

March 27, 2005

Choice Is Good. Yes, No or Maybe?

By [EDUARDO PORTER](#)

CHOICE is the driving force of capitalism. Choosy consumers determine what products and companies thrive or die as they pick among tubes of toothpaste or plans for cellphone service. Choice fuels competition, innovation and efficiency.

These days, consumer choice has claimed a prominent new position as a policy tool: the prescription for everything from improving public schools to paring bloated health care costs to saving Social Security.

Yet even as choice is brought to bear on the nation's most pressing problems, critics point out that expanding consumers' options is not always a good idea. People, they argue, often do not know how to choose properly or they simply refuse to choose. Sometimes, critics argue, government should limit people's choices. That is, choose for them.

"More choice can be worse than less choice," said Sheena Iyengar, a psychologist at Columbia University.

Advocates of unfettered markets are riled by these arguments. "If you were to walk into a Wal-Mart and say to people, 'Don't you feel really depressed by having 258,000 options; shouldn't it be their obligation to reduce the choice you must endure?' They would think you were nuts," said Newt Gingrich, the former speaker of the House of Representatives.

Free marketers like Mr. Gingrich argue not only that consumers are better than the government at making choices that drive an efficient economy. Choice, they argue, is a right. The government can limit it only when one person's choice imposes costs on the rest of society.

"The notion of entrusting a bureaucrat with the power over people's choices is inauthentic in a particularly offensive way," said Richard A. Posner, the legal scholar and federal appeals court judge.

But empirical studies have found that people, regardless of intelligence, do not always choose well. Often they prefer to let inertia take over, unable or unwilling to choose for themselves.

For instance, participation rates in 401(k) plans are known to rise sharply when the default choice for the employee is switched to an opt-out from an opt-in.

In Sweden, where personal savings accounts were carved out of the social security system in 1998, 9 out of 10 new entrants to the work force let their investment portfolio go to a default fund set up by the government, instead of choosing one themselves.

Too many options may drive consumers away. In one experiment, Ms. Iyengar found that people who were shown a selection of six different jams in a store were about 10 times as likely to buy a jar than those exposed to a range of 24 flavors.

In another study, she found that people who chose one chocolate from a selection of 30 expressed more regret and uncertainty about their decision than those who chose among six kinds. That's because with 29 other options, there is a bigger chance of losing out on something better.

Of course, lack of choice will also inhibit people. When Ms. Iyengar gave undergraduate students \$10 and the option to spend it right away or invest it, only 6 percent of them chose to invest when the professor decided the asset allocation.

The key is whether people understand their choices, said Richard H. Thaler, an economist at the University of Chicago. "People have to know what their preferences are and they have to know how the options they have map onto their preferences," he said.

This might be easy when choosing between chocolate and vanilla ice cream. But it gets progressively more difficult as the number of flavors increases. When the risks are high and the decisions complex - as when choosing between medical procedures or investment portfolios - consumers may become easily flummoxed.

In one experiment, Mr. Thaler and Shlomo Benartzi of the University of California, Los Angeles, asked employees in one company to select among three 401(k) portfolios.

Unbeknownst to the employees, one portfolio was their own. The other two reflected the average and median choices of all the workers in the company. Yet only one in five employees preferred his or her own portfolio over the median. "Apparently people do not gain much by choosing investment portfolios for themselves," Mr. Thaler wrote.

Mr. Thaler and Cass Sunstein of the University of Chicago Law School suggested that it is proper for the government, or an employer, to set boundaries to choice to achieve desired social objectives, an approach they call "libertarian paternalism."

Sweden's default fund for social security accounts - a mixed low-fee portfolio - is an example of such paternalism. Another would be to place the dessert display at the far end of the company cafeteria.

Employees could still have dessert, but the hurdle to make that choice would be a little higher. Obesity might decline.

Eric J. Johnson and Daniel Goldstein, co-director and associate director, respectively, of the Center for Decision Sciences at Columbia University, found that big majorities of Americans approve of organ donations, yet only about a quarter consent to donate their own. Meanwhile, nearly all Austrians, French and Portuguese consent to donate theirs. The difference? In the United States people must opt to become an organ donor. In much of Europe, people must actively choose not to donate. So if organ donation is considered a social good, American defaults could just be flipped around.

Despite the problems, free marketeers argue that more choice is better, simply because it builds character. For instance, Judge Posner said, allowing people to invest part of their Social Security taxes in personal accounts is a step toward a system in which people pay for their own retirement. "It makes people more independent and responsible for their future," he noted. "It makes them better citizens."

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