

# MERCATUS ON POLICY

## The Rise of “Nudge” and the Use of Behavioral Economics in Food and Health Policy

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**B**etcha can't eat just one." The slogan of the bestselling potato chip brand was not just an advertising success—it also revealed a deeper behavioral economic insight. For some people, the current, acting person seems to lack the self-control we imagine the person will desire in the future. The fleeting pleasure of a salty, crunchy chip in the present outweighs the future desire to fit into a pair of skinny jeans. The trouble is not that consumers are overly impatient per se, rather that choices are inconsistent and desires change over time. A decision is made to eat a tasty chip today with the expectation that a diet will start tomorrow. But when tomorrow becomes today, another chip awaits and the diet is put off until another day.

The rising popularity of applying behavioral economics in policymaking—or the creation of policies that “nudge” people into changing their decisions—might seem a bit odd to a food company executive. After all, advertisers and marketers have been using psychological insights for decades to encourage consumers to buy and pay more. Yet a number of bestselling books on the topic of behavioral economics have been published in the last decade, such as *Nudge, Predictably Irrational*, and *Thinking Fast and Slow*, and insights from the field are increasingly influencing policy discourse. So while behavioral economics might be seen as simply the merger of economic and psychological insights, it must also be partially understood as an attempt to influence the way government interacts with citizens. While marketers use psychological insights to boost company

profits, advocates of the nudge argue that these same insights might be used by government to increase consumers' well-being.

This paper briefly describes the field of behavioral economics before showing how behavioral economics is used to influence food and health policy. An important asymmetry is noted: behavioral economics is almost always used to advocate for more regulation rather than the reverse. To the extent that consumers suffer from behavioral biases, private companies also have an incentive to offer nudges, and a few examples of this phenomenon are presented. The paper concludes with a comparison of government and private nudges.

## BEHAVIORAL ECONOMICS

Behavioral economics is premised on the uncontroversial assumption that humans make mistakes. Our choices are sometimes influenced by irrelevant details that should not matter, and at times, we make decisions that we later regret. These mistakes are classified into a long list of predictable biases or anomalies that have been identified in empirical studies, typically with students in a lab setting. We misjudge probabilities, give too much weight to losses and the status quo, and are overly impatient—just to name a few examples. There are questions about the seriousness of these biases and their impact on consequential, real-world decisions, but there is compelling evidence that, at least in many settings, the biases are real and systematic.

While a large, decades-old body of scientific literature reveals that consumers often suffer from a variety of decision-making biases, the more difficult and recent question is: What should policymakers do about these biases? Some policymakers have used findings from behavioral economics to make a political case for intervention by advocating for nudges and other public policies. In the traditional way of economic thinking, consumers' choices are presumed to reflect their best attempt to promote their own well-being. But if policymakers believe that consumers' choices are whimsical or biased, those choices may not actually lead to outcomes consumers ultimately desire. According to this reasoning, there is room for a benevolent third party to encourage the consumer to choose more wisely. This line of reasoning—that behavioral economics justifies new paternalistic policies—is at the heart of the debate about nudges.

Popular writings about food and agriculture reveal a common view that consumers' food choices in particular are biased and are in need of correction. Best-selling author Michael Pollan, for example, opened his book *The Omnivore's Dilemma* by arguing that Americans have a “national eating disorder” and need to “relearn what it means to eat according to the seasons.”<sup>1</sup> One editorialist writing in the *Los Angeles Times* was so offended by consumers' food choices that he said, “the harsh reality is that millions of Americans can't be trusted to look after their own well-being.”<sup>2</sup> The rise of obesity and diabetes is often taken as prima facie evidence that current food choices are “wrong” and are in need of correction. Implicit in the dietary recommendations of many government and consumer activist groups is the presumption that most consumers should eat differently and follow the recommendations of a body of nutrition experts.

## APPLYING BEHAVIORAL ECONOMICS TO POLICY: GOVERNMENT NUDGES

The idea that behavioral economics can be used by regulators to improve consumers' diet and health is beginning to slowly have a more explicit effect on food policy. There have been a number of government agency reports discussing how to incorporate behavioral economic insights into food and nutrition policy.<sup>3</sup> The United Kingdom created a team within the Cabinet Office, the Behavioural Insights Team, that aims to put behavioral economics to use in improving public policy. The team, which has been privatized and is now partially owned by the Cabinet Office, has made several recommendations related to food and health policy.<sup>4</sup> Even conventional coercive economic policies like fat taxes are at times marketed under the guise of a “nudge” or as being motivated by behavioral economics.

Some of these behavior-influencing policies are more coercive than others. For example, former New York City Mayor Michael Bloomberg proposed banning large sodas, a policy that would have completely removed an option from the marketplace. Such coercive, paternalistic policies make decisions for the consumer by banning products entirely rather than nudging the consumer's choice. On the other end of the spectrum, nudges are typically taken to mean policies that do not restrict choice but rather attempt to point consumers in the “right” direction. With a nudge, retailers or government officials are required to frame choices in a way that

encourages consumers to make the choices that experts or policymakers believe will be best for the consumers. However, often swept under the rug are questions regarding whether politicians, experts, or policymakers actually know what will make consumers better off or whether they are free from the political influences and biases that are presumed to affect consumers.<sup>5</sup>

Government intervention—whether through an outright ban or merely a nudge—always incurs costs. The difficult question is whether the benefits to consumers are outweighed by the costs of the policy. Typical approaches to evaluating effects on consumers are less helpful when evaluating the benefits of paternalistic policies because the presumption driving these policies is that consumers do not actually choose what is most beneficial. Thus, we are left with the assertion that experts’ choices on behalf of the consumer will result in more positive outcomes. The philosophical issues associated with determining the merits of paternalistic policies are far from settled. While freedom-preserving nudges are likely less objectionable than outright coercion, these policies still entail relabeling and reformulation costs for retailers, create new search costs for the consumer, and may ultimately fall prey to political influences that steer choices toward the interests of a political party, a corporation, or an interested non-governmental organization.

Sometimes the better question is not whether a particular policy passes a cost-benefit test, but rather *what kind of policy* would pass a cost-benefit test. My own view is that the findings of behavioral economics, in and of themselves, do not justify paternalistic policies. However, behavioral economics might be put to use to reduce the bad effects of a poor existing policy, or to make a good policy even more effective. Take, for example, the rules buried in the Patient Protection and Affordable Care Act that require chain restaurants to post calorie counts on menus. The law will require companies to bear the costs of testing their menu items, sometimes reformulating and reprinting menus. Despite these costs, a good deal of research has shown that simply placing small numeric calorie labels next to menu items is unlikely to have meaningful benefits because these calorie counts do not have much effect on what people order.<sup>6</sup>

Other research, however, has shown that small changes in the framing or color of the calorie labels can induce larger changes in ordering behavior.<sup>7</sup> As another example, the school lunchroom policy advocated by Michelle

Obama required a number changes in cafeterias across the country. While the policy likely increased cost and increased food waste, behaviorally based interventions, such as the Smarter Lunchrooms Movement started by researchers at Cornell University, have been shown to improve fruit and vegetable uptake for minimal cost.<sup>8</sup>

The findings of behavioral economics literature are almost always used to advocate for new policies and more government intervention rather than the reverse. I am not aware of a single prominent behavioral economist calling for the repeal of a government policy on the basis of behavioral economic findings. However, this asymmetry has no scientific basis. It is often the case that behavioral economic findings imply that an existing policy should be removed or that new regulations are unneeded—though these implications are rarely written about either in academic articles or in the popular press.

For example, one of the earliest and most robust behavioral economic findings is that people tend to overweight low-probability risks. Consumers pay “too much” attention to bad things that are unlikely to happen relative to objective or expert assessment of the likelihood of the risks in question. This would seem to suggest that consumers’ objections to (and sometimes their votes on) issues related to food pesticides, genetically engineered food, and nuclear energy might need to be taken with a grain of salt. Moreover, my own research suggests that consumers like to choose for themselves.<sup>9</sup> There is an intrinsic value to the freedom of choice, yet cost-benefit analyses of paternalistic policies rarely incorporate the cost of forgoing freedom of choice or the adverse emotional reaction invoked by some paternalistic policies.<sup>10</sup> One way of measuring such costs would be to ask people how much they would be willing to pay to maintain the option to choose a product that a policy aims to ban.

## APPLYING BEHAVIORAL ECONOMICS TO POLICY: PRIVATE NUDGES

Much of the academic literature on behavioral economics has focused on implications for public policy, but the very same findings also have implications for business decision-making. The findings could be used to “exploit” consumers’ biases, but to the extent consumers are aware of their decision-making errors, they might be willing to pay to avoid and correct them. The billions of dollars spent annually on weight loss programs reveal, among other things, that a sizable market exists in encouraging prudence.

There are also opportunities for entrepreneurs to offer solutions to help partially address self-control problems. If subtle cues can overly influence eating habits for the worse, then we can also alter our environment to “trick” ourselves to eat better. In his popular 2006 book *Mindless Eating*, Brian Wansink argued that you can “reengineer your kitchen and your habits. . . . You can eat too much without knowing it, but you can also eat less without knowing it.”<sup>11</sup> When we really want to overcome our behavioral biases, presuming we know they exist, we can nudge ourselves. Or, at least find someone we can pay to give us the needed nudge when we want one.

Take for example stickK, an Internet company developed by behavioral economists that allows people to wage bets against their future selves in order to incentivize their current, acting selves. Suppose a person is struggling to lose weight. That person may use stickK to create a commitment contract that sets incentives for the future self. With stickK, one can input a goal of losing 15 pounds in one year and create a binding financial consequence for failing to meet the goal. The person trying to lose weight might enter a credit card number and authorize a withdrawal of \$1,000 if the goal is not met by the deadline. To ramp up the incentives, one might also request that the withdrawn funds be donated to a despised adversary—say the Socialist Party USA. The final step requires the user to enter the contact information of an impartial referee to confirm whether the goal was met. If we really suffer from self-control problems and time-inconsistent preferences, then resources like stickK allow us constrain (or impose costs on) our future selves.<sup>12</sup>

## GOVERNMENT VS. PRIVATE NUDGES: WHERE DO WE STAND?

It is commonly argued that governments should be allowed to enact paternalistic policies and nudge consumers because businesses do it all the time—such policies would supposedly level the playing field. It is of course true that we are constantly bombarded by advertisements and private nudges. But there is a crucial difference between government and private-business nudges. That difference is the role that competition plays in encouraging businesses to respond to consumers. When we are bamboozled or misled by a company in a way we ultimately dislike, we stop buying its product or find a new supplier. This knowledge often (though

not always) constrains companies that fear the loss of reputation that might come from undertaking actions that work against their consumers’ desires. These same incentives prompt entrepreneurs to develop better alternatives. Government, with its power to mandate and coerce, lacks the intense competitive pressures provided by the profit motive. None of this is to say that people might not come to accept and appreciate certain forms of government paternalism (who among us now bristles at seat belt laws?), it is only to say that the fruitful application of behavioral economics to food policy is much more complicated than is often supposed.

The rise of behavioral economics has bettered our understanding of how consumers make decisions. Proponents of freedom of choice and individual liberty have sometimes found themselves at odds with behavioral economists because of the recent application of these ideas to public policy. But one can accept the premise that consumers sometimes make mistakes while simultaneously rejecting the opinion that expert judgement should override individual choice and market outcomes. Fruitful areas of application for behavioral economics include improving understandings of how individual and private initiatives might work to offset the adverse effects of decision-making biases and providing insights into how such biases affect the incentives of politicians and ultimately shape public policies.

## NOTES

1. Michael Pollan, *The Omnivore's Dilemma* (New York: Penguin Press, 2006).
2. David Lazarus, "It's Time to Serve Up Some Big Incentives to Curb Obesity," *Los Angeles Times*, May 14, 2012, <http://articles.latimes.com/2012/may/14/business/la-fi-lazarus-20120515>.
3. For example, see David R. Just, Lisa Mancino, and Brian Wansink, "Could Behavioral Economics Help Improve Diet Quality for Nutrition Assistance Program Participants?" (Economic Research Report No. 43, Department of Agriculture, Economic Research Service, Washington, DC, June 2007).
4. UK Cabinet Office, Behavioural Insights Team, *Applying Behavioural Insight to Health*, December 2010.
5. See the discussions in Jayson L. Lusk, "Are You Smart Enough to Know What to Eat? A Critique of Behavioural Economics as Justification for Regulation," *European Review of Agricultural Economics* 41, no. 3 (2014): 355–73; or Jayson L. Lusk, *The Food Police: A Well-Fed Manifesto about the Politics of Your Plate* (New York: Crown Forum, 2013).
6. See review in Susan E. Sinclair, Marcia Cooper, and Elizabeth D. Mansfield, "The Influence of Menu Labeling on Calories Selected or Consumed: A Systematic Review and Meta-Analysis," *Journal of the Academy of Nutrition and Dietetics* 114, no. 9 (2014): 1375–88.
7. See for example Brenna Ellison, Jayson L. Lusk, and David Davis, "The Impact of Restaurant Calorie Labels on Food Choice: Results from a Field Experiment," *Economic Inquiry* 52, no. 2 (2014): 666–81.
8. See Smarter Lunchrooms Movement, <http://smarterlunchrooms.org>; or research such as Andrew S. Hanks, David R. Just, and Brian Wansink, "Smarter Lunchrooms Can Address New School Lunchroom Guidelines and Childhood Obesity," *Journal of Pediatrics* 162, no. 4 (2013): 867–69.
9. Jayson L. Lusk, Stephan Marette, and F. Bailey Norwood, "The Paternalist Meets His Match," *Applied Economics Perspectives and Policy* 36, no. 1 (2014): 61–108.
10. See David R. Just and Andrew S. Hanks, "The Hidden Cost of Regulation: Emotional Responses to Command and Control," *American Journal of Agricultural Economics* 97, no. 5 (2015).
11. Brian Wansink, *Mindless Eating: Why We Eat More Than We Think* (New York: Bantam Books, 2006).
12. Other examples of private nudges can be found in Michael L. Marlow, "Weight Loss Nudges: Market Test or Government Guess?" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, September 2014).

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