

# Guiding Forces

How to steer people toward healthier, more prosperous lives, with a little help from the powers that be.

BY BENJAMIN M. FRIEDMAN

**Y**ES, there is such a thing as common sense — and thank goodness for that.

At least that's this reader's reaction to Richard Thaler and Cass Sunstein's "Nudge," an engaging and insightful tour through the evidence that most human beings don't make decisions in the way often characterized (some would say caricatured) in elementary economics textbooks, along with a rich array of suggestions for enabling many of us to make better choices, both for ourselves and for society.

Few people will be surprised to learn that the setting in which individuals make decisions often influences the choices they make. How much we eat depends on what's served on our plate, what foods we pick from the cafeteria line depends

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## NUDGE

Improving Decisions About Health, Wealth, and Happiness.

By Richard H. Thaler and Cass R. Sunstein. 293 pp. Yale University Press. \$26.

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on whether the salads or the desserts are placed at eye level, and what magazines we buy depends on which ones are on display at the supermarket checkout line. But the same tendency also affects decisions with more significant consequences: how much families save and how they invest; what kind of mortgage they take out; which medical insurance they choose; what cars they drive. Behavioral economics, a new area of research combining economics and psychology, has repeatedly documented how our apparently free choices are affected by the way options are presented to us.

The main insight from which Thaler and Sunstein proceed is that no decision setting is "neutral." Whether it's a restaurant laying out food or a business offering its employees a list of mutual funds in its 401(k) plan or the government presenting different Medicare options, whoever presents choices must frame them in some way. And the framing will affect the decisions. Even "small and apparently insignificant details can have major impacts on people's behavior," the authors write. Some ways of presenting the choices may give a gentler "nudge" than others, and we may think some settings are neutral only because we're so used to them. But whoever is presenting the choices will inevitably bias decisions, in one direction or another.

As a result, Thaler and Sunstein argue, many of the familiar arguments for

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why people should simply be left to make choices on their own, and especially for why government should stay strictly out of the way, have little practical force. In many important areas of choice that matter both to the individual and to the rest of us (for example, when overuse of medical care drives up our insurance premiums and our taxes), the operative question is not whether to bias people's decisions, but in which direction.

Thaler, a professor of economics at the University of Chicago, and Sunstein, a law professor formerly at Chicago but now at Harvard, apply this line of argument to a wide array of familiar areas: saving, borrowing, energy consumption, smoking, teenage pregnancy and many others. Along the way they present fascinating findings about how people actually make decisions, together with lots of personal advice: save more, diversify your investments, don't invest much in your employer's stock, don't pay points on mortgages, buy insurance with the biggest deductible you can afford, don't pay for extended warranties. But their main objective is to reshape public policy (Sunstein is an informal adviser to Barack Obama, who has advanced some "Nudge"-like policy ideas), and it's clear that the suggestions they care most about apply to ways in which governments can do a better job of guiding the choices made by their citizens. The goal, in part, is to nudge people toward healthier, safer, more prosperous lives while also addressing pressing issues like environmental damage and the rising cost of health care.

If all this sounds paternalistic, that's because it is. Thaler and Sunstein adopt the deliberately oxymoronic label "libertarian paternalism" to describe their general approach. It's libertarian in that people retain the right to make their own choices: they're free to select the savings plan with the lowest projected return if that's what they really want. But the government — or an employer, or the

person in charge of laying out the food in the cafeteria — is nonetheless nudging people in the direction that somebody thinks will make them better off.

The conceptual argument is powerful, and most of the authors' suggestions are common sense at its best: Set up 401(k) programs so that employees have to opt out if they want, rather than making them opt in. (At present, roughly 30 percent of employees eligible for 401(k)'s don't sign up, despite the enticement of employer matching contributions.) Do the same for organ donation. Make credit card companies offer an automatic full-payment option. Offer investment vehicles that provide automatic portfolio rebalancing. Most of these ideas work because of the human tendency, widely documented, toward what Thaler and Sunstein call "inertia." Most of us just call it laziness.

In the end, however, "Nudge" is somewhat thin on practical ideas for public policy that follow from the authors' core insight. Many of the suggestions Thaler and Sunstein make, in contexts like savings and mortgages and credit cards, amount to calls for greater disclosure (what did all of those credit card fees total last year?) or for presenting information in a clearer way (to make price comparisons for mortgages easier). Surely no one except the companies making the profits would oppose more disclosure and clearer information. But we don't need behavioral economics, or libertarian paternalism, to think such proposals might be helpful.

And the authors occasionally strike a false note. Their recommendation to allow patients to sign away the right to sue doctors for malpractice, for example — presumably in return for lower medical bills — doesn't resemble the argumentation elsewhere in the book. The threat of lawsuits, they reason, gives doctors little incentive to be more careful because malpractice insurance isn't "experience rated"; in other words, the premium charged doesn't depend on the doctor's

past record as it does for, say, drivers. (Oddly, they accept the seemingly conflicting view that the threat of lawsuit is expensive because it leads doctors to prescribe unnecessary tests.) Why don't they suggest that malpractice insurance be experience rated too?

More important, in contrast to the many other examples they give showing how competitive markets do not necessarily work to consumers' advantage, here Thaler and Sunstein simply assume that the market for doctors' services would pass any savings along to patients. They also simply assume that if the law were changed to allow patients to give up this right, the market would still let them retain it if they wanted. But try getting a brokerage account without signing away the right to sue your broker. Under the law, it's up to brokers and their customers whether people retain that right; but no United States securities firm will take on a customer who doesn't agree in advance to refer any dispute to an industry-sponsored arbitration panel.

Thaler and Sunstein also seem naïve in hoping that their program of libertarian paternalism will be equally appealing to those on the left and the right. Their entire line of argument — that people frequently make decisions that are not in their own best interest, that often "free markets and open competition will tend to exacerbate rather than mitigate the effects of human frailty," and especially that in many important contexts "it is pointless to ask government simply to stand aside" since no way of presenting decisions can truly be "neutral" — is deeply subversive of standard free-market, anti-regulation, small-government thinking but supportive of many interventionist inclinations.

But regardless of whether Thaler and Sunstein's ideas are ideologically neutral, most of them are the essence of common sense. For that we should all applaud loudly. □