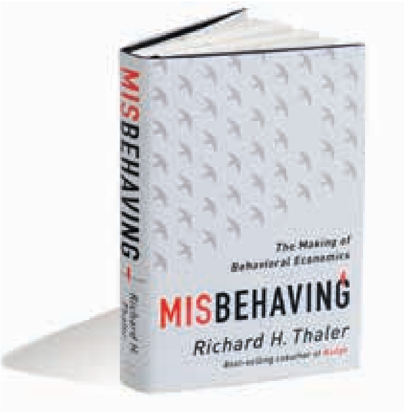
Being Human



Richard Thaler

Misbehaving

The Making of Behavioural Economics

W.W. Norton & Company Inc, New York, 2014, 432 pp., $27.95.

Behavioral economics sees the world as full of humans, not "econs," in the language Richard Thaler and Cass Sunstein popularized in *Nudge*, their seminal work in this area. Now Thaler has a new book on the subject, but this time he describes his struggle for acceptance of behavioral approaches by the economics profession. The result is a very human book, starting with a moving tribute to Amos Tversky, whose work with Daniel Kahneman would surely have won him the Nobel Prize had he not died tragically at 59.

In the spirit of full disclosure, I worked with Thaler when the U.K. government was setting up the first major "nudge unit" to test behavioral concepts. I enjoy his company and his ideas: when I took him to the pub in London, we discussed whether the British habit of buying drinks in "rounds," taking turns to pay for everyone, leads to drinking too much.

The book is highly readable but also a serious study of behavioral economics as an example of a paradigm shift, as suggested by Thomas Kuhn in *The Structure of Scientific Revolutions*. Debate inside the University of Chicago and beyond was clearly intense and sometimes personal. Thaler describes his own career as a struggle against the prevailing orthodox model of "rational choice." The book lists "anomalies," findings that appear to contradict the rational model, from fields as far apart as game shows and pension savings. These findings were clearly not received warmly by many economists. Thaler talks of "running the gauntlet" at seminars, where opponents said the evidence was irrelevant because it is still possible to assume people behave "as if" they were following the rational choice model. His stories suggest that many econs display the very human trait of confirmation bias, which is not surprising given the radical way behavioral insights challenge traditional theories.

Thaler's anomalies compellingly demolish old approaches, but what should take their place? Presumably we need to base our models on assumptions consistent with how humans actually behave. The real success of behavioral economics is that it has led governments to change policies and the way they are implemented. Thanks to behavioral insights more people now donate organs in Brazil, pay taxes in Guatemala, hesitate to litter in Denmark, use condoms in Kenya, and save for retirement in India, the United States, and the United Kingdom. The list is long, impressive, and growing. Of course, the book isn't perfect: Thaler is human. Those outside American universities don't get much attention. Thaler is, in many ways, a traditional economist—not surprising for someone who has spent so much time in American economics departments. In fact, while I was Executive Director at the IMF and the World Bank, my gripe about economists there was that despite their apparent diversity, all had been trained at American universities to think in similar ways. In the book, you will look in vain for references to University College, London's Centre for Behaviour Change, or the Centre for Behavioural Economics at the National University of Singapore. I would also have liked to read more about philosophical issues: the balance between libertarian and paternalist aspects highlighted in Thaler's first book. Thaler is very much a utilitarian, but shies away from measures of subjective well-being.

Thaler worked hard to keep the book to a manageable length, which unfortunately meant skipping over some other interesting topics, such as applications to development policy in, for example, Abhijit Banerjee and Esther Duflo's *Poor Economics* and the World Bank's 2015 *World Development Review*. Nor does he get into the nitty-gritty of testing behavioral insights. Theories are not precise enough to tell us what works in various situations and contexts, so testing is crucial. Joseph Henrich, Steven J. Heine, and Ara Norenzayan have pointed out that nearly all research in psychology is conducted on a small subset of people from cultures that are Western, educated, industrialized, rich, and democratic—or WEIRD, to use their arresting acronym.

Global institutions should therefore be wary of applying such findings to other cultures. I tested this out at a lecture in Australia, showing the audience messages the U.K. nudge team had used to persuade people to donate their organs. The message the Australians chose as most persuasive differed from the one obtained through U.K. randomized trials. The Australian audience was fairly WEIRD but clearly different.

Thaler has a message for the IMF: there is plenty of room for behavioral approaches to fiscal areas—improved tax collection, for example—but behavioral economists should move from the world of microeconomics to macro. This leap represents an understanding that politicians, bureaucrats, managers, workers—and even staff in international institutions—turn out to be human. Policy prescriptions that assume otherwise can go badly astray. In my view, failing to read this book should definitely count as misbehaving.

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