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Father of ‘nudge’ psychology wins economics Nobel

Keith Morris News/Alamy Stock Photo

by **Andy Coghlan**

Weaving the irrational “human factor” into economics has earned Richard Thaler of the University of Chicago this year’s Nobel Prize in Economic Sciences.

Thaler is most famous for describing a phenomenon called “nudging” in 2008. Nudging relies on subtle psychological ploys to guide consumers to make choices that are more beneficial for themselves or for society.

One example of nudging is redrafting the default choice for organ donation, so that people have to consciously opt out of donating rather than taking the trouble to opt in.

Another is making pension contributions the default option for employees, subtly encouraging them to save for the future rather than squander their salaries on instant gratification.

The potential for nudging has proved so great that some governments, including those of the UK and the USA, have set up “Nudge Units” to help push pro-environment, pro-saving and pro-health agendas.

Thaler's other major contribution was his studies of the limits to people's rationality.

"By exploring the consequences of limited rationality, social preferences and lack of self-control, [Thaler] has shown how these human traits systematically affect individual decisions as well as market outcomes," says the Royal Swedish Academy.

As an example of limited rationality, the academy cites the case of a taxi driver who stops working daily once a pre-set target for income is reached. According to Thaler, the driver could earn considerably more by working beyond the target on days when the target is met early, as there is more custom available, and stopping work early if demand is slack, even if the target isn't met.

Thaler's work also showed that people often take fairness into account when making economic decisions, even if it means paying more or suffering a personal cost for punishing others perceived as acting unfairly. For instance, consumers may decide against buying umbrellas even when it's raining hard if they can see that umbrella sellers have raised the price during rainy spells.

Thaler also coined the "endowment effect", a phenomenon whereby people tend to value things they already own, or created, more highly than matching objects on open sale.

And to help resolve the internal tension in everyone between short-term gratification and long-term planning, Thaler theorised that we all have a "planning" self, and a "doing" self, calling it the *planner-doer* phenomenon. Thaler realised, for example, that people would be more willing to contribute to occupational pensions if employees commit to allocating a portion of future salary increases to the pot, rather than from their existing salaries, another example of the "nudge" phenomenon.

Nudging is indeed an interesting concept.

This, alas, can also be used to nudge people into all kinds of behavior, given enough time, enough power to nudge.

Companies can nudge customers too, it's that a great future? It's also used in the past (advertising sprite, coca cola, dove, ...).
Is that per se good? And for who?

So be careful to embrace it!

Hugo