The Behavioural Book Club with Richard H. Thaler – "Nudge, the Final Edition"

In conversation with Dilip Soman

Behavioural book club on September 8, 2021

BEAR
Behavioural Economics
in Action at Rotman

BI·Org
Behaviourally Informed
Organizations

BEAR   BI·Org

Research Report Series
Behaviourally Informed Organizations Partnership;
Behavioural Economics in Action at Rotman

Rotman School of Management
University of Toronto

Correspondence

For questions and enquiries, please contact:

Dilip Soman or Bing Feng
Rotman School of Management
University of Toronto
105 St. George Street
Toronto, ON M5S 3E6

Email: dilip.soman@rotman.utoronto.ca or bing.feng@rotman.utoronto.ca
Phone Number: (416) 978-6980

Twitter: @UofT_BEAR @dilipsoman

Nudge, the Final Edition

The Behavioural Economics in Action (BEAR) centre and the Behaviourally Informed Organizations partnership were honoured and delighted to host Professor Richard Thaler on 8 September, 2021 as part of its book club even series. Richard Thaler is the Charles Walgreen Distinguished Service Professor of Behavioural Sciences and Economics at the Booth School of Business at the University of Chicago. Along with Amos Tversky and Danny Kahneman, Richard is widely recognized as the founder of the discipline that we now call behavioural economics. Thaler has also been the inspiration to much of the work we do here at BEAR and BI-Org. The topic of this book club event was the recently published *Nudge: The Final* Edition[1], and it featured a conversation between Thaler, Dilip Soman and several invited guests. The transcript of the conversation has been lightly edited for clarity and readability.

Dilip Soman:

I have great pleasure in welcoming today's guest, Richard Thaler. What's nice about welcoming and introducing Richard is that he needs no introduction. I'm actually going to precisely do no introduction, but I *will* note a couple of things. Obviously, Richard has written lots of papers and lots of books. The one book, for which he is perhaps the most well-known is the 2008 book called *Nudge*. He wrote that with Cass Sunstein. The world has changed since *Nudge* was written right in the book-- In the latest version of *Nudge,* Richard talks about the fact that that was the time when he first bought his first iPhone. I think it was Cass that had a Blackberry. When you think about it, it really was a different world. We had no Uber back then, and the gig economy did not exist in its form that it does today. I'm thinking back, I think Netflix was still shipping DVDs, and I think they just started streaming it around the time your book first came out.

Nudge obviously has had an impact on all of us; definitely for all of us here in today's event. It's made behavioural science popular, it's made it applicable. There are now over 200 different *Nudge* units all across the world. We could talk a lot about how things have changed. Given that the world has changed so much, and I guess also prompted by the fact that we had COVID and people had time to reflect on what had happened. Richard and Cass have now written *Nudge: The Final Edition,* and we're going to talk about that book today.

---

[1] Thaler, R. H., & Sunstein, C. R. (2021). *Nudge: The final edition*. New York: Penguin Books.

We received a lot of questions for Richard already, and have invited a few people to ask their questions in person on this live stream. There are several other questions that I received - I'm going to collate and integrate those questions, and ask Richard as we go through. Richard has asked that there should be no questions on cricket, which obviously has narrowed down the set considerably. Today, on Twitter, he also requested no difficult questions but that hasn't changed a whole lot because all the questions are easy.

Richard, welcome back to Rotman. Not once, not twice, but this would have been a "three-peat" if we had, had you in person, but it's always an honour and pleasure to have you back.

Richard Thaler: It's good to be back. Online and digital, but it's always good to be back.

Dilip Soman: Fantastic, thank you so very much. I'm going to jump straight into it. I guess the first thing I did when I got my book was, I looked at the cover. There are two things on the cover - before we jump into the serious stuff and I'm just curious about whether there's a story here. The first thing that I noticed was that there's a third elephant (the original book had two). I don't know, if that has any serious, deep, significant meaning. Second, I also looked at the back cover and I saw obviously some of the "usual suspects" talking about the book. There's Adam Grant and Bob Cialdini, and Daniel Kahneman aside, but you've got a talking head, you've got David Byrne.

Richard Thaler: Well, the third elephant was actually my idea. The elephants have become part of *Nudge* lore, so I wanted to keep them but I wanted to signal that the book was really new, not just some reprinting. It was my thought to add another elephant. As for David, David Byrne is a fan of behavioural science, and quite serious about it. He has collaborated with a friend of mine, they produced interactive behavioural science show. He very kindly agreed to read the book. Some people, when you ask them to write a blurb, they respond suspiciously quickly. David was asking for more time, because he had two chapters left to read, so he's serious.

Dilip Soman: That's great. I was actually thinking about the elephants too, I think one of the conversations that have happened since 2008 was, "Yes, we've got to nudge people but we also have to "nudge the nudgers," so I thought maybe there was a deeper philosophical meaning, with the big elephant being the "nudger of nudgers"….

Richard Thaler: See in it what you will.

Dilip Soman: Excellent. I'm going to bring on our first guest, Carey Morewedge in just a minute. Looking back since 2008, there's obviously been a lot of aha moments and I think we spoke a little bit about that when you were here with your *Misbehaving* book, five years ago. There's also, admittedly a lot of confusion, people asking for clarification. One of the things that's generated a lot of debate is organ donations, we'll get to that in

just a couple of minutes. Changes, controversies, cultural challenges, COVID, lots of Cs there.

It is lovely that you have a complaints department section in this book. Of course, I don't know if that's going to stop people from complaining about the complaints section. Cass was once called, I believe, the most dangerous man in America[2]. You managed to escape that sort of critique.

Richard Thaler: That's because I didn't have an important job. I was not the most dangerous man in America, but I was friends with the most dangerous man in America. I could cause my own trouble.

Dilip Soman: There you go. One place of confusion to many has been the more-- What's the precise definition of a nudge? What is a nudge, what isn't a nudge? I think there's been a fair bit confusion also because a lot of people on social media platforms have tended to use the word nudge to refer to absolutely anything that changes behaviour.

On the one hand, you have people like Pelle Hansen, who has tried to put a lot of structure on defining what a nudge is[3]. On the other hand, you've got people for whom anything is a nudge as long as it changes behavior - his window behind me is a nudge, or the shape of my room is a nudge. Carey Morewedge has a question in a similar spirit.

Carey Morewedge: Sure. First, I wanted to thank Richard. I think I didn't realize when I first read the book in 2008, how useful it would be in explaining to people why so much of the decision sciences matter. I think putting that in context was really something that was wonderful and did great things, both for the study of the psychology and economics of judgment decision making, but also for its impact on the world.

In the applications, I think it's really interesting that there are many cases where what we would include in nudging often includes lots of things, like user experience improvement, or simplification processes of language. If you're asking someone to become an organ donor, you can use the default option but also simplify that form that they have to complete. Is this kind of simplification process included in what you would think of as a nudge, or is that something that's complementary to it?

Going to Dilip's initial thread -- Let's say that we had a team of copy editors, and they went through every government document and improved the language there, so citizens

---

[2] Cole. D. (2014, May). Our nudge in chief. *The Atlantic*, https://www.theatlantic.com/magazine/archive/2014/05/our-nudge-in-chief/359804/

[3] See Hansen, P. G. (2015). The definition of nudge and libertarian paternalism – Does the hand fit the glove? *The European Journal of Risk Regulation*, 7(1), 155-174. https://ssrn.com/abstract=2652958

could understand what the documents contained. Would that be included in what you think of as a nudge, or what are the boundaries of the category that you define -- how would you define that?

Richard Thaler: Let me answer that the following way. Well, if I define a nudge precisely in a way that might even satisfy Pelle, who's a philosopher, so that's a high hurdle. The way we define it is, it's some feature of the environment that alters the behaviour of humans (but not Econs), and does so without requiring anyone to do anything. According to that very narrow definition, incentives don't matter but improved language could. But I don't think we should get hung-up on the definition of a nudge.

That title, which was not one that we're responsible for, one of the many publishers who rejected the book suggested *Nudge* might be a good title. It's a mixed blessing. It did help sell books, but I think of the book as a book about choice architecture. I think the real answer to your question is, everything is about choice architecture. Certainly, improving the language, making things simpler, that's all improving the choice architecture. One of the goals in this rewrite was to stress the choice architecture and move beyond the tweaks.

What I worry about is that people think that nudging is just about tweaks, adding a word, subtracting a word, changing the colour. No, it can be a complete restructuring of the choice environment. In the same sense in which changing a menu changes the choice architecture of a restaurant.

Dilip Soman: That's interesting. I think it leads to another question. Kevin is going to be on in just a minute, but before Kevin comes on-- That has to do with how intricate the psychology behind nudging should be. We've heard you say in many forums, "It's as simple as making it easy, and making it fun." In fact, there was one person that emailed, and said, "How much psychology do I truly need?" On one hand, the mantra of making it easy sounds like a simple guiding light. On the other hand, when I read this book, there's an awful lot of intellectual academic stuff. What are the skills and competencies I should look for when I'm hiring people into a nudge unit?

Richard Thaler: I think the answer to that depends on what you want them to do. Much of what people in so-called nudge units do, is do tests. That requires academic training. You should know how to run a field experiment, and you should know the relevant statistical methods to make sure that you have sufficient power. A different question of what manipulations, what are the treatments going to be and where do they come from? Some of them can come from pure common sense. Making it easy, it's still my best trick.

Dilip Soman: That's right.

Richard Thaler: It's the phrase I said most often when speaking to ministers in the UK. Now, that's not to say we haven't learned things from psychologists. We have, but you can get a long way with common sense.

Dilip Soman: Fair enough. I think that whole mantra of making it easy is simple, it's compelling, it can be translated into actual metrics, which obviously people in businesses likes. How many clicks does it take you to get from a landing page to the place where you can cancel your magazine subscription? The answer is infinite, we know, but stuff like that, I think, makes it a lot more concrete.

On the notion of definition again, I think one of the other controversies that had swirled up, and I guess the reason why Cass got called a dangerous person, was the allegation that nudging is manipulative. I know Kevin has a question on, again, thinking about how do we think about the definition of manipulation and whether in fact nudging, as we just spoke about, means this.

Kevin McWhinnie: Sure, thanks a lot, Dilip and BEAR, and thank you, Richard for being here. Yes, thinking about manipulation, you define it in the book as not adequately respecting people's capacity for rational deliberation. It made me think about that Chicago road example you used early on in the book. To me, since it relies on an optical illusion, it may fall into that category of manipulation.

Assuming your response to that is that, "Well, it is but it's acceptable because of the publicity principle that you outlined there, and that the choice architect would have no problem defending this publicly because it's so obviously beneficial." I wonder about where the line is there, and how much we should be ready to defer to the choice architect, given that one glance at Twitter makes us see that people are willing to publicly defend some pretty morally-nebulous positions.

Richard Thaler: Unlike Pelle Hansen, I'm not a philosopher and I don't claim to know what is right and wrong. I do know that it's impossible not to nudge. In some ways, it's impossible not to manipulate. If you're having an election in Canada, the politicians are giving speeches that are intended to get people to vote for them. Whether you want to call that rhetoric, or influencing, or manipulation, probably depends on where you're coming from.

I think the most successful framer (if we can use that word) in recent years was Dominic Cummings in the UK, who basically destroyed the United Kingdom, in my opinion with six words. The first three were, "Take back control." You can find a video of him explaining how that uses the concept of loss aversion. Whether withdrawing from the EU gives England more or less control is a debatable point, but it was a brilliant debating tactic.

Then in the second election, "Get Brexit done." People were weary. I'm sure your various candidates are promising to get COVID done. Good luck with that. We would all like that. In some ways, these arguments are arguments for philosophers. It's like pornography. We know it when we see it. I have for 13 years been signing copies of the book *Nudge for Good*. Dilip probably has one. I will continue to do that, but "good" will be in the eyes of the beholder.

Dilip Soman: The good and the bad is a nice segue into the new cousin of *Nudge* that's the debuted in this book: *Sludge*, of course. Dale has a question on that. The notion of *Sludge* is pretty interesting. I love the title *Sludge*, I've used it a lot. I'm an engineer by training. It means something else to me, but it works perfectly well. The metaphor is great.

Dale Griffin: Yes, thank you, Dilip. Richard, I think this is obviously one of the key concepts that gets its own chapter. It is, you could say, deep and sticky as a concept, but what I really want to know is whether *Sludge* is the inverse of *Nudge* or whether there's really something different about entrapping people through these principles?

Richard Thaler: Again, I don't know whether we want to get too bogged down on definitions. Cass and I had some discussions about what the most useful definition is. I like to use it as a pejorative term. It needn't be defined that way. We define it as unnecessary frictions, and we really want to limit it to unnecessary frictions that cause harm. If you put sand on an icy road, that is applying useful friction.

Things like cooling off periods can also be useful, but I like to think of it as the evil cousin of *Nudge*. If you just put a minus sign in front of everything, you get *Sludge*. It's not really as simple as that. That would be true if "make it easy" were the only trick in the choice architect's bag, and it isn't, but we thought it was a useful addition to the new book.

Dilip Soman: It's interesting because I think this is going back to the discussion on manipulation and now sludge. I think intent plays an important role, doesn't it? At the end of the day, there are the mechanics of the whole thing. Is there friction or not, or have you changed the choice architecture to influence people? Then there's the intent. Nudging for good is different from nudging for bad, is different from creating friction for good and creating friction for bad. I do think it's important to think about the intent, and I think that's where a lot of the debates get--

Richard Thaler: Absolutely. Netflix now starts the next episode without you doing anything. You can say they're making it easy for you to watch the next show, or they're making it hard for you to stop. I'm not going to get into that discussion.

Dilip Soman: Fair enough. The one discussion that might be useful to get into is the one on organ donation. Obviously, that discussion from *Nudge* 2008, the Goldstein and

Johnson science paper from 2003[4] has been quoted, misquoted, understood, misunderstood… Lots of questions coming in about opt-in and opt-out versus prompted choice. Does the fact that Wales tried to change the default and didn't succeed mean that defaults don't work, or, are there ethical issues with presume consent. At the heart of this, there's the fundamental difference between your traditional default experiments and organ donation? There's two differences. One is, it's a two-stage process, stage one, you consent, and then stage two is the organ harvesting process. Then there are two decision makers - there's the donor, and then their family. Instead of reading all these questions, maybe I'll just leave it to you to respond to all of these critiques that have come up.

Richard Thaler: Okay. The most frustrating thing after the publication of *Nudge* was people were convinced that we were advocates for presumed consent. It's true that when we decided to write this book, we had seen Eric's graph and we thought, "Oh, well, that's a chapter. We'll write that." Then we started reading the literature, and we ended up advocating something else that we called prompted choice, which is an opt-in with a nudge.

Now, every time a country switched on Twitter, I would get congratulations, "Hey, way to go, Thaler. Another country has done what you've wanted," and I would start tearing my hair out. I took a very deep dive on this topic in-- And that chapter is completely rewritten. Here's my take on it. The first is, if you look at Dan and Eric's famous graph, the fact that almost no one opts out should tell you something. It probably should tell you that people aren't paying very much attention to it, because we know defaults don't always work.

There are lots of situations where people override the default. How much weight should we as a society place on the fact that 98% of people did nothing. The people who keep watching the next episode on Netflix, is that because they prefer to watch that or are stuck in their couch? The empirical question is, "Well, does it help?" That turns out to be a very difficult empirical question. There aren't very many countries.

It helps I think if you do the analysis, including US states as jurisdictions, and of course, many of them are larger than most countries. If you do that, you come to the conclusion that an opt-in system, like we have in the US and Canada gets 25%, roughly more organs donated. Part of the problem in doing those analyses is people often misclassify Spain. Spain is the world's leader.

---

[4] Johnson, E. J., & Goldstein, D. G. (2003). Do defaults save lives? Science, 302, 1338-1339. https://ssrn.com/abstract=1324774

They're the world's leader, because they have the best organ harvesting choice architecture, very carefully thought-of. As soon as a patient looks like they might to be a potential donor, wheels start spinning. It is true that Spain once passed a law adopting presumed content, but a year later reversed it. They're still classified in most analyses as being in the presumed consent. If you take them out, there's nothing there. I think morally, and in terms of getting the most lives saved, my answer to the-- Eric and Dan's paper is called *Do Defaults Save Lives?* My answer is yes, and make the default, you have to opt in.

Dilip Soman: It sounds like it's got to be a two-prong strategy. There's obviously the opt-in versus opt-out, but then conversations with family. I don't think anyone has done anything at all to facilitate those conversations.

Richard Thaler: In the US, it's very localized. Philadelphia and the Philadelphia area has a very efficient system modeled on Spain. Look, the other thing about the US system, I'm not sure whether this is true in Canada. We have what's called first-person consent. If you have opted in as an organ donor, legally your wishes count. The organ-donation people can go and say, "Your loved one chose to be an organ donor, and legally we're required to follow his or her wishes." Now, if the family makes a big stink, they can stop it, but that's a very powerful opening statement. Much more powerful than your loved one failed to fill out some form, opting out which doesn't really tell you anything.

Dilip Soman: Or even making it easy to put those wishes in the hospital or medical records. I don't think that's something that people have thought of. Today with the technology that we have, it is a lot easier to do those things. It's not as simple as just changing opt-in to opt-out or the other way around, there's a whole bunch of specific micro decisions that we need to target.

Richard Thaler: This goes back to what I was saying before. One of the things I tried to emphasize in this version of the book, the final version is choice architecture. What the defaults are-- To go back to Netflix, if you think about their choice architecture, there's lots of layers. Whether a show restarts is just one. What things you see, what they choose to show you, all of that is part of a very successful bit of choice architecture.

Dilip Soman: Thomas Walsh has a question. I'm just going to preface it by saying since 2008, obviously like we said, many things changed. One of the things that changed was controversies in the social science. Obviously we had the replication crises and people beating drums about ethics and manipulation. Thomas, you want to jump in and talk about your question about the death of behavioural economics? I suspect the response we are going to hear, the word that I think you once told me you learned from Herb Simon - pleonasm…..

Thomas Walsh: Thanks a lot, Dilip and thanks to Richard for the talk. I just wanted to ask what you think of people who say that the death of behavioural economics is imminent. I've seen some people say that it'll become obsolete or it'll just fade away into general economics as a small area. Just wanted to get your thoughts on that.

Richard Thaler: Sure. I wrote a paper 20 years ago that was called *The Death of Behavioural Finance*. I predicted that it would die because finance would become as behavioural as it needs to be. I think that is what's happening in economics. The big change-- I've been at the University of Chicago for 26 years. When I came here, I was an outlier. Now there are half a dozen people who call themselves behavioural economists. People like Devin Pope and Alex Imas.

More important, there are lots of people who have behavioural economics as part of their toolkit, just like there are people who run experiments, or do econometrics, or economic theory. Now, in terms of the replication crisis, it's interesting. I have another book project in a way that's similar to this one. I wrote a book before it was fashionable to write books called *The Winners' Curse*. It was a collection of columns I had written in the journal of economic perspectives that were titled *Anomalies*. Each one talks about a specific empirical fact that was inconsistent with standard economic theory. Those were written mostly in the late '80s. The book went out of print. I wrote six more after the book was published. The publisher said, "Maybe we should put this back into print." I said, "Okay. Let's add the other six." Then I got the idea to get Alex Imas to join me in this project. What we're doing is just publishing the old pieces and then adding a short statement about what's happened since. You know what? There's not a single one where we have to change a word. Everything replicates.

Dilip Soman: Fantastic.

Richard Thaler: There is no replication crisis in behavioural economics. Now, there is a big replication crisis in priming. There's one notorious case that has been making the rounds that is exactly an experiment about priming. That's not a replication crisis. That's a problem of fraud. The basic principles of behavioural economics that people have self-control problems, that people care about fairness, loss aversion, I know this because every time I teach managerial decision making, I start by doing a survey of the students on all the classics. There's almost no reason to collect the data.

Dilip Soman: Yes, it's always the same.

Richard Thaler: It's always the same. Always, 90% of the students think that they will be above the median. Always, the most popular decile is the second one because of modesty.

Dilip Soman: It's interesting, though, that even if we talk about replication crises in related disciplines, priming, social psychology more generally, we don't need to make a

distinction between the so-called replication crisis in theory versus in practice. You could take the extreme position on the other side, which is taking off from your *Misbehaving* book, Seemingly Irrelevant Factors, SIFs, is, in the field, there are always SIFs that we don't see. The point you made there, and that's implicit in the book here, is the need to test every single time.

Richard Thaler: Yes.

Dilip Soman: Didn't Ronald Reagan say, "Trust, but verify"? I guess that's the message.

Richard Thaler: Here's a good distinction. Loss aversion, for sure, exists. Now, does loss framing always have a significant effect? No. If we go and replicate the mugs experiment, it will always work. Always. But somebody who tries to describe something either as a loss or a foregone gain, that's somewhere between loss aversion and priming.

Dilip Soman: Correct.

Richard Thaler: Its power is somewhere in between. Similarly, on loss aversion, there's a big dispute about exactly what it is. That's a psychology question. For me, the fact that people demand twice as much to give up a mug as they're willing to pay to get one, that's my fact. Why they do it, I let the psychologists argue about that.

Dilip Soman: Got you. One quick question from a lot of students, and then I'm going to move to Vera Rita who has a question about what happens in organizations. I teach this open online course. We have lots of students from all across the global south. I got a number of questions from people in Brazil and Africa and Asia that basically read your book and say, "I don't relate to this stuff because the examples are very different from where I live in." The more general question is, in your experience, we make a lot of these cross-cultural differences, do you see people as more similar or more different? In general, let me just read another question, what advice would you have for those of us who are not in the westernized world on implementing some of the ideas from your book?

Richard Thaler: There is a large literature on cross-cultural differences. I don't want to minimize them, but if you ask the question the way you did, which I think is a good way to ask it, do I view people as more similar or different? I'm definitely in the similar category. For example, there was a series of experiments running the ultimatum game in various different countries. Yes, amusingly, Israelis play the game closest to the way a game theorist would, which I attribute to the fact that most Israelis are game theorists. On the other hand, if you offered 10% of the pie anywhere in the world, you have a very good chance of getting turned down.

Maybe you have to offer 30% in this country and 10% in another, but nobody likes to be treated unfairly. Now, there are customs. What people think of as fair, that's going to matter a lot. Even the role of markets and perceptions of fairness there-- The old fairness study that Danny and Jack Knetsch and I did has been replicated all around the world. I'm guessing the R-square across countries would be about 0.7 or 0.8.

Dilip Soman: Right. Essentially, calibration of the phenomena, the strength of the phenomena, might be different, but some of these basic things, fairness, loss aversion, mental accounting, are pretty common all across the world.

Richard Thaler: Yes. A topic near and dear to our hearts.

Dilip Soman: This is true. There's a question on mental accounting coming up.

Richard Thaler: Good. Let's get to that.

Dilip Soman: Before that, Vera Rita, has a question about nudging for good and implementing that within organizations. All the way from Brazil, mind you.

Richard Thaler: Very good book I see behind you.

Vera Rita: Don't you? Yes, I have them all. The first edition of *Nudge*, I have your signature there, *Nudge for Good*, when you came to Brazil in 2008.

Richard Thaler: Yes, I remember.

Vera Rita: I was there. My question - Sometimes when organizations are trying to implement choice architecture to nudge for good, there might be some internal conflicts. For instance, a financial institution that is trying to design tools to help clients avoid credit that's not beneficial to them and, of course, the high interest that comes with it. At the same time, another department in the same institution is trying to push credit because all they're looking at is profit. Any advice on how to deal with that using nudges and choice architecture?

Richard Thaler: I think this raises a big question. I actually spent an hour with the board of a large Australian bank, Commonwealth Bank, I think has recently become a partner with Rotman. They are trying to be, what I call, the good bank. I write about this a little bit in the final edition. There is an open question as to whether a good bank can compete successfully against an evil bank. The reason why it's a question is that the good bank might look more expensive.

If the evil bank says, "Here's a free credit card and a free checking account," then there's a lot of sneaky fees, it's like Ryan airlines. It looks cheap, but if you have a suitcase, good luck. What I told CommBank is the only way to succeed as the good

bank is via trust. You have to be selling trust and you have to earn it. There's an old story. I will try and tell it quickly, but it's a good one.

My wife, France, and I were in Thailand and got in a cab. You have to negotiate the fare. I negotiated really hard and got a fare of $3 or something for a 20-minute ride. The driver said, "Would you like me to take you back?" I said, "Sure. What would the fare be?" continuing my tough negotiating. He said, "Same fare." Now, we have a dilemma of, "Will he come back and get me?" and, "Will I be there if he does?" He proposed a contract to solve this that no economist would ever suggest, which is, he said, "Don't pay me anything." Isn't that good?

Dilip Soman: It's amazing.

Richard: When we got done with dinner, of course, we went to look for him. Then we said, "On the way back, we want to stop at this night market." He said, "Fine. I'll wait for you. Again, don't pay me anything." When we were done there, we walked 15, 20 minutes out of our way to go find him because we now owed him $9. I'm not saying that Air Canada can do this with a nonstop flight to Bangkok, but I think there is a deep lesson there that if you want to be the good X, the only way you can succeed is by being the place that people trust.

Dilip Soman: That's fantastic. Mental accounting. Matthew, you had a question on mental accounting.

Matthew Hilchey: I did. Thanks for having me, Dilip, and for being here, Richard. This is a question that arose out of some confusion I had while reading about mental accounting in the book. I hope that I don't come across as too wet behind the ears in asking this question. On the one hand, as I understood it, we learn that people are more likely to splurge impulsively on luxury purchases when they receive an unexpected windfall. At the same time or on the other hand, you seem to advocate for policy that withholds more money from the taxpayer to ensure larger tax refunds at the end of the year, as I understand, because the refund feels like a windfall and will lead to increased savings. I see those as somewhat contradictory. How do I reconcile them?

Richard Thaler: The bigger the windfall, the larger proportion will be saved, though some of it will get spent possibly on luxuries, possibly on durables. You can see this among academics, at least in the US, where there's this odd tradition of so-called summer money that you get a nine-month contract. Then if you get a grant or, in some places, it's just part of the deal, if you're continuing to do research, you get two months' pay in the summer. People live on their nine-month salary because they have to pay the rent every month and then they get this lump. You see both splurging and durable investments.

A study that I think would be very interesting to do is to compare people who get paid once a month with people who get paid every two weeks. The reason is if you get paid every two weeks, there are two months out of the year that you get three checks. Those will feel like little windfalls. If you're affluent enough, it won't matter, but if you're constantly checking whether you have enough money to buy shoes for the kids, then I'm guessing that behaviour would be different in those two things. Although it's a SIF, it's a Supposedly Irrelevant Factor.

Dilip Soman: Fair enough. We're approaching the hour and I'm going to try and get in a couple more questions from our guests. Brendan Calder is on the faculty at Rotman. He used to teach a class called Getting it Done, which was the most popular class, perhaps still is the most popular class at Rotman.

Richard Thaler: Can I take it?

Dilip Soman: You can take it.

Brendan Calder: Yes.

Brendan Calder: Anyway. It's great being in a Rotman room with you again. Richard, you have said, both in the book and elsewhere that nudges are usually not enough for solving complex problems and that mandates and stronger shoves are sometimes necessary. This calls for a judicious mix of nudge and shove strategies which might not be easy for a practitioner to perfect. What advice can you offer, from a behavioural perspective, on how the practitioner can choose between nudging and stronger options?

Richard Thaler: When we wrote the book originally, the idea was to show that there are some things we can accomplish even if we tie one hand behind our back and don't force anybody to do anything or even bribe them to do it. That was like changing defaults and little nudges. When it comes to climate change, we're not going to get there with nudges. Like every economist in the world, I'm in favour of a carbon tax or cap and trade because we're not going to reduce emissions as long as they're free.

Our chapter on climate change starts with that. First, get the prices right. Now, there are nudges that can help and you get effect sizes like 2% or 3%, which sounds small and are not going to do it if we look around the world, although they're nothing to sneeze at. We quote our former colleague and former president, Barack Obama, who liked to say around the White House, "Better is good."

I've written recently about COVID. I think there've been three phases of the vaccination process, at least in the US and in other places around the world. The first phase, it was, "How can I get it?" The second phase was getting to the undecideds or procrastinators

and people for whom it was inconvenient. Now, we're down to the last third. A lot of them have quite strong opinions. In my view, they should get some shoves.

I don't know what Toronto is doing, but University of Chicago, if you want to show up here next week as a student, you have to be vaccinated and as a faculty member, you have to be vaccinated. I'm supposed to start teaching in two weeks. I'm glad that rule is in place. I'm not sure at my age that I would be that happy to be doing it, otherwise. Yes, that would be taking some freedoms away from some people, but it's just like we did with smoking.

It used to be, when we were kids, that you could smoke almost anywhere. Then you'd stop being able to smoke in your office and in a restaurant and on an airplane. I think we all now think that was quite sensible and maybe a bit slow in coming. I think it would be perfectly reasonable to say, "If you want to go to a hockey game, you have to show us your vaccination card." Of course, that has to come after you've had the opportunity to give everyone who wants a vaccine the opportunity to get one.

Dilip Soman: One of the things that happened, Richard, over the last 12 years was the Sveriges Riksbank Prize.

Richard Thaler: Yes. That happened!

Dilip Soman: I see you've quoted your fellow Nobel prize winner, Bob Dylan, a few times in the book as well.

Richard Thaler: We're both fans of this.

Dilip Soman: I can see that. Nicola Lacetera, my colleague, has a question about, not so much the prize itself, but the fact that it has now given you more hats to wear than you even had before.

Nicola Lacetera: Some time ago, I don't remember if it was before or after the prize, you were answering a question that a fellow academic economist asked on Twitter. He said, "What would you give as an advice to a graduate student?" and people gave bunch of answers. I think my answer was, "Call your mom more often," or something like that. What you said is, "Make your research about the world, not about the literature." That stuck with me a lot.

In a sense, this is a challenge that we all go through. It looks as though you were very successful in being, of course, at the top of the academic profession, but also in being able to convey your research and concepts from behavioural science and economics to the broader population with quite an impact. My question is how challenging is that? How, perhaps even, risky is it for an academic to do this? We see many academics

during the pandemic being more confusing than helpful when talking on TV or writing an article and so on.

Richard Thaler: Let me clarify what I meant by that. I've been saying that for decades. It's not a post-Nobel thing.

Dilip Soman: I can attest to that.

Richard Thaler: I probably gave Dilip this advice 26 years ago.

Dilip Soman: That's right.

Richard Thaler: What I mean by that is looking at the window rather than reading journal articles. I don't mean everybody should be trying to advise governments. There are a lot of people that the world would be better off if they were not advising governments. Lots of people, that's just not what they do. I do think that there's a trap that people start reading papers and they end up writing the 25th paper on some topic because there's some gap that no one has filled. I've rarely written more than two papers on any topic because I have a short attention span.

I'd rather write the first paper on mental accounting than the hundredth. People were doing mental accounting before I gave it a name, just like they were nudging before we gave it a name. One of my favourite young economists is a guy at Harvard called Shengwu Li, who's a theorist, but his papers are very much about the world. I think he's a model. Unfortunately, we're not all as smart as him, but he's a model that you can be a theorist and very much be about the world.

Dilip Soman: Fantastic. Richard, it's been an honour and pleasure to have you, as always. We do hope that once we solve all of the last mile problems with vaccinations and when the pandemic is behind us, that we will get you back here in person to a crowded Desautels Hall at the Rotman School. On behalf of everybody who's tuned in, everybody that had questions and all of my colleagues at the Rotman School, thank you so very much.

Richard Thaler: Thank you, Dilip. Thanks to all my friends in Canada and around the world. Nudge for good.

Dilip Soman: We'll do that.

Richard Thaler: Thank you.