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Richard Thaler: how to change minds and influence people

The story of how a 'lazy' man won a Nobel Prize is as important as what he won it for

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"The best thing about Thaler, what really makes him special, is that he is lazy." So said Daniel Kahneman, winner in 2002 of the Nobel memorial prize in economics. Prof Kahneman was talking about Richard Thaler, who has emulated that achievement 15 years later. Prof Thaler's thesis adviser, the economist Sherwin Rosen, put it differently: "We didn't expect much of him."

The story of how a lazy and unpromising man won a Nobel memorial prize is perhaps just as important as what he won the prize for. The Nobel announcement recognised Prof Thaler "for his contributions to behavioural economics". But there's another way to describe the way he reshaped economics: he persuaded a large group of successful people with a strongly held view of the world to change their minds.

What was that view? To oversimplify, it was that all of us are Spock-like rational optimisers, able to instantly trade off risk and reward, rebalance a spending plan in the face of a price change, and resist temptations such as chocolate brownies or payday loans.

Of course, no economist has ever quite believed this. But for several decades most economists believed that departures from the world of Spock were small enough, rare enough and random enough that they could be ignored. Humans weren't quite like Spock, yet when building economic models and formulating economic policies, we could treat them as if they were.

This approach is not as absurd as it might seem. It's flexible, powerful, and consistent. It is often close enough to reality to be useful. Prof Thaler himself told me: "If you want one unifying theory of economic behaviour, you won't do better than the neoclassical model."

Yet the power of the neoclassical approach made it hard to challenge. Prof Thaler wasn't the first Nobel laureate to operate outside that paradigm — others include Maurice Allais, Herb Simon and Thomas Schelling. Yet all these men, while admired, did not manage to divert the mainstream of economic thought beyond the well-worn channel of rational optimisation. It was Prof Thaler who shifted the norms of how economics is practised, both in academia and in the policy world.

Behavioural economics is now respectable in places from the American Economic Review to the World Bank. Whether or not you think behavioural economics matters, as a feat of persuading people to change their minds this is a case worth studying.

So how did he do it? We could all do with knowing, because the world is full of stubborn-minded people who need to be persuaded to change their views about important things.

Part of the story is simple persistence: Prof Thaler's first behavioural economics paper was published in 1980; he has been banging this drum for a long time.

More important was that Prof Thaler fully understood what he was criticising. It is all too easy to attack those with whom we disagree based on the haziest idea of what they think and why they think it. But he grasped perfectly why his fellow economists embraced rationality, and the arguments (good and bad) they used to defend it. Prof Thaler engaged honestly and thoughtfully with the mainstream.

His third technique was to look at the facts — not only clever statistics, but everyday facts about human existence. We find snack food hard to resist. We divide up money into separate mental accounts — rainy-day money, an entertainment budget, money for food, money for clothes. If we find a fine old bottle of port in the attic, we might refuse to sell it for hundreds of pounds, even though we would not dream of spending a three figure sum on a bottle of anything. Having secured agreement on these facts, he then moved to arguing that they might matter.

Finally, Prof Thaler engaged people's sense of curiosity. His long running series "Anomalies", published in the widely-read scholarly Journal of Economic Perspectives, would often begin with a puzzle — some piece of behaviour or pattern in the data that simply didn't make sense from the mainstream point of view. He would then explore the puzzle, extend it, and consider various possible solutions.

Economists would talk about these anomalies in faculty coffee rooms. They would, at Prof Thaler's invitation, send in their own suggestions. Rather than telling his opponents they were wrong, Prof Thaler would present a conundrum and invite everyone to discuss it together. One of his critics, the great Chicago economist Merton Miller, was reduced to complaining that Prof Thaler's anomalies were a distraction from serious modelling because they were simply too interesting.

Which brings us back to his laziness. Prof Kahneman thought Prof Thaler's laziness made him "special" because it meant that he could only be bothered to work on the most fascinating questions.

Maybe. But perhaps the truth is that laziness isn't special at all. Prof Thaler realised that most of us are lazy. Most of us don't want to think hard about our beliefs, or challenges to them. His solution was to make sure those challenges were simply too intriguing to ignore.