

The Nudge Challenge

What does behavioural economics mean for simplification?

What is behavioural economics?

Behavioural economics brings together microeconomics' study of markets and behavioural psychology's evidence about individuals' decision-making behaviour.

Microeconomics shows how markets work, and how - given extensive conditions - they can increase welfare. When the conditions are met perfectly, the result is perfect competition. Microeconomics also studies what happens when - as in the real world - some of these conditions are not met.

One of microeconomics' assumptions has been that individuals take decisions so as to maximise their own welfare. But there is now extensive empirical evidence from (mostly) social psychology research to show how individuals frequently make choices that are not rational from that point of view. Behavioural economics considers this evidence in the context of what it means for the study of the optimal functioning of markets.

Nudge

Behavioural economics has recently come to prominence through a book by Richard Thaler and Cass Sunstein called *Nudge*, subtitled *Improving Decisions About Health, Wealth and Happiness*. The fact that Barack Obama was seen with a copy under his arm, and that David Cameron is known to be interested in its approach, suggests that it may already be influencing political discourse.

Thaler and Sunstein enumerate a number of non-rational choice behaviours, with evidence that humans normally exhibit them. These include using rules of thumb, loss aversion, a bias to the status quo, overoptimism, following the herd and succumbing to short-term temptation. They argue that organisations, government and private, design the contexts within which people make these choices, through processes and documents, for example. But this kind of design, which they call choice architecture, cannot avoid influencing the resulting choices. There is no such thing as a purely neutral choice architecture. They therefore propose a design strategy, which they call libertarian paternalism, ethically based and consistent with the traditional stance of microeconomics. Its three main components are:

- bias the design towards the choices which will be beneficial to most people
- keep it open to people to make different choices, without incurring great costs
- be open and accountable about this bias

The authors describe a number of tactics - 'nudges' - which can lead people to make better choices for their own welfare while leaving them free to choose as they wish. They then give a number of examples, real or proposed, of the application of these tactics to investment, saving, health, education and environmental protection.

Does Nudge impinge on Simplification?

Simplification looks at the design of documents from the perspective of helping people make complex decisions. Nudge looks at more than documents, focusing on the whole structure of service design as it affects people's choices of service. Nudge, on the other hand is concerned only with choices of service, whereas Simplification looks at the whole customer journey. The diagram illustrates the overlap:



But within some of the stages of our customer journey, Nudge speaks. Some of its examples, such as mortgage applications and student loan forms, focus specifically on documents. And we need to consider our emerging criteria for benchmarking judgements against that background. Our current draft criteria are:

Impression	<i>Gives an attractive and engaging overall impression</i>
Active	<i>Uses the active voice to make clear who's doing what</i>
Plain words	<i>Vocabulary is easily understood</i>
Punctuation	<i>Punctuation is clear and appropriate</i>
Legibility	<i>Type is legible: font, spacing, line length etc</i>
Relevance	<i>Content is relevant to the recipient</i>
Subject	<i>It is clear what the communication is about</i>
Structure	<i>The document is well organised in relation to its function</i>
Audience fit	<i>Appropriate to the knowledge and skills of its audience</i>
Tone	<i>Tone and style of language is appropriate to the context</i>
Who from	<i>It is clear who the document is from</i>
Contact	<i>Makes it clear who you can contact and how</i>
Action	<i>Makes it clear what action if any is required</i>

None of these criteria addresses whether the design of the document would tend to bias the user's decision towards a particular choice; whether that bias was consistent with the intention of the document; or whether such bias would be in the user's best interest.

Should we care?

Should we really define these issues as being within the scope of simplification? I propose that we should: and the rest of this paper argues that where documents are relevant to a customer choice we should assess their impact on that choice in relation to the stated intentions of the organisation concerned.

My argument for this position is that to duck the issues which Nudge puts so forcefully would undermine our case for the importance of simplification. But for an organisation like the Simplification Centre to start making our own judgements about what outcomes are in individual users' best interests would be to go beyond our authority and our competence.

Why not treat as out-of-scope?

Yes, there *are* arguments against getting into Nudge issues at all. We might argue that information design deals with optimising the understandability of information. To get into issues of whether people, having understood it, then use that information to their own best advantage is to take us into a different field altogether. The counter-argument is that the design of a document influences choice not just through its understandability but through other, emotional, influences. Those who produce documents are interested in their outcomes. Good design means fitness for purpose. If there are factors in document design which influence the outcomes in unintended ways, then they are relevant to judging whether it is a well designed document. As designers we recognise that a document which is clear and understandable may be ineffective because it fails to engage the user to the extent necessary to read it. So its authors will be unhappy about its design. If a document is framed in a way which causes people to make choices that were not intended, its authors will be equally unhappy about its design.

Microeconomics has in the past been seen to rest on assumptions about the rationality of individuals' choice. Once there is robust evidence that individuals' choices are, in some ways, systematically non-rational, the economics discipline has had to address the issue of what that means for its doctrine and recommendations. If Simplification, and the underlying discipline of information design, were to ignore the same evidence about systematic non-rational decisions, it would jeopardise its claim to make useful recommendations. We have argued in the past that plain English alone is not sufficient to make documents effective. Now we know that understandability alone is not sufficient either. We cannot ignore that knowledge.

How can we judge good choice architecture?

Behavioural economics is microeconomics' response to the challenge of evidence about non-rational decision making. In doing so it has to make judgements about what constitutes a rational decision. As a discipline, economics is able to fall back on some fundamental assumptions about this: that people prefer more wealth to less; that their choices reveal their preferences; that inconsistent choices indicate non-rational decisions; and that non-rational decisions lead to sub-optimal outcomes.

If we are to address choice architecture, Simplification too will have to make judgements about what constitutes a rational decision. To follow conventional economic assumptions about this is an unattractive option. It would be fraught with difficulty for a body like the Simplification Centre to make assumptions about what decisions users ought to make in their own interests. We have no source of objective evidence beyond users' own decisions, and we are unlikely to be able to analyse those in sufficient depth to reach soundly based conclusions. Anything else requires us to make our own value assumptions which may be different from those of our members.

What validity, then, do our members' aims have in relation to the choices users will make? Government departments can argue that their aims are set by ministers, with democratic accountability to the public. Businesses can argue that their aims are determined by profit and loss, enforced by accountability to shareholders and driven by their customers through competition. Either could challenge us, if our value assumptions differed from theirs, on what basis we justified them. Or they could take their business elsewhere. Are we then the lackeys of our members, sacrificing our academic independence for money? Not if we ask members to make their aims explicit (and therefore accountable) and we judge their products against their stated aims.

Conclusion

The existence of robust evidence about systematic non-rational decision making forces Simplification to take account, in benchmarking documents, of the biases which document design can exert on user choices. We should do so in relation to our members' own stated aims, thereby giving them a nudge towards making their aims explicit and judging their delivery of them.

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