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Editor

Nudge Theory in Action

Behavioral Design in Policy and Markets

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FOREWORD

The issues surrounding “Nudge” are some of the most important in all of economics. The simplest models of economics take preferences as given, but nudge ideas suggest that we can be moved, steered, and in some cases manipulated. Given these behavioral propensities, how do markets actually work? How does politics work? How *should* politics work and what should policymakers do? How much can government take advantage of its nudging capability to bring about a better world?

Should we be more suspicious of private sector nudge or public sector nudge?

I am myself never quite sure how to answer the above question. On one hand, I fear the greater competency of private sector nudge. I know that a talented team of marketers is working overtime to try to get me to buy the product, take out a loan, or participate in a charitable cause. Furthermore, a competitive process winnows out the market players who are less good at nudging and elevates those who are better at nudging.

A lot of this nudging is good for me. If Spotify recommends some new music, there is a pretty good chance I’ll like it. If Whole Foods advertises a special, and puts it prominently on display, they figure I have the potential to become a regular buyer and enjoyer of the good. These nudges help me navigate the world.

In many other cases I am less sure, especially when the transaction is not likely to be repeated. I don’t trust doctors and dentists who try to intimidate me into scheduling more work and more procedures. I can’t trust the claims which most nonprofits make on behalf of their effectiveness. And at times I wonder if higher education is really all it is cracked

up to be or rather simply something one must do to avoid not having a degree. Harvard does such a good job of making the lawn look nice when the parents visit for graduation.

Private sector nudge is highly problematic, and I would say it is often worst in those areas we tend to feel best about: health care, education, and charity. In those cases, our guard is most likely to be let down, even if we are highly educated. Or should I say *because* we are educated?

What about public sector nudge? Well, the good news is that a lot of what government does is simply send money around through transfer programs. In this regard, its potential for manipulating us is fairly limited. Furthermore, government is extremely bureaucratic and usually it does not have top tier marketing talent. Most of the time I just don't find my government very persuasive. Is there really anything the DMV can talk me into that I wouldn't otherwise want to do?

But can I then relax? Can I stop worrying about public sector nudge?

I am not so sure.

The biggest costs in human history come from wars, and very often the public sector—especially the executive branches in various countries—nudges us into wars. I don't hear enough discussion of this topic in the nudge literature.

Government also has nudged us into believing that more government regulation is the answer to many of our problems. This is a supposition created in part by government rhetoric, coming from Congress, the president, and of course, from the regulators themselves. Too often we see more regulation as the proper default, yet I believe that overall the American economy is too regulated in most areas. Government is partly to blame for that. Even if government agencies do not have the most effective marketers, they have information advantages which they use to promote a mentality of “let's pass a law,” or “let's pass a regulation,” as the best response to a lot of social problems.

Finally, I worry about how private sector and public sector nudge interact. Nudges from the television news, and its coverage of crime stories, convince many Americans that rates of crime are rising when in fact they are falling. That's a private sector nudge to be sure, and the private sector is doing the marketing, with great skill I might add. But how does it interact with the public sector? Well, prosecutors send more people to jail and for longer periods of time. Arguably we have ended up with too many people in jail, and there are then public sector unions which take a dim attitude to working too hard to close some jails. The problem, in

broadest terms, is that the public sector often piggybacks upon the marketing efforts of the private sector. The private sector marketing, taken alone, probably would be far less harmful, but it can be combined with the coercive powers of the public sector.

On the brighter side, sometimes public sector nudge helps us. The campaign to cut back on the number of Americans smoking for instance has mostly been a big success, with big gains.

I find these to be some of the most important and interesting issues today. The essays in this book are but one part of a broader movement to see just where the “Nudge” concept leaves us. I hope you will enjoy them, and I hope this preface gives you just the slightest nudge toward proceeding further.

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Sherzod Abdukadirov

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In 2011, *Bloomberg Businessweek* profiled Cowen as “America’s Hottest Economist” after his e-book, *The Great Stagnation*, appeared twice on the *New York Times* e-book bestseller list. Columnist David Brooks declared it “the most debated nonfiction book so far this year.” *Foreign Policy* named Cowen as one of 2011’s “Top 100 Global Thinkers,” and an *Economist* survey counted him as one of the most influential economists of the last decade. Cowen graduated from George Mason University with a BS in economics and received his PhD in economics from Harvard University.

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