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Estratto da **Robert J. Shiller, *The Subprime Solution,*** Princeton University Press 2008, capitolo 6 - *The Promise of Financial Democracy,* pagina 130.

Default-Option Financial Planning

The third step in renovating the information infrastructure is to set up standardized default-option financial plans that operate well when people are inattentive and fail to act. A default option is the choice that is automatically made if an individual fails to make an intentional choice among available options. One might say that the fundamental cause of the subprime crisis was that many people simply did not pay attention. They fell into traps of one sort or another because they did not know or understand what was happening in the marketplace. When their attention lapses, consumers are more likely to accept whatever financial contract is offered first, or seems standard or conventional. Therefore designing standard contracts, inc1uding prudent default options, should be a serious enterprise for both government and business.

Careful research has revealed how immensely susceptible people are to whatever they see as standard provisions in their decisions about investments.

The economist Brigitte Madrian and her colleagues studied how individuals choose whether to participate in an employer-sponsored retirement savings plan. They found that automatic enrollment of the employee in a retirement plan boosts participation immense1y, even if the employee is free to drop the plan at any time by merely asking to opt out. Moreover, employees in these plans typically accept the default-option contribution rate and portfolio allocation that are built into the plans. Because of such research, the U. S. Congress decided to encourage such plans, and the Pension Protection Act of 2006 paved the way for widespread adoption of such plans.

Richard Thaler and Shlomo Benartzi have argued for a "Save More Tomorrow" plan that deducts from paychecks automatically from any increases in pay for deposit into a saving plan, and this helps overcome employee inertia in starting a saving plan (Richard Thaler and Shlomo Benartzi, *Save More Tomorrow: Using Behavioral*

Economics to Increase Saving,]ournal oJPolitical Economy 112(51):5164-5187, 2004). Their plan also received a boost from the Pension Protection Act of 2006, and has now been adopted by thousands of employers.

The government can do much more along these lines to encourage the ultimate democratization of finance.

The help of the government is needed as a facilitator of progress in the private sector. I noted in Chapter 1 that one of the great innovations to come out of the housing crisis of the Great Depression was the extension of mortgage terms from the then-common period of five years to fifteen years or more, providing borrowers with a greater cushion of time to pay off their mortgages. The change was made by the Home Owners' Loan Corporation in 1933, and, while that government-sponsored enterprise no longer exists, its legacy lives on today in the form of long-term mortgages. Why didn't the private sector make the adjustment itself, without government intervention? The answer apparently lies in the difficulty of introducing new products in the face of initial buyer resistance and entrenched soda! norms. The cost of educating the public about the wisdom of a new form of mortgage is a type of public good, yet the private firm that incurs it may never fully recoup the cost, since the benefits will be shared by all firms that choose to offer the new mortgage.

This calls for the authoritative assertion of new standard boilerplate for common contracts such as mortgages.

Most individuals will accept a standard contract if it is put forward by those whom they consider experts, and they will not try to judge the issues for themselves.

A new HOLC could, as we shall discuss below, make improved mortgage contracts the standard by accepting as collateral for loans to mortgage lenders only mortgages including the new features. Such a standard-setting enterprise by the new HOLC would in turn be likely to drive an array of other financial innovations, such as the development of derivative markets for income risks and home-price risks.

In the subprime crisis many mortgage borrowers blandly accepted the mortgage terms that were offered them, in many cases likely thinking that these somehow had the imprimatur of experts-even when no consumer protections whatsoever were in place. Changing the standard mortgage contract would thus constitute a huge improvement in the information infrastructure. And reform in this area might encourage a concerted effort by experts in business and government to decide on other kinds of financial advice and improved mortgage products that could be made standard and generic for most people, thereby democratizing the information available to consumers.

Other mortgage products could certainly still be developed, for those borrowers who might take the initiative to go beyond the default option.

Another possible default option would be a requirement that every mortgage borrower have the assistance of a professional akin to a civil law notary. Such notaries practice in many countries, although not in the United States. In Germany, for example, the civil law notary is a trained legal professional who reads aloud and interprets the contract and provides legal advice to both parties before witnessing their signatures. This approach particularly benefits those who fail to obtain competent and objective legal advice. The participation of such a government-

appointed figure in the mortgage lending process would make it more difficult for unscrupulous mortgage lenders to steer their clients toward sympathetic lawyers,
who would not adequately warn the clients of the dangers they could be facing.