

What Can Conservationists Learn from Investor Behavior?

How do we encourage personal savings and investment? Answers to this question, revealed through new analyses in experimental economics, provide insight into how to encourage collective savings and investment in our future through ecological conservation. There are three lessons to be learned.

Lesson 1: Awareness alone is a weak instrument for change.

The 2001 bankruptcy of major corporations such as Enron, WorldCom, and Global Crossing resulted in devastating losses for the companies' employees, many of whom held their retirement assets in employer stock. The media repeatedly highlighted these financial losses. *The New York Times* alone ran 1364 stories over the 6-month period following Enron's bankruptcy, 112 of which were on the front page. The amount of awareness raised about the riskiness of investing in employer stock far surpassed media attention given to ecological concerns.

Yet even after the media barrage about an issue directly affecting them, employees overwhelming retained their employer stocks—the fraction of assets held in employer stock fell by no more than 2%. Workers in Texas (home to Enron), who were subject to even greater media exposure, responded to the loss with no overall reduction in employer stock investments (Choi et al. 2005).

If the collapse of major corporations resulting in loss of personal savings did not change household behavior, how can consumers be expected to change in response to information on environmental degradation? Information alone is insufficient. Conservation initiatives must include solutions, beyond raising awareness of an ecological concern.

Lesson 2: The default institutional setting determines the destiny.

In the same way that relatively few people donate their organs un-

less organ donation is the default, relatively few employees save money via their firm's 401(k) plan unless saving money is the default. A U.S. study examining employee behavior found that when enrollment in a 401(k) plan was optional but not the default, 30% of employees participated. If, however, the default was reversed and the firm automatically enrolled its employees in the 401(k), 80% of employees kept the 401(k) plan (without losing their freedom to choose; employees could opt out with a 5-min process) (Choi et al. 2004).

Moreover, the psychology of personal savings could influence how conservationists work to save our ecological heritage. Changing default settings for patterns of consumption (allowing the less desirable outcome but only on request) can be preferable to regulations because it allows for greater consumer freedom. In the same way, firms should make a savings program the default for their employees, conservation groups could lobby institutions (e.g., governments, utilities, universities, businesses, architecture firms) to make socially optimal choices the default for their citizens.

For instance, when households have the option to pay premiums for renewable energy sources or recycling programs, these green options should be the default. Thermostats in corporate buildings should be set lower but allow for employees to increase the temperature each morning. Architects should make appealing stairwells central to building design, rather than the current elevator default (elevators would be available but not central). Stores could continue to provide plastic bags for their customers but only on request.

Lesson 3: Sometimes, setting extreme defaults is optimal.

Defaults should be set to maximize the average well-being, which is not the same as setting the default to the average preference of all citizens. Often, default rates of savings should

be bolder than the average person would want (Choi et al. 2003), and this relates to our conservation goals. Conservation groups might aim to set extreme defaults to start and then ratchet them down as demanded by society rather than lobbying for constant incremental increases from a very weak base.

In the oceans, for example, our collective debt (e.g., overfishing, pollution, climate change) far outweighs our savings (e.g., marine protected areas). More than 99% of the world's oceans are open to fishing (Spalding et al. 2008). Perhaps conservation groups should initiate policies to reverse the conceptual default—oceans are open to fishing with small exceptions—to see oceans as closed to fishing with small exceptions (Walters et al. 1998).

The recent financial crises around the world point to the role institutions play in both creating and assuaging economic hardship. Free markets may be compatible with long-term stability, both economically and ecologically, but only with an institutional component that encourages precautionary, risk-averse behavior. This behavior will not develop from education alone. Just as the Enron debacle did not lead to changes in investments in employer stocks, awareness of environmental problems alone is not likely to yield the desired ecological results. Conservation efforts must enlist existing institutions to reset default patterns of consumption, support regulatory efforts, and shift conceptual views of nature. Just as we need an institutional nudge to cultivate our personal savings account, we also need this to save the planet.

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Jennifer Jacquet

Fisheries Centre, University of British Columbia, British Columbia, V6T 1Z4, Canada, email j.jacquet@fisheries.ubc.ca

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