

Can We Nudge, Instead of Regulate, Our Way Out of Obesity?



By Brandon McFadden — February 23, 2018



We make poor decisions. We do this for many reasons, like time and cognitive limitations, biases, and poor habits. We may wish our past self ate more vegetables or saved more money. So how can we help our present self make decisions that our future self will not regret without removing freedom of choice? Through “behavioral nudges.”

A classic example of a successful behavioral nudge is Richard Thaler’s work on 401k enrollment, which helped earn him the most recent Nobel Prize in Economics. While older employees wished that they had saved more for retirement, new employees rarely enrolled in the retirement savings program.

Taking advantage of the human tendency toward behavioral inertia (i.e., people accept the status quo because change requires action), some companies changed 401k enrollment from an opt-in decision to an opt-out decision. In other words, employees were automatically enrolled in the plan with the option to opt-out. Guess what? There was a dramatic increase in enrollment in retirement savings plans.

Behavioral economics can also be utilized to reduce public health costs. When costs are not completely internalized by participants in a market, there is a spillover effect that economists refer to as an externality. Externalities can be positive or negative, depending on whether the spillover effect is beneficial or costly for society, and sometimes positive externalities are subsidized (e.g., public education) and negative externalities are taxed (e.g., cigarettes).

In the case of obesity, the costs are not completely internalized by an individual because taxpayers fund almost two-thirds of medical costs. The spillover effect associated with obesity increases with government spending on healthcare, and outlays for health programs as a

percentage of GDP is at an all-time high of 6.6%.

The economist's classic response to these concerning numbers are taxes and subsidies. Unfortunately, the traditional approaches appear to fall short in successfully addressing obesity. The most concerning problem with "fat taxes" and "thin subsidies" are the regressive effects that arise because of dietary patterns that exist before the regulation is enacted. People with lower income tend to eat a less healthy diet, and therefore fat taxes increase the prices paid by low income households and decrease the prices paid by high income households. Thus, the subset of the population who can least afford to bear the burden of regulation from fat taxes are forced to unduly absorb more of the cost while collecting less of the benefit.

If nothing else, there are definite unintended consequences that cannot be controlled by regulation. For example, taxes on soda sizes, like previously proposed in New York City, could easily be avoided by sellers bundling smaller sized sodas and may have resulted in behavioral reactance where some people consume more soda to defy the authoritative nature of the regulation. Behavioral reactance is less likely in places like Berkeley, where the tax was voted for by citizens rather than imposed by politicians. Nevertheless, while the Berkeley tax did decrease soda sales within the city by 9.6%, the regulation still had an unintended consequence as soda sales in surrounding areas without a tax increased by 6.9%.

By contrast, a behavioral nudge can help individuals overcome common decision-making mistakes that are predictable and corrigible without redistributing costs and benefits. People can be nudged to make healthier food choices by changing product positioning or providing cues. For example, when green arrows with the text, "Follow green arrow for health," were placed in a grocery store, sales of produce increased.

Obviously, the person making the nudge is picking a winner (in the previous case, vegetables). However, it is important to remember that *something* has to be the default option that is stocked at eye level. Society may as well make the default option as healthy as possible.

Unfortunately, nudging is not a cure-all. The consequences of poor dietary choices are not immediately obvious to people. Food that tastes good is often more appealing than food that is healthy. Nevertheless, behavioral nudges are more than a passing fad. Making deliberate changes in the way choices are presented to the public can positively influence decision-making and reduce future regrets without the costs and unintended consequences associated with regulation.

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