

It is markets that nudge, not states

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There is no idea so good that it cannot be spoilt by politicians, and such a fate is now befalling libertarian paternalism - recently rebranded as "nudging". Libertarian paternalism is a conscious effort to help people make better choices without forbidding anything. It embraces anything from assuming that you would like to contribute to a company pension unless you say otherwise, to placing the doughnuts in a quieter corner of the supermarket.

The concept, courtesy of two US professors, Richard Thaler and Cass Sunstein, deserves attention because it is a thoughtful response to a deep policy problem. It has been seized instead by David Cameron's opposition Conservative party in the UK as a free lunch, sound byte and flag of convenience all rolled into one.

The real justification for libertarian paternalism is that it is a failsafe system to guard against bad decisions. Most of those bad decisions come from government: you and I almost certainly know our own preferences and interests better than any government bureaucrat. That is the case for individual freedom of choice.

Yet our inner Homer Simpson occasionally rears his head, meaning that we sometimes make choices that we regret later. The classic example is saving for a pension: most people want to, but some procrastinate, do not start saving early enough and stop again whenever they move jobs. Thoughtfully designed pension rules -say, an automatic opt-in - can help us do what we always intended to do and in retrospect are glad we did. That is the case for paternalism.

The two together back each other up. If the government default does not suit you, you choose something else. If you cannot make a good decision for yourself, hopefully you will end up sticking to the government default. That makes two chances to do the right thing.

So far, so good, but now the marketing has taken over. Libertarian paternalism is now "nudging", as described by Professors Sunstein and Thaler on this page last Wednesday. I asked Professor Thaler to tell me about his favourite nudge and his first response was to describe the urinals in Schiphol airport. They bear etchings of black houseflies, which apparently serve to reduce "spillage".

I am no more in favour of spillage than the man standing at the urinal beside me, but how is this libertarian paternalism? "We recognise your right to wet your shoes, but in case that is not your objective we will structure your choice environment to help you."

The housefly trick is a good idea. But it is not a platform for government and unfortunately nobody has told that to the Conservatives, who have rushed to embrace nudging. George Osborne, shadow chancellor of the exchequer, writes grandly of "our work with the world's leading behavioural economists" - perhaps he is hoping that if Prof Thaler gets his Nobel Prize, the Tories will share it.

That is unlikely because, rather than understanding behavioural economics, the Tories have adopted nudging as a convenient label for a jumble of gimmicks. Praising the egalitarian bonus scheme at John Lewis, the department store, is apparently a nudge. Criticising lads' magazines seems to be a nudge. Giving unhappily married couples a tax incentive to stay together is a nudge, and so is sending health visitors into new mothers' homes.

Some of this is good policy, some is bad policy, some is old-fashioned posturing and none of it has anything to do with libertarian paternalism. Nudging is now an excuse for doing little when something serious must be done - for instance, on climate change, where a broad-based, credible carbon tax or permit-trading scheme is the only sensible policy. It is also a nice excuse for nannyng in areas that are none of the state's business.

Sketchy policy is the privilege of opposition, but there is a deeper point being missed here. Libertarian paternalism is the brainchild of Profs Thaler and Sunstein, but nudging is not.

Nudging is good architecture, good design or good marketing and most nudges have been invented by private sector companies. Prof Thaler's best policy idea - a pension plan called Save More Tomorrow -was tried by a manufacturing company rather than a government.

Effective nudges are so common in the private sector that politicians should be asking themselves why. What is it about competitive markets that produces such clever wheezes?

The answer has been obvious for a long time: the market is a machine for producing good ideas, promoting experimentation and scything down concepts that fail, all the while giving the customer the power to choose.

With the right reforms, public services can show some of the same qualities of permitting experimentation, rewarding success and not propping up failure. Humble civil servants - or, better, the staff of schools and hospitals - are in a position to discover the best public-sector nudges, and with the right incentives they will.

Tony Blair understood this and so did Margaret Thatcher. Gordon Brown, who has always had something of the Soviet commissar about him, does not. Mr Cameron and Mr Osborne - even now, perhaps, drawing up plans to tour the nation's urinals equipped with tiny paintbrushes - seem to be making the same mistake.

Fonte: Financial Times, London, August 22 2008. Primeiro Caderno. p. 11.