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BOOK REVIEW

Richard H. Thaler, Cass R. Sunstein, Nudge: Improving decisions about health, wealth, and happiness

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Thaler and Sunstein have written an important book. Though costumed in the guise of pop economics, complete with a cute logo—*Nudge* is, in fact, a manifesto for the new paternalism. Well written, witty to the point of being charming, consistently interesting, disarmingly self-referential, and loaded with crisp summaries of the psychology literature on human fallibility, *Nudge*'s dust jacket is justly festooned with blurbs from luminaries. But don't be fooled. Thaler and Sunstein charm their readers, but they are after some very big game. This is a book that both measures the inroads psychology has made into contemporary economics, and argues a compelling brief for the new paternalism. We have ways, say Thaler and Sunstein, of making you happy.

Thaler and Sunstein begin with "dogmatic anti-paternalists" in their sights. Economists, traditionally heavily represented among those opposed to paternalism, hold three mistaken beliefs about paternalism. They are: one, the belief that paternalism must be coercive, two, the belief that paternalism is avoidable, and, most important, three, the belief that people make choices that are better, *by their own lights*, than the choices that would be made for them by paternalists. Each of these traditional beliefs is a misconception or false, say the authors.

Thaler and Sunstein regard three as simply false. In many situations, they say, paternalistic experts really do know better, and the proof is that those who have benefited from paternalistic expertise seem to concur. Traditional paternalism *is* coercive, so it is a stretch to label this belief a misconception, but never mind: Thaler and Sunstein want to rebrand the term, arguing that their "libertarian paternalism" is not an oxymoron. Nudgers, unlike bad old paternalists, help people without compulsion. A nudge steers the paternalized person, but always leaves open the option for the paternalized person to choose another course.

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Finally, argue Thaler and Sunstein, in many situations a planner *must* make choices that will affect the behavior of others. Their motivating illustration imagines a well-read campus cafeteria manager, Carolyn. Thaler and Sunstein call her a choice architect. Carolyn is up on the new behavioral research: she knows that different architectures (and not merely price) affect how people choose. If, for example, she replaces cake with fruit in the impulse basket next to the cash register, people buy more fruit and less cake.

So, given that some cafeteria architecture must be chosen, what should the planner's goal be? Carolyn might want (1) to maximize cafeteria profits, or perhaps (2) to maximize her own profits via bribes from vendors. She could (3) proceed randomly. Or she could try (4) to arrange the food so that consumers bought what they would have chosen without any planner nudges. Or she could try (5) to maximize consumers' health. Thaler and Sunstein argue that Carolyn should try (6) to maximize the consumers' well being, all things considered.[1]

So, *Nudge* defends three main claims: one, the architecture of choice greatly influences how people make choices; two, choice architecture is unavoidable (so why not design in ways that improve well being), and three, libertarian paternalism is not an oxymoron: paternalists can nudge while preserving freedom of choice.

There is a great deal of truth to the first claim. Economists have long known that *Homo Economicus* is a fiction—real people don't use the techniques of Hamilton and LaGrange to makes choices; they lack common knowledge in strategic settings; and it is costly to acquire and process information—there are no cognitive free lunches. But *Nudge*'s catalogue of the ways in which real human beings fall short of the *Homo Economicus* ideal—a very useful primer on behavioral economics and a tribute to its innovators, Amos Tversky and Daniel Kahneman—is sobering. The key claim is not that real people are fallible, it is that real people make mistakes *systematically*.

They embrace irrelevant information. They see patterns where none exist. They prefer policies that save 90% to those that lose 10% even though the two are identical. They are overconfident. They value objects they possess (for seconds) more than the identical objects possessed by someone else. And they are subject to serious inertia.

Why? Because, say Thaler and Sunstein, our brains are dichotomous. Too often, our impulsive, myopic, unreflective reptile half seizes the levers of choice from our resolute, farsighted, thoughtful human half. The upshot: we are more *Homer Economicus* than *Homo Economicus*. And, since *Homer Economicus* fails systematically, he can be manipulated by savvy architects of choice.[2]

Remember subliminal advertising? Popular during the Cold War Era, the idea was that unscrupulous businessmen could make unwary customers buy more products simply by flashing visually undetectable, but nonetheless subliminally registered, images. Movie houses, for example, could insert a fleeting "Eat

[1] A key point, which I revisit below: Thaler and Sunstein reject plan (4), on grounds that giving consumers what they want is not possible when what they want is not well defined, as illustrated by the cake and fruit preference inversion.

[2] Some critics argue that the predictable biases of *Homer Economicus* are partly a laboratory artifact, and are less evident in the field. See, for example, Levitt and List (2008).

popcorn" message and boost popcorn sales without moviegoers even knowing they were being manipulated. Except now, the science of manipulation is more sophisticated.

Want to increase employee savings? Change the default 401(k) contribution rate from 0 to 8%. A one-digit rewrite of the plan demonstrably increases savings, this by exploiting employee inertia—few bother to opt out. Or, exploit money illusion by nudging employees into a "save more tomorrow" plan, which increases contribution rates concurrent with future raises. Want to increase bakery sales? Waft the irresistibly sweet Siren-smell of cinnamon rolls into the mall, and you will lure *Homer Economicus* toward a calorie-dense catastrophe. Want the obese to continue eating your fat burgers? Install slimming mirrors. Want to protect compulsive gamblers from the temptation of the casino? Let problem gamblers self-ban by placing themselves on do-not-admit lists.

The subtitle of *Nudge* is "improving decisions about health, wealth and happiness," but it would be more accurate if it read "manipulating decisions about health, wealth and happiness." After all, the consequences of manipulation depend upon the nudger's intent, which may well be to exploit rather than to ameliorate, and also upon the effectiveness of the nudge in question. Happiness science is still in its infancy and, some pronouncements to the contrary, happiness research sometimes gets it wrong. Daniel Kahneman has, with admirable candor, recently recounted how he was forced to abandon the theory of the aspiration treadmill. "Everything we thought we knew ten years ago … [was] wrong," concedes Kahneman (2007).

Not all of *Nudge*'s instruments for nudging are solely paternalistic. Take information provision, which can be used to trick *Homer Economicus*, but also to remedy market failure, to inform, for example, citizens about the hazards of smoking. A paternalistic public health official might endorse a policy of greatly exaggerating the risks of smoking, as a means to the end of smoking reduction. Since the paternalist's goal is not to inform per se, but to promote paternalized persons' welfare as he sees it, public misinformation can be consistent with paternalism.

As it happens, smokers and non-smokers overestimate the health risks of smoking, an error that likely derives from anti-smoking campaigns. More accurate information about the health risks would remedy this market failure, and lead to more smoking. A traditional neoclassical economist would endorse the provision of better health information. But I expect that most paternalists, nudgers included, would be reluctant to publicize the truth.[3]

What's going on here, of course, is that behavioral economists reject the circa 1970 view that preferences are consistent, which says that even addictive behaviors can be seen as rational. For behavioral economists, inconsistent preference explains why people smoke, eat and drink too much, or exercise and save too little. Thaler and Sunstein personify inconsistent preferences in the dichotomous-self model of intrapersonal conflict—the myopic, impulsive Doer versus the farsighted, resolute

[3] For the traditional non-paternalist, in contrast, a policy of misinformation is incoherent, because while information can improve self-regarding individual choice, misinformation cannot. For the non-paternalist, fraud, even well intended fraud, cannot be justified. (See Leonard et al. 2000).

Planner. In the morning the inner Planner resolves to forgo dessert at dinner tonight, and then, after dinner, the inner Doer proceeds to devour a bowl of ice cream. The libertarian paternalist then takes sides: the way to help the paternalized person is to thwart her inner Doer and, thereby, protect her inner Planner from the Doer.

Set aside the problems of bad nudges and evil nudgers.[4] Assume effective instruments and benign intent. What does mean to make a time-inconsistent person better off when her Doer and Planner incarnations have opposed views of what is better? Tom Schelling posed the dilemma this way: “how do we decide which side we are on?” (1984, p. 87). On what grounds should a paternalist privilege the Planner?

Say I prefer \$100 today to \$110 next week (Doer), and I also prefer \$110 in 53 weeks to \$100 in 52 weeks (Planner). My preferences are inconsistent: I am more impatient in the near future than in the far future. But there are two ways to nudge them toward consistency: promote impatience (Doer) or restrain impatience (Planner). Thaler and Sunstein acknowledge the dilemma for the paternalist facing a divided self: “If the arrangement of [cake and fruit] alternatives has a significant effect on the selections the customers make, then their true ‘preferences’ do not formally exist” (2003, p. 1164).

We certainly don’t want Homer Simpson at the helm of Ulysses’ vessel when the cost of succumbing to the Sirens’ song is mass death. But the choice between Doer and Planner is rarely so stark. How much should a person save? What is the optimal tradeoff between cost of weight gain and the pleasure of tasty calories? Are workaholics, anorexics and misers—what happens with a dictatorship of the Planner—any less immoderate than slackers, the overweight, and the profligate? Sure, more people make New Year’s resolutions to lose rather than to gain weight, but that’s just Planner talk. Many others resolve to spend less time at the office, and more time enjoying life with family and friends, Doer talk.

The irony is that behavioral economics, having attacked *Homo Economicus* as an empirically false description of human choice, now proposes, in the name of paternalism, to enshrine the very same fellow as the image of what people should want to be. Or, more precisely, what paternalists want people to be. For the consequence of dividing the self has been to undermine the very idea of true preferences. If true preferences don’t exist, the libertarian paternalist cannot help people get what they truly want. He can only make like an old fashioned paternalist, and give people what they should want.

My comments have been critical, but this is a measure of *Nudge*’s ambition and stimulus to thought. Buy it and read it.

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[4] Thaler and Sunstein, to their credit, acknowledge these problems.

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