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## The artful nudger has his eyes on your cash

He inspired No 10's nudge unit, which tries to get us acting more rationally. Now the economist Richard Thaler is targeting the central banks that make our money go round, he tells Iain Dey

Iain Dey



*Richard Thaler says he is trying to restore common sense to the way economists think about the world (Barry J Holmes)*

Richard Thaler and I have got into a debate about parents who refuse to give their children vaccinations against measles. 'I don't think anyone is suggesting you should kill the children who aren't vaccinated,' he posits, matter-of-factly. 'But suppose it was ebola? Imagine we had a vaccine and there was an outbreak? Almost everyone would favour a mandatory vaccine. But at what penalty?'

This is the type of conversation upon which Thaler thrives. He is one of the founding fathers of **behavioural economics, an academic discipline that broadly aims to quantify common sense**. For 40 years he has railed against economics textbooks that assume human beings behave rationally – that we all save the right amount for retirement, drink no more than the state-suggested limits

of alcohol and conduct an off-the-cuff cost-benefit analysis on how best to spend every raffle prize, lottery win or birthday present.

It has fallen to Thaler, a professor at the Booth School of Business at Chicago University, to explain why we opt not to vaccinate children against a killer disease on the back of pseudo-scientific scare stories.

Thaler, 69, was long dismissed as a loony by a litany of Nobel-wielding economists. Yet over the past seven years his ideas have become central to the policies of more than 50 governments around the world – starting with David Cameron's Conservative party.

Nudge, the 2008 bestseller that he co-authored with the Harvard law professor Cass Sunstein, has sold more than 750,000 copies – most of which appear to have fallen into the hands of ambitious civil servants and marketing consultants.

In it Thaler demonstrated to the world how human frailties could be used to lead the populace in the right direction – to prompt us to pay taxes more swiftly and stop lying on forms and even to encourage men to pee straight in public lavatories. The book's opening anecdote is perhaps the most famous, showing how children could be "nudged" to eat more healthily simply by placing the salads before the burgers in a school canteen.

Now Thaler is back with a new book entitled *Misbehaving*, which outlines ambitions to take his theories to the bigger stage of central banking and monetary policy while also unloading pot shots at his many critics. "Often when I try to explain to a layman what I do they are just completely baffled," says Thaler, leaning back in his office chair, knitting his hands behind his mop of curls. "They say, 'Wait a minute, is there someone who doesn't believe this?' Well, yes, that just happens to be my profession.

"Economics training subtracts common sense. You start out at graduate school and you are not a complete idiot. Then you spend two years studying fictional creatures and you start to believe that these pretend models actually explain the world. Most of what I have done is to restore some common sense to the way economists think about the world."

Where many people come unstuck with Thaler's work is when they start to question who is doing the nudging. The very notion that you can help someone do the "right" thing assumes that you know their needs better than they do themselves.

In the run-up to the 2010 election, the Cameroons got extremely excited by Thaler's suggestion that small, inexpensive changes to the things done by governments could make a meaningful difference to the country. With the financial crisis, Rohan Silva, a young policy adviser, persuaded Cameron to look into nudging. The soon-to-be prime minister got excited. Soon after the coalition came to power he set up the Behavioural Insights Team – nicknamed the "nudge unit". It now employs 50 people and operates at arm's length from the civil service.

"I happened to be around when Cameron and his gang decided to take this seriously," Thaler explains. "I felt some ownership in this idea, which is why I was willing to make a big investment in getting it right."

The Booth school runs an MBA course in London. Thaler signed up to lecture for one week a year, giving him an excuse to travel back and forth. "The first visit, they nearly killed me with one meeting after another," he says.

“I met 16 ministers in a week. We were making it up as we went along. It was exhilarating, and great fun. You go in and it’s like you are the minister’s psychotherapist: ‘Tell me what your problem is, let’s see if we can help.’ Sometimes we could, sometimes we couldn’t.”

One of the big success stories from “nudging” is so-called auto-enrolment into pension schemes. By changing the wording on workplace pensions so that people are always signed up for the scheme unless they explicitly opt out, millions more people are now saving for the future. That has proven hugely effective on both sides of the Atlantic.

Most of the nudge unit’s work has been more lowly, however. One trial examined people who file their self-assessment tax forms late. By adding some wording on the warning letter pointing out that the “great majority” of people “more than 90%” pay their taxes on time, an extra £9m was raked in earlier than it would have been. It was not a huge improvement, but the letters had to be sent anyway so tweaking the wording had come at negligible cost.

Thaler was then asked to help work out why so few people were taking up the government’s Green Deal – a subsidised programme to insulate people’s lofts. Only four people signed up in the first six months. After conducting surveys, the nudge unit found that many people couldn’t be bothered to clear the junk out of their loft. As a result, the unit added in the offer of help to clear the space – but that still didn’t work.

“I’m an unapologetic nudger,” says Thaler. “There are lots of nudges that might have worked but seem ineffective. For example, calorie labelling on food seems to have only small effects. It’s a little surprising.”

Thaler seems to have a permanent spark of mischief in his eyes. He originally wanted to meet for dinner so we could have an excuse to drink expensive wine – an activity that those rational individuals of the economics textbooks would struggle to comprehend. His wife then informed him he was having dinner with friends that evening, curbing our intended misbehaviour. So we meet instead in his office in the Booth school, a Rafael Viñoly-designed glass construct perched among the faux Gothic of the Chicago University campus.

Misbehaving is not just another quirky economics book full of “you’ll never guess” pub trivia. It’s also an autobiography, charting the evolution of Thaler’s theories through his friendships with the likes of Daniel Kahneman, the Israeli-American psychologist turned Nobel laureate economist. Kahneman supposedly says that Thaler’s greatest attribute is laziness as it prevents him from wasting his time with dull problems.

One of the areas where Thaler confesses that no one knows the right answer is the big debate in economics: the eternal Keynes v Hayek argument about how to bounce back from a financial crisis.

Should governments spend to boost the economy? Or clear debts, cut spending and adopt the mantras of “austerity”? The general election result may prompt people to believe that the British public has selected the latter option. Economists are still at each other’s throats, however.

“As a profession we have no real consensus about how much austerity is right,” says Thaler.

“We have economists on both sides, left and right, making statements with great certainty. I think that we’re going to learn more if we start having more realistic models of what people are really doing.”

Of course, to get to “true” answers about how people behave in an economy, Thaler would require at least two similar large-scale economies willing to act as test subjects. That seems unlikely.

“My favourite example of a nudge that no one can argue with – and which has saved my life on numerous occasions – are the signs in London telling me which way to look for the oncoming double-decker,” says Thaler. “There are some loonies who will say, ‘Well then people will never learn. How many times do I have to be run over by a bus?’”

*Misbehaving: The Making of Behavioural Economics is published by Allen Lane at £20*