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Behavioral economics and the ‘new’ paternalism[☆]

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Abstract

The paper provides a critical appraisal of the normative program of behavioral economics known as ‘new paternalism’. First, it explores the theoretical foundations of behavioral economics, describes major behavioral anomalies associated with bounded rationality of economic agents and discusses its normative principles and political implications. It then discusses the main empirical and conceptual drawbacks of new paternalism and provides arguments for the alternative non-welfarist normative tradition based on the idea of freedom.

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I am a family.

*Like a spectrum, seven egos live within me,
unbearable, like seven beasts.*

And the bluest blows a shepherd's pipe!

And in the springtime,

I dream that I am the eighth!

Andrei Voznesensky, “Antiworlds and The fifth ace”, 1967

1. Introduction

The emergence of a new research program called ‘behavioral economics’ is one of the most significant events in the evolution of modern economic theory in recent past decades. The program asserted itself in the 1970s as an independent sub-discipline born on the crossroads of economics and psychology. From the very beginning, behavioral economics has challenged the standard (neoclassical) economic theory. From a methodological point of view, its main distinctive feature is the wide application of experimental methods (predominantly in laboratory settings and, to a much lesser degree, in the field). From the point

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of view of positive analysis, its most important message is the rejection of the commonly accepted model of rational choice that has traditionally provided the behavioral foundation for the greater part of contemporary economic theory. Numerous experiments performed by behavioral economists have demonstrated that real human behavior shares little with neoclassical theory's main protagonist, the hyper-rational *Homo oeconomicus*, who possesses a well-ordered set of preferences, perfect information and unlimited computational capacities. In the vast variety of situations, the behavior of real economic agents turns out to be boundedly rational in the best-case scenarios and clearly irrational in the worst-case scenarios.

The ideas and approaches offered by behavioral economics relatively quickly got academic recognition, penetrating the mainstream economic theory and leading to a radical transformation in many of its research domains. Today, an overwhelming majority of economists accept these ideas and approaches at least on the general conceptual level, if not in their actual research practices. The obvious success of behavioral economics is easily evidenced by a partial list of fields it has expanded into: consumer choice theory, finance theory, law and economics, macroeconomics, development economics, game theory, and many others.

Behavioral economists went beyond positive analysis and soon proceeded to develop normative recommendations for the government (and other major players, such as corporations or political parties). The normative program built upon the ideas of behavioral economics has been dubbed the 'new' paternalism. It considerably expanded the boundaries of justifiable state intervention in the economy and individual lives compared with what traditional neoclassical economics was willing to accept. In a popular form, this program was presented in the best seller by Richard Thaler and Cass Sunstein, *Nudge: Improving Decisions about Health, Wealth, and Happiness* (Thaler and Sunstein, 2008). The key concept of the book, with the term itself (*nudge*) appearing in its title, was almost immediately taken up by economists, lawyers and psychologists, and has since been used to denominate both behavioral economics itself and the normative approach to governmental regulation derived from it. The idea of this manifesto directed at the public is quite simple: 'We [the 'new' paternalists] know how to make your life happier' (Leonard, 2008).

The ideas of behavioral economics proved to be extremely attractive for politicians in many countries across various parts of the ideological spectrum. Barack Obama used them extensively in his election campaigns and has often referred to them during his presidency. *Time* magazine called the group of his most trusted advisors a 'behavioral dream team' aiming to transform the country with the help of implications drawn from behavioral research (Grunwald, 2009). The prime minister of the United Kingdom, David Cameron, has also been quite interested in the ideas of the new behavioral science. He set up the Behavioral Insights Team, a special unit to develop behavioral policies, and invited Richard Thaler, the guru of behavioral economics, as an informal advisor (Wintour, 2010). In Cameron's opinion, the behavioral nudge policy is a perfect mechanism 'to persuade citizens to choose what is best for themselves and society' (Basham, 2010).

The purpose of our analysis is to provide a critical evaluation of the normative attitude of behavioral economics; its positive research program is only discussed to the extent necessary to understand the details of the 'nudge' policy. In our opinion, the gradual transformation of a 'welfare state' into a 'paternalistic state' is one of the vital but poorly comprehended trends in the evolution of the modern government regulation system. This new trend, stemming from the ideas of behavioral economics, deserves closer attention.

2. General characteristics

Behavioral economics, which emerged from a symbiosis of economics and psychology, may be considered another example of a powerful methodological trend in the cross-disciplinary social studies known as 'economic imperialism.' That phrase implies invasion of the

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