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Nudge Theory

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What Do Organ Donation and Sugar Cravings Have in Common? A Brief Look at Nudge Theory – Adam Edelstein

Nudge theory and behavioural economics are terms increasingly used, even by those who are not economics scholars. This is most likely for two reasons: the departure from the mathematical rigour of traditional economics certainly makes topics like this more accessible, and the principles behind it are particularly interesting. However, nudge theory, despite the term being increasingly widely used, is itself vaguely defined. What is nudge theory and how is it used?

The definition of nudge theory as provided by its progenitors, Thaler and Sunstein, is itself hazy. According to them, a nudge is “any aspect of the choice architecture that alters people’s behaviour in a predictable way without forbidding any options or significantly changing their economic incentives”. This confusion is not aided by the wide array of examples provided by Thaler and Sunstein in their seminal book, Nudge. Scholars will often rewrite the definition of nudge theory as is relevant for their works. Effectively, however, nudge theory is a toolkit of governance and choice architecture methods that are aimed at causing the targeted individuals to make the ‘right’ decisions, which they would not have made themselves. It involves the “organisation of the context in which people make decisions”.

Critically, nudge theory takes into account that which the traditional definition of man as a rational actor (a key principle in economic thought) does not. It is aimed at taking advantage of the widespread cognitive deficiencies that are typically exhibited by individuals: risk aversion, myopia, irrationality and so on. These knee-jerk, automatic decision-making processes that usually result in poor decisions are the key mechanisms in successful nudging. Nudge theory also aims to encourage committing individuals to make improved decisions at low financial cost and decreased levels of (direct) coercion from the choice architect. It revolves around those characteristics that anyone would claim they do not care about and is intended to be easily reversible. Importantly, the individual being nudged is often unaware that they are being manipulated. It is clear that defining nudge theory is not a simple task. The above definition, with its multiple facets, is vague and does not give a true indication of the essence of nudge theory to the novice. It is, perhaps, easier to examine nudge theory in contrast. Where traditional governance methods force outcomes through direct interference – taxation, incentive changing policies, fines – nudge theory is more subtly coercive and uses existing imperfections in human decision-making to direct individuals to make the ‘right’ decision.

The true appeal of nudge theory are the success stories. There are several tools that have been identified in successful nudge design. Specifically, choice architects seek to simplify choices, increase the salience of particular options and evoke ease of choice and mental association.

Two main nudging mechanisms have seen significant approval, although research has begun to indicate their limitations. The first is the setting defaults mechanism, examples of which many of us will know. The core concept behind default setting is that the choice architect decides what will happen to an individual in the case where they make no active decision. The best-known example is the opt-out rather than opt-in technique for improving organ donation. Research finds that nations that have individuals opt out of organ donation have far higher proportions of organ donors amongst the population, as opposed to countries that require opting in. This is a classic example of nudging behaviour. Further, individuals who are offered a default option of 6% contributions to pensions as opposed to 3%, unless explicitly chosen, greatly increased overall pension donations.

In these cases, individuals often believe that donating organs is the right thing to do, or that contributing relatively larger amounts to pension funds is the responsible path of action. However, many of us do not perform the actions we believe are best – we suffer from cognitive dissonance. Here, nudge theory has seen success in causing individuals to make the decisions they ought to.

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Interestingly, the case for setting defaults may be due to loss aversion inherent in the average individual. It has been shown that many will choose not to make active decisions when they don't have to and will rather revert to default. This may be due to the fact that the default option is perceived as already being 'possessed' by the individual. Actively choosing something other than the default will mean that the individual loses that possession. Since studies indicate that people value losses higher than equivalent gains, known as loss aversion, losing the default option is perceived as being worse than gaining the other choice. And so, many stick with the default.

The second mechanism is the framing technique of nudging. Here, it has been found that messages about outcomes are not only important in terms of what they convey or the information portrayed, but also in the manner and method of conveyance: their framing. The gambling individual who is told that they have a 99%chance of losing their money is less likely to take the chance than the person who is told that they have a 1% chance of doubling their input. For the traditional economic rational agent, the manner in which content is accessed is irrelevant. Both options provide identical information – each tells the individual that they have a 1% chance of doubling their money and a 99% chance of losing their input. However, studies find that what should be inconsequential changes in information delivery do in fact change behaviour, despite holding the exact same information. Participants in a study preferred 75% lean beef over 25% fat.

There are, however, debates on the ethical ramifications of employing nudge theory. There is something Orwellian about governance methods involving the subliminal subversion of individuals' preferences. Thaler and Sunstein themselves view nudge theory as a form of weak libertarian paternalism: the coercion of the individual to make the better decision as they themselves have judged. It restricts no options and so is relatively unobtrusive, according to the authors. However, one could not be blamed for feeling some unease at the prospect of being entirely unaware as to the extent to which one's actions are being directed. Indeed, while the intention of nudge theory is to cause individuals to make the decisions they ought to, or that are best for them, there is certainly room for more sinister purposes. Anyone who has stood in a queue at the grocery store surrounded by chocolates has an inkling of how powerful a subconscious nudge for sugar can be, and the true evil nature of nudge theory.