

Easy street

Two authors argue that financially challenged Americans just need a *Nudge* in the right direction **BY ROBERT DAVID SULLIVAN**

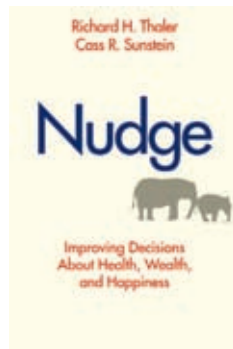
ZERO TOLERANCE IS always a favorite concept in American politics, and publicity-hungry politicians are still finding plenty of things they want to ban: trans fats, people without health insurance, violent video games, using cell phones while driving, crowding more than four people into Boston apartments, et cetera et cetera. This approach is not pleasing to economist Richard H. Thaler and law professor Cass R. Sunstein, authors of the new book *Nudge: Improving Decisions About Health, Wealth, and Happiness* (published in April by Yale University Press).

Thaler and Sunstein are self-described libertarians who chafe at the idea of an expanded Nanny State, but they also recognize that people, by and large, cannot be trusted to grope their way to correct behavior. Their solution is to rig the Game of Life in certain ways so that the path of least resistance also happens to be the most beneficial route. In a school cafeteria, say, put the healthy foods within easy reach and the junk in less convenient spots. Freedom of choice is preserved, but experiment after experiment has proven that people are easily swayed by the way in which options are presented to them. (Thaler and Sunstein also cite evidence that the candidate who appears at the top of a ballot has a leg up on his or her opponents.)

The cover of *Nudge* shows a large elephant gently pushing a smaller one in the right direction, but many of the examples in the book made me think of trying to communicate with a pet dog. Sometimes the only thing to do is grab its head in both your hands, aim its eyes in the right direction (“Look! The ball is right *there!*”), and hope that common sense kicks in. Thaler and Sunstein flatter us humans by instead inviting comparisons to a beast of somewhat higher intelligence.

The *Nudge* recommendation that may have the most political traction may have to do with saving for retirement. Thaler and Sunstein show that participation in 401(k) tax-free savings accounts is dramatically higher when employees are automatically enrolled in them and have to fill out paperwork to get out (the “opt-out” model) than when

they are merely informed that the accounts exist and must fill out paperwork to get *in*. (Thaler has been serving as an economic advisor to Democratic presidential candidate Barack Obama, who has proposed “automatic workplace pensions” along the lines of the opt-out model.) The economic benefits to an employee are the same either way, but people rarely behave according to the rational actor



model that we all learned about in Economics 101 —Thaler and Sunstein repeatedly draw distinctions between rational “econs” and “humans” —and the authors argue that good public policy shouldn’t depend on them to do so. So they suggest, for example, that driver’s license holders should be enrolled in organ-donor programs by default, putting the paperwork burden on those who want to withdraw their consent.

SIMILARLY, THALER AND Sunstein point out that people habitually make economic decisions based on a superficial sense of balance or fairness. If asked to create a 401(k) portfolio from scratch, many people will divide their contributions equally between stocks and bonds, even though stocks are a far better investment in the long run. (As an illustration of this general principle, they cite an ingenious study involving trick-or-treating children allowed to choose two candy bars from two piles of different brands. Every single kid selected one from each pile.) So the authors suggest default portfolios that make sense for retirement investing—and cite evidence that employees are quite happy “splitting” their money equally between an all-stocks fund and a fund that is evenly divided between stocks and bonds. It’s the illusion of balance that comforts us.

THE BOOK CASE

The most publicized aspect of *Nudge* is likely to be the superiority of “opt-out” policies over “opt-in” models in exploiting people’s tendencies toward inertia, but the book also gets into all kinds of ways to influence behavior by changing perception. My favorite example is Lake Shore Drive in Chicago. For years, drivers on that highway had been taking turns too fast and ignoring speed limit signs. The city recently aimed for better driving habits by painting horizontal stripes (in addition to the vertical lane divisions) that get closer and closer as one goes into a curve, creating the illusion that one is going faster and subconsciously “nudging” drivers into slowing down.

In the chapter titled “Following the Herd,” Thaler and Sunstein also offer evidence that people shape their ethics based on what they *think* others are doing. In the mid-’90s, the state of Minnesota significantly reduced cheating by adding a message to state tax forms that “more than 90 percent” of the state’s citizens followed the law. (A message spelling out the penalty for *breaking* the law was far less successful.) “Apparently some taxpayers are more likely to violate the law because of misperception—plausibly based on the availability of media or other accounts of cheaters—that the level of compliance is pretty low,” write Thaler and Sunstein. Give them a different message, and the self-

fulfilling prophecy can be broken.

The same logic applies to voter turnout, they say: Browbeat people by pointing out how few citizens vote, and you’ll only make nonvoters feel better about staying home. (After *Nudge* went to press, a study in the *American Political Science Review* indicated that the best way to boost voter turnout is to send letters to everyone letting them know exactly which of their neighbors bothered to go to the polls—a tactic that might cross the line into a shove.)

Some of the policy recommendations in *Nudge* are more complicated, and less persuasive, than the 401(k) opt-in plan. Given their libertarian views, it’s not surprising that the authors like expanded “school choice,” but they don’t really explain how *Nudge* logic would lead to *better* schools. Instead, they argue for parents to be given more information with which to make choices about where to send their kids—a nudge, to be sure, though not with as clear-cut a goal as getting people to save for their retirement. After all, not every social problem can be solved by gently pointing people’s heads in the right direction. In the case of an intractable problem like inner-city schools, we may need to resort to stronger measures than Thaler and Sunstein are comfortable with. **CW**



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