degree of difficulty needed nudges and they suggested practice, feedback and self knowledge could help in making better choices. At the end of the first part they identified six principles of good choice architecture that help people to make good decisions: incentives, mappings, defaults, feedback, expecting error and good structuring of complex choices.

In part –II: Money, they talked about the poor choice people make in savings, especially in retirement planning. They brought to light how people neglected present savings by not enrolling in pension plans or not choosing the right plans. Further people showed poor judgment in investing the savings and

allocating their savings among stocks, bonds, debt instruments etc. The remedy suggested by them included good defaults, structuring complex choices, feedback and incentives. People also committed mistakes in choosing the right type of mortgage, credit cards and ended up paying huge interest. In selecting the social security plan also most people made mistakes and as a result they suffered in old age. Their suggestion for overcoming such problems was privatisation of social security system. But with private funds always thinking of making a kill at the expense of clients, the suggestion lacked credibility. In Part III : Society, they started with Medicare and Medicaid and explained how the seniors and the most vulnerable suffered because of the poor design architecture of these programmes. They were particularly harsh on Part D which covered prescription drugs for seniors. They said, “It seems callous and irresponsible to assign plans without even looking at people’s specific needs”. The possible nudges suggested by them included ‘Intelligent Assignment; ‘RECAP system’, ‘Presumed consent’ and ‘Mandated Choice’.

They argued that nudges bound to improve choice architecture and reduce emission of green house gases and thereby help in the protection of the planet. They were against “command and control” approach of governments and argued for better incentives. They were for tax on harmful behavior and supported ‘Emissions Trading System’ Further they imagined feed back and labeling had enormous potential for tackling environmental challenges.

Another interesting area they covered was marriage. They identified six major categories of benefits of marriage such as tax benefits, entitlements, inheritance, ownership benefits, surrogate decision making and evidentiary privileges. They said,” When people marry they receive not only material benefits but also kind of official legitimacy and stamp of approval from the state. According to them” State control of marriage is anachronistic” and they wanted privatisation of marriage and civil union for all couples including gay and lesbian.

Finally they came out with nudges for making people give to charity, simplifying tax returns, committing to achieve goals, to quit smoking to make people wear helmets, gambling self bans, health plans, tennage pregnancy and lastly civility check. They concluded their book by countering criticisms by arguing that government cannot be purely neutral and government should be trusted with nudges when, necessary.

The Royal Swedish Academy of Sciences while awarding Sueriges Riksbank Prize in Economic Sciences to Richard Thaler Said, “In total Richard Thaler contributions have built a bridge between the economic

and psychological analyses of individual decision – making. His empirical findings and theoretical insights have been instrumental in creating the new and rapidly expanding field of behavioral economics, which has a profound impact on many areas of economic research and policy”. Richard Thaler’s ‘Nudge’ definitely influenced economic policy and many governments including America and England tried to incorporate thaler’s ideas into economic policy. But World Commission on the Social Dimension of Globalization said, “The results of globalization are what we make of it. They depend on the policies, rules and institution’s which govern its course; the values which inspire its actors; and their capacity to influence the process”. So the imbalance between the economy and society is subverting social justice. Angus Deaton in his book, *The Great Escape; Health, Wealth and the Origins of Inequality* said “We can see at once that the people who live in the really poor countries ... are generally very dissatisfied with their lives; not only they are poor in income but they also rate their lives poorly”. So there is an urgent need to make moral values as the basis for individual’s behavior and choices. Here, Richard T.Kinner, Jerry L. Kernes and Therese M. Dautheribies’ list of universal moral values are worth looking at:

- i. Commitment to something great than self.
- ii. Self–respect, but with humility, self-discipline and acceptance of personal responsibility.
- iii. Respect and caring for others.
- iv. Caring for other living things and environment.

Nudge may help but what we need is a moral push.