

behavioral economics lies in new methods, mechanisms, and other interventions that would help people achieve more of what they truly want. For example, the new and innovative credit card that I described in Chapter 6, on self-control, could help people exercise more self-control within the domain of spending. Another example of this approach is a mechanism called “save more tomorrow,” which Dick Thaler and Shlomo Benartzi proposed and tested a few years ago.

Here’s how “save more tomorrow” works. When new employees join a company, in addition to the regular decisions they are asked to make about what percentage of their paycheck to invest in their company’s retirement plan, they are also asked what percentage of their future salary raises they would be willing to invest in the retirement plan. It is difficult to sacrifice consumption today for saving in the distant future, but it is psychologically easier to sacrifice consumption in the future, and even easier to give up a percentage of a salary increase that one does not yet have.

When the plan was implemented in Thaler and Benartzi’s test, the employees joined and agreed to have their contribution, as a percentage, increase with their future salary raises. What was the outcome? Over the next few years, as the employees received raises, the saving rates increased from about 3.5 percent to around 13.5 percent—a gain for the employees, their families, and the company, which by now had more satisfied and less worried employees.

This is the basic idea of free lunches—providing benefits for all the parties involved. Note that these free lunches don’t have to be without cost (implementing the self-control credit card or “save more tomorrow” inevitably involves a cost). As long as these mechanisms provide more benefits than costs,