

Principles of Nudging and Boosting: Steering or Empowering Decision-Making for Behavioral Development Economics

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Abstract

Behavioral development economics promotes the nudge theory as a mechanism to incorporate people's cognitive biases, steering their behavior in the desired direction through coercive state intervention. Cognitive biases become a reason to doubt the efficiency of decision-making psychology in the free market process. A fundamental assumption of this approach is that political decision-makers know the people's means and ends in ways that protect them from cognitive biases. This article reviews and discusses the nudge theory, based on the boost theory developed by the Austrian School of Economics. The boost theory consists of a comparative institutional perspective to provide the empowerment people need to realize their errors and correct them "on the fly" to cultivate economic development. It is argued that the nudge theory overlooks the cognitive biases of political decision-makers, neglects the comparative perspective of the institutional environment in the face of such biases, and does not consider how construction of on-the-fly judgments works. After reviewing the principles of the nudge theory, its main criticisms from the boost theory are discussed, forming novel conclusions about and research avenues on behavioral development economics, according to the steering or empowering quality of the institutional environment. © 2022 by the authors. Licensee MDPI, Basel, Switzerland.

Author keywords

Behavioral economics; Cognition; Decision environment; Economic development; Entrepreneurship; Institutions; Judgment; Psychology of decision-making