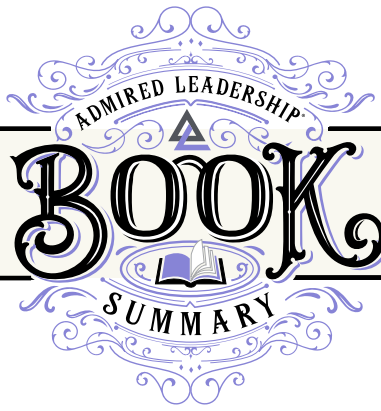




Eight Minutes, Not Eight Hours



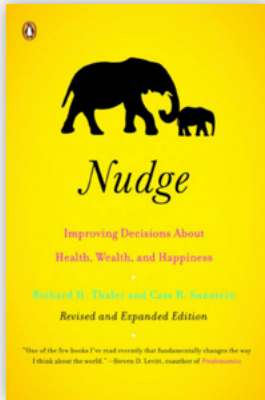
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Nudge

The Final Edition

BOOK AUTHORS: RICHARD H. THALER AND CASS R. SUNSTEIN

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Since its initial release in 2008, **Nudge** has influenced politicians, corporations, and individuals to reconsider how to influence decision-making. Behavioral economists Richard Thaler and Cass Sunstein make the case for creating an ethical “choice architecture” around decision-making, following a concept they call “libertarian paternalism.” This is the idea that we can encourage – or “nudge” – people to make good decisions while not removing their freedom of choice. This new and final edition of the book includes updated examples, clarification on how to help people make better decisions, and responses to critics.

Key Quote

“A **nudge**, as we will use the term, is any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives” (p. 8). — *Richard H. Thaler & Cass R. Sunstein*

Key Points

Biases and Blunders. Human beings take shortcuts to optimize making judgments and decisions. And for everyone, decision-making is subject to two types of thinking: “the automatic system” (your “gut”) and the “reflective system” (your “conscious thought”) (pp. 42-44).

Resisting Temptation. Humans have an innate resistance to being “Planners” instead of “Doers.” The Doer acts based on the desire of the moment (e.g., repeatedly hitting the snooze button, eating a second piece of cake, etc). The Planner looks ahead and makes decisions based on long-term gains from short-term sacrifices (e.g., getting up and starting the day, foregoing dessert). The good news is that we can set up internal and external systems to push us out of Doer mode and into Planner mode.

Following the Herd. People influence each other, and sometimes “a trickle becomes a flood” when it comes to a new idea (p. 65). We are driven by the desire to conform, by the wish to be consistent with our cohort, and by the (often mistaken) belief that most other people support something.

When Do We Need a Nudge? “Offer nudges that are most likely to help and least likely to inflict harm” (p. 91).

Choice Architecture. Good design makes use of the way the automatic reflex works. A simple example in functional design would be the following: if an option is to stop or halt, make the color of the switch or button or choice red, not green. The same is true when “designing” choices, and there is a list of tools to do this. But the guiding principle behind them all is, “If you want to encourage some action or activity, Make It Easy” (p. 106).

Smart Disclosure. Measurements should be standardized, when possible. Data and disclosures should be user-friendly – i.e., disclosures should be easily readable and data usage should be user-owned (p. 144).


#Sludge. “Friction” (e.g., copious paperwork, long lines, confusing websites, logistical hoops, and bureaucratic barriers and red tape, etc.) makes it harder for people to choose a particular outcome. Starting with yourself, remove “sludge” from things you want to “nudge.”

Save More Tomorrow. Choice architecture can help people financially. A defined-contribution plan (401k) is a way to nudge people to save for retirement. To help nudge people to save, make enrollment easy, offer plans to increase saving by connecting increases in contributions to pay raises, protect people from instincts to run when the market falters, and research options in other states and countries which nudge people to save.


Do Nudges Last Forever? Perhaps in Sweden. Since 2000, participation in Sweden's state pension is mandatory and enrollment is automatic, but there are many plan choices for participants. The data available from this 20-plus-year experiment suggests that when citizens were nudged to be active portfolio managers, they stuck with that behavior over time.

Borrow More Today: Mortgages and Credit Cards. Mortgages and credit cards are both ways to borrow, but how helpful they are to people depends on different factors. Mortgages are usually going to work out well for people as long as they select one well – i.e., **choosing** the right one matters most. Credit cards, however, will only work out well if people are smart about how they use them – i.e., using them the right way matters most.

Insurance: Don't Sweat the Small Stuff. When it comes to insurance, “don't insure the small stuff,” as the “small stuff” costs more to insure than to repair or replace. Avoid extended warranties and avoid choosing health plans with very low deductibles (higher deductible plans paired with HSA cards make more sense).



*After studying and speaking with
over 200 leaders from middle
school history teachers to execu-
tives of Fortune 500 companies,
Wiseman discovered five key
characteristics of Multipliers.
They are Talent Magnets,
Liberators, Challengers,
Debate Makers, and Investors.*



Organ Donations: The Default Solution Illusion. While the “presumed consent” to organ donation yields far more participation, an approach called “prompted choice” considers the rights and interests of donors and their loved ones, while still nudging people to donate by providing the option at driver’s license registration.

Saving the Planet. A variety of choice architecture approaches could be used by nations to spur people to make decisions that affect climate change.

Much Ado About Nudging. There are a variety of concerns about and critiques of nudging. However, the fact is that “choice architecture and nudging are inevitable” (p. 315). The challenge is to do it ethically and still provide choice.

Key Concepts:

WHAT IS CHOICE ARCHITECTURE

Choice architecture is the art of “organizing the context in which people make decisions” (p. 3). In choice architecture, “small and apparently insignificant details can have major impacts on people’s behavior. A good rule of thumb is to assume that everything matters” (p. 4).

A nudge “is any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives” (p. 8).

By using nudges properly, we “improve people’s lives and help solve many of society’s major problems. And we can do so while still insisting on everyone’s freedom to choose” (p. 12).

WHY USE CHOICE ARCHITECTURE

People think in two ways: “the Automatic System is your gut reaction and the Reflective System is your conscious thought.” Humans “often make mistakes because we rely too much on our Automatic System” (pp. 43, 44).

We see similar biases and blunders in human decision-making across the board, including:

Anchoring: “You start with some anchor, a number you know, and adjust that in the direction you think is appropriate.” In the case of anchoring, “bias occurs because the adjustments are typically insufficient” (p. 27). For example, if you live in a city with a large population, you are more likely to overestimate the population of a nearby city based on what is familiar.

Availability: We “assess the likelihood of risks by asking how readily examples come to mind” (p. 30).

For example, if your house has flooded before, you’re more likely to buy flood insurance.



Measurements should be standardized, when possible.

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Representativeness: When people are “asked to judge how likely it is that A belongs to category B, people answer by asking themselves how similar A is to their image or stereotype of B” (p. 31). For example, people overestimate how likely it is that any given woman is a feminist, because women fit within the preconceived stereotype of what a feminist is.

Optimism and overconfidence: “People are unrealistically optimistic” about outcomes and performance, “even when the stakes are high” (p. 33).

Gains and losses: “Roughly speaking, the prospect of losing something makes you twice as miserable as the prospect of gaining the same thing makes you happy” (p. 35).

Status quo bias: In general, “people have a general tendency to stick with their current situation” (p. 36).

Framing: Our choices are influenced by “the way in which problems are described” (p. 39). For example, we respond differently to “one out of ten people were hospitalized” than we do to “nine out of ten people recovered without hospitalization.”

Temptation: We are more likely to select tempting options that may not be good for us when in a “hot state” or aroused, and we would choose more wisely when calm (p. 51).

Following the herd: People are “influenced by other Humans, even when they shouldn’t be” (p. 64).

WHEN TO USE CHOICE ARCHITECTURE

Nudges help most where people are weakest. “People are most likely to need nudges when: decisions require scarce attention, when decisions are difficult, when people do not get prompt feedback, and when they have trouble translating aspects of the situation into terms they can easily understand” (p. 91).

The free market will not help you in these situations, “Much of the time, more money can be made from catering to human frailties than by helping people to avoid them” (p. 102).


HOW TO USE CHOICE ARCHITECTURE

The basic principle of choice architecture is, “if you want to encourage some action or activity, Make It Easy” (p. 106). A good choice architect will:


Set up defaults: “Many people will take whatever option requires the least effort,” so make the easiest option the beneficial one (p. 108). For example, make retirement plan contributions automatic with a choice to opt-out.

Expect error: “A well-designed system expects its users to err and is as forgiving as possible” (p. 112).

Give feedback: “Well-designed systems tell people when they are doing well and when they are making mistakes” (p. 118).



Nudges help most where people are weakest. “People are most likely to need nudges when: decisions require scarce attention, when decisions are difficult, when people do not get prompt feedback, and when they have trouble translating aspects of the situation into terms they can easily understand”



Understand mapping: “A good system of choice architecture helps people to improve their ability to map choices onto outcomes and hence to select options that will make them better off” (p. 120). For example, saying a glass of Coke has nine teaspoons of sugar is more helpful than saying it is 39 grams because it is easier to understand the outcomes of consuming it.

Structure complex choices: “Good choice architects often winnow the choice set down to a manageable size” (p. 121).

Align incentives: Decision incentives must be directly beneficial and noticeable to the most important decision-makers (p. 125). For example, non-profit organizations can offer a gift in return for a donation.

Curate options: Skilled choice architects “get rid of bad options and introduce novel ones” (p. 132).

Employ smart disclosure: Implement “rules meant both to solve the problem of the fine print and to facilitate better decisions by consumers” (p. 143). For example, make all disclosures easily readable on a computer and allow consumers to own their usage data. Another guideline is that “any organization, public or private, that keeps track of information involving the behavior of individuals or households should generally make that data accessible to them” (p. 143).

Reduce “sludge”: Get rid of “any aspect of choice architecture consisting of friction that makes it harder for people to obtain an outcome that will make them better off” (p. 153). For example, don’t require seven confirmations to cancel a subscription.

POTENTIAL APPLICATIONS OF CHOICE ARCHITECTURE

Retirement savings: Increase participation and effectiveness by setting up automatic enrollment, automatic escalation, and sensible funds as defaults (p. 196).

Mortgages: Employ smart disclosure to make all fees and costs clear and easy to understand (p. 225).

Credit cards: Employ smart disclosure to make rules, fees, and incentives clear upfront, so people can make informed decisions about which cards to use (p. 231). Offer applications or programs to help manage auto-payments and debt management across cards (p. 233).

Insurance: Curate options for consumers by offering sensible policies covering only the most valuable things with the highest possible deductible (p. 238).

Organ donation: Rather than automatic enrollment, protect individual choice and beliefs with a prompted choice that asks people to register as a donor when they renew their driver’s license, while it is top of mind (p. 265).



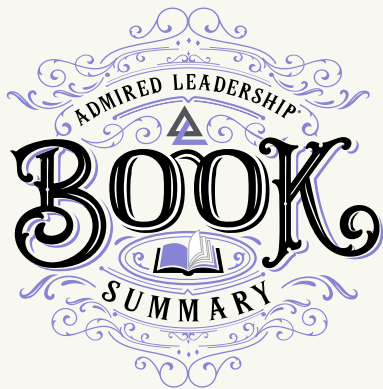
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Saving the planet: Align incentives by offering tax advantages for green practices (p. 293). Give feedback by sharing information about the negative environmental effects of chemicals and production methods (p. 302).

Thaler, R. H., & Sunstein, C. R. (2021). **Nudge:** The Final Edition. London: Penguin Books.



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The Latest and Greatest Books for Leaders

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After reading a good summary, we believe leaders are able to make better choices as to what to ignore, what to peruse and what to make the time to read closely.

