

new strategies, tools, and methods to help us make better decisions and improve our overall well-being? That's exactly the meaning of free lunches from the perspective of behavioral economics—the idea that there are tools, methods, and policies that can help all of us make better decisions and as a consequence achieve what we desire.

For example, the question why Americans are not saving enough for retirement is meaningless from the perspective of standard economics. If we are all making good, informed decisions in every aspect of our lives, then we are also saving the exact amount that we want to save. We might not save much because we don't care about the future, because we are looking forward to experiencing poverty at retirement, because we expect our kids to take care of us, or because we are hoping to win the lottery—there are many possible reasons. The main point is that from the standard economic perspective, we are saving exactly the right amount in accordance with our preferences.

But from the perspective of behavioral economics, which does not assume that people are rational, the idea that we are not saving enough is perfectly reasonable. In fact, research in behavioral economics points to many possible reasons why people are not saving enough for retirement. People procrastinate. People have a hard time understanding the real cost of not saving as well as the benefits of saving. (By how much would your life be better in the future if you were to deposit an additional \$1,000 in your retirement account every month for the next 20 years?) Being “house rich” helps people believe that they are indeed rich. It is easy to create consumption habits and hard to give them up. And there are many, many more reasons.

The potential for free lunches from the perspective of