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Introduction: Behavioral Economics and New Paternalism

Richard A. Epstein[1] and Mario J. Rizzo[2]

[1] *School of Law, New York University*
[2] *Department of Economics, New York University*

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The rise of behavioral economics over the past thirty years or so has opened up new areas of public policy. Previously, most economists defended government intervention in cases of monopoly power or other forms of restrictions on competition, activities where externalities were present, public goods, and cases of asymmetric or deficient information, as well as a ragbag of other cases that could be characterized as forms of "market failure."

Today behavioral economists emphasize the presence of more endemic forms of failure, that is, "decision-making failures." Collectively, these refer to the failure of ordinary individuals and government decision-makers alike to follow the traditional neoclassical standards of rationality. These individuals, whether ordinary people, government officials, or private professionals, may be systematically biased in their cognition; or they may conduct their work under inconsistent preference structures. For example, it is commonly asserted by behavioral economists that two logically equivalent ways of framing a problem may elicit different choices. A doctor may say that an operation has a survival rate of 90% or a fatality rate of 10%. In the former case, more people may choose to have the operation than in the latter case. People may also over-estimate small probabilities and under-estimate large probabilities. Similarly people's preferences may be greatly affected by nudges, even though the nudge does not change the relative costs of or information regarding the different options. Behavioral economists point to the profound effects of automatic enrollment in employer-sponsored retirement savings programs, in contrast to programs for which only those individuals who chose to actively enroll participate.

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Many behavioral economists also believe that such biases should also be incorporated into standard cost-benefit analysis. Thus on energy use, public policy should not only consider the benefits of reduced pollution externalities, but also the private monetary savings to consumers, by correcting the biases of consumers who are not sufficiently rational to value these savings properly.

1 New Paternalism

Many, perhaps most, of the policy recommendations that are unique to the normative side of behavioral economics have been called "new paternalism." "Old" or traditional paternalism started with the view that parents have the right motivations and knowledge to make decisions on behalf of their children, with whom they shared a common bond. The old paternalists then claimed that outside of this relationship, certain classes of individuals made inferior choices that could be corrected by a state agent whose better judgment allowed him to override or limit the choices of these individuals. Much of this sentiment may have been rooted in a moral paternalism. In contrast, new paternalism insists that virtually all people need assistance in satisfying their "true preferences," that is, those choices they would make if their judgments were not distorted by cognitive and preference biases. Therefore, the nudges or regulations or taxes that a new paternalist advocates are designed to steer people in the directions that they would have gone if they had been able individually to correct their biases.

2 Introduction: Behavioral Economics and New Paternalism

A comprehensive examination of the new paternalism should address at least two general classes of problems. The first, which is often neglected in policy-oriented articles and conferences, concerns the behavioral and psychological evidence underlying the claim that these biases exist. While sometimes the existence and potency of these biases are treated as truisms, there is in fact scientific controversy about their existence, extent, and significance. Some criticisms rest on the notion of "ecological rationality", which refers to the idea that people make good decisions in the niches and areas in which they operate even if they are unable to apply correct rational choice principles to outside their areas of experience; others stem from a broader view of what constitutes rational behavior. Thus criticisms have also been made of the normative standards used by new paternalists.

The second class of issues concerns specific policy areas. Some of these affect common law areas such as contract law. How, for example, does the new learning influence the legal treatment of such common financial transactions as payday loans, "shrouded" terms for credit cards, or checking account fees. The consumption of "unhealthy" foods by biased or low- willpower individuals has given rise to support for soda and fat taxes. Other proposals address the asserted claim that many people are under-saving because of status-quo or present bias.

3 The Articles

The articles that comprise this symposium not only present different verdicts on the question of paternalism but they also approach the issues at different levels and from different disciplinary perspectives. We attempt here to give the reader a brief preview of the articles and their focus.

Mario Rizzo and Glen Whitman deal with some fundamental problems in describing the rationality of agents. They argue that conceiving of rationality as a process has important normative implications. Similarly, Malte Dold and Christian Schubert make progress toward developing a uniquely behavioral form of welfare economics. Most behavioral economists accept the axioms of standard rationality as welfare norms. Dold and Schubert, on the other hand, emphasize the importance of individual learning in evaluating policy. Robert Sugden questions whether it is normatively appropriate to privilege the behavior of Planners over Doers. In fact, he argues that the practice in competitive markets that privileges Doers over Planners is valuable. This becomes especially clear in the context of a conception of the "continuing self."

Daniel Hausman presents a detailed analysis of just what paternalism and nudging is. Previous attempts at definition have been too imprecise and too broad. He also argues that "nudging" and "paternalism" in the narrow sense are not inevitable and, in fact, can be highly problematic. Julian Le Grand takes up the challenge that government paternalism arbitrarily privileges future over present preferences. He answers the critics by showing that there are both utilitarian and contractarian justifications for nudging in the direction of long-run welfare considerations. Sarah Conly extends the concept of new paternalism to include "moral paternalism." Just as people have welfare-related preferences they also have moral preferences or goals. The state (or others) can help them make decisions in line with these moral goals.

Gerd Gigerenzer addresses many of the foundational psychological findings of behavioral economics. He argues that many have acquired the status of "truisms." In fact, however, they can be contested on their own terms by the evidence. The behavioral literature exhibits an imbalance of bias toward finding "biases" because it ignores the ecological rationality of behavior. Craig McKenzie and coauthors adopt a process perspective to psychological framing and choice architecture. Contrary to much previous literature they show that apparently inconsistent choices can be dynamically consistent.

Nathan Berg develops a wide-ranging critique of new paternalist policies. He enumerates a list of potential costs to government nudges and other paternalist policies. Many of these costs have not previously been recognized, such as the complexities introduced into communication and the effect of attitudes toward "expert" advice. Richard Epstein also makes a wide-ranging critique of "libertarian paternalism" and, indeed, of behavioral economics more generally. He argues that once the standard neoclassical framework is amended to include the findings of evolutionary psychology (especially the concept of "inclusive fitness"), behavioral economics has not added much to our understanding of important regulatory issues. In fact, the basic options regarding regulation are fundamentally the same whether the errors people make are consistent with neoclassical economics or behavioral economics.

Consumer financial decisions have been an important focus of behavioral economic policy. Min Zhao presents new evidence of the effect of physical height on the time-orientation of financial decisionmaking. When decisionmakers are placed in positions of a high physical vantage point they tend to view decision options from a longer-run perspective. Their physical position tends to frame their financial options in predictable ways so that enhancing physical height will increase the construal level of thinking and increase long-run focus. On the other hand, Todd Zywicki is highly critical of the behavioral literature regarding consumer financial decisions. His criticisms in the article for this symposium center on "just-so" stories. Zywicki argues that the method of analysis used results in non-falsifiable theories that are little more than matching biases found in the literature to explain "suspect" behavior or contract forms. He finds that many of these explanations are refuted by the available financial data.

Overall, we are pleased to present to the reader a wide variety of perspectives on rationality, behavioral economics, the normative claims of new paternalism, and the empirical evidence both for and against these claims.