

Authors

Joshua Blumenstock
University of California, Berkeley

Michael Callen
University of California, San Diego

Tarek Ghani
Washington University in Saint Louis

American Economic Review 2015, 105 (12): 2868–2902
<https://doi.org/10.1257/aer.105.12.2868>

**Why Do Defaults Affect Behavior?
Experimental Evidence from Afghanistan***

By JOSHUA BLUMENSTOCK, MICHAEL CALLEN, AND TAREK GHANI*

We report on an experiment examining why default options impact behavior. By randomly assigning employees to different varieties of a salary-linked savings account, we find that default enrollment increases participation by 40 percentage points—an effect equivalent to providing a 50 percent matching incentive. We then use a series of experimental interventions to differentiate between explanations for the default effect, which we conclude is driven largely by present-biased preferences and the cognitive cost of thinking through different savings scenarios. Default assignment also changes employees' attitudes toward saving, and makes them more likely to actively decide to save after the study concludes. (JEL C93, D14, D91, O12)

Default assignments impact behavior. This observation is among the most influential and policy-relevant insights from behavioral economics (Madrian 2014). From organ donation (Johnson and Goldstein 2003; Abadie and Gay 2006) and vaccine use (Chapman, Li, and Colby 2010) to exercise (DellaVigna and Malmendier 2006) and marketing (Johnson, Bellman, and Lothse 2002), and especially in the domain of retirement savings decisions (Madrian and Shea 2001; Choi et al. 2004; Beshears

*Blumenstock, School of Information, University of California at Berkeley, 302 South Hall, Berkeley, CA 94720 (email: jblumenst@berkeley.edu); Callen, Rady School of Management, University of California at San Diego, Wells Fargo Hall, 4W304, 9500 Gilman Drive, La Jolla, CA 92093 (email: mcallen@ucsd.edu); Ghani, Olin Business School, Washington University in St. Louis, Stone Way, 1 Brookings Drive, St. Louis, MO 63103 (email: tghani@wustl.edu). This paper was accepted to the *AER* under the guidance of Esther Duflo, Coeditor. We are grateful to Karim Khaja and the Russian team for partnership in the design and implementation of the M-Pasandaz mobile savings product. We thank Hugo Girard, Mohammad Inqashidi, Shafiq Kaboli, Nasir Mahmood, Gules Morley, Olu Ruyeh, Sami Safiullah, and Moina Qazi for excellent research assistance and Katy Doyle for outstanding project management. James Anderson, Eli Berman, Marianne Bertrand, Prashant Bharadwaj, Leonardo Bursztyn, Stefano DellaVigna, Dean Karlan, Eli Lieblich, Lynn, Craig McKinosh, Rodrigo Madsen, Sushil Mathanathan, Paul Nicholas, Mathieu Oikari, Rohini Pande, Gerard Padilla-Algot, Matthew Rabito, Gaston Rios, Stephen Ryan, Francis Schilbach, Jacob Shapiro, Charles Sprenger, Christopher Woodhill, and many other colleagues provided insightful feedback. We thank seminar audiences at Berkeley, Georgetown, Harvard, Stanford, the University of Washington, the University of Zurich, and the World Bank. We acknowledge funding from the Citigroup Financial Capability Research Fund (FCRF), the Consortium on Financial Systems and Poverty (CFSP), the Impoverished Studies of Conflict Project (ISCF), the Institute for Money, Technology, and Financial Inclusion (IMTFI), the UC San Diego Policy Design and Innovation Lab (PDI), and the USAID Development Impact Lab (USAID Agreement AID-OAA-A-13-0002). This work is also based on prior work supported by the US Department of Defense Minerva research initiative through the Air Force Office of Scientific Research under award FA9550-1-0-0003. This AER article is registered in the American Economic Association Registry for undisclosed content under trial number AER0518-000258. The authors declare that they have no relevant or material financial interests that relate to the research described in this paper.
*Go to <https://doi.org/10.1257/aer.105.12.2868> to visit the article page for additional materials and author disclosures (AER0518).

Why Do Defaults Affect Behavior? Experimental Evidence from Afghanistan

This paper reports results from a field experiment in Afghanistan designed to identify the reasons why defaults affect behavior. We have several reasons for studying defaults in Afghanistan. First, most of the existing evidence on default savings is from rich countries. Less is known about the potential for defaults to affect savings in poor countries, where most of the world's population resides, and where the economic benefits of increasing savings may be higher. Related, in developed countries, it is frequently the poorest and least financially sophisticated who respond most strongly to defaults; this

suggests defaults might be particularly effective in poor countries. Finally, while the lack of financial infrastructure has historically limited the relevance of default savings products in poor countries, the recent proliferation of mobile money, which already has more than one-half billion registered accounts worldwide, promises to provide billions of “unbanked” individuals with a financial infrastructure that could support the use of defaults.

October 01, 2018