

Introduction

In the movie *Roman Holiday*, some of the most delightful scenes involve Gregory Peck and Audrey Hepburn riding an old scooter through the streets of Rome, and they seem to enjoy it thoroughly. We are all familiar with those images that have been reproduced and diffused to the point of becoming contemporary icons. Yet were the movie remade today, to remain realistic both protagonists would need to wear a helmet or else soon be arrested and fined by the police. As a result, the characters' scooter rides would be boring to them, and presumably even more so to the public.

What has changed is that there has been a (socially accepted) trend toward the increased regulation of private life. Armed with studies and statistics, government officials and their experts explain to us how greater coercion imposed on individual behavior saves that many lives or dollars. The press nods in approval. The underlying social science that supports those policies is rarely disputed, and the implicit social values that are being pursued are questioned even less. More than two hundred years ago, some enlightened intellectuals wrote the following in the French Declaration of Human Rights:

Liberty consists in the freedom to do everything which injures no one else; hence the exercise of the natural rights of each man has no limits except those which assure to the other members of the society the enjoyment of the same rights.

This seems long forgotten. Instead of those enlightened intellectuals of the eighteenth century, we have experts who compute the optimal sugar content regulation of apple juice or the monetary equivalent of the welfare gains of wearing a helmet.

This essay discusses the rise of paternalistic policies and their dangers. It specifically relates this phenomenon to parallel developments in the social sciences. Although some believe that such intellectual debates are confined to academia's ivory tower and irrelevant to real-world policies, historical precedents suggest otherwise. The ethno-nationalist states of the late nineteenth century and the first half of the twentieth century, which culminated in Nazism, were prepared by a long academic tradition, especially in Germany, which emphasized

Volkisch values at the expense of universal ones. Immediately after World War II, most of Eastern Europe fell to communism, and many Western European countries were about to follow that route. At that time Hayek pointed out how these developments had been prepared by socialist biases in universities. And, finally, the belief in free markets of many “liberal” decision makers rests only on the positivist view taught by mainstream economists—that “science” has proved “it works.”

Similarly, the recent development of paternalism is not devoid of intellectual apparatus. Of all the social sciences, economics is the one that has traditionally stuck to the individualistic values of the Enlightenment. But in recent years a new brand of economics (labeled “behavioral”) departs from those foundations and brings new ammunition to state involvement in private lives. The aim of this book is to explain what behavioral economics is and whether it is dangerous for those who believe in individual freedom and limited government.

It is generally accepted that intellectuals, including scientists, are supposed to be “concerned citizens” in addition to pursuing truth and contributing to knowledge. The economist is no exception, and many prospective graduate students, in their motivation letters, routinely claim, for example, that they want to “make the world a better place.” On the other hand, a popular view of economists is that they typically support “free markets,” “free trade,” and limited government. How can one hold such views and at the same time pretend to improve the situation of one’s fellow citizens?

The answer lies in the long tradition of so-called neoclassical economics, which is grounded on utilitarianism. Utilitarianism states that “society” should be organized so as to yield the greatest possible level of welfare, where it is assumed that there is some way of comparing and adding welfare across individuals. Adam Smith’s famous invisible hand states that a maximum level of total welfare is reached by letting people decide what is best for them. In the nineteenth century, followers of Smith such as Ricardo, Pareto, and Walras established “scientific” results that led credence to the invisible hand view. By “scientific” I mean that it was possible to prove, in a mathematical way, that under some assumptions—made explicit by the use of the scientific method—free markets indeed lead to an efficient outcome where welfare, in some sense, is at a maximum.

These assumptions are mathematical statements about how human behavior is being analyzed by economic theory. But they are also, inevitably, moral statements about what the individual is. For the invisible hand to make sense (i.e., for those results to hold), individuals should be unitary (have consistent goals and preferences) and rational (make the right decisions, given their constraints and information, in order to satisfy their preferences). In other words, they know where their interest lies and are capable of pursuing it.

Therefore, neoclassical economics draws a bridge between the positivist perspective of a would-be benevolent dictator attempting to design society optimally, and the liberal perspective of a political philosopher of the Enlightenment,

for whom preserving individual rights and keeping government in check is a crucial goal.

This alliance has held firm for more than a century, whereas other intellectual disciplines have witnessed pervasive attacks against the view that individuals are unitary and rational. As a result, neoclassical economics has found itself increasingly isolated, both methodologically and as a promoter of liberal eighteenth-century values such as limited government.

More recently economics itself is gradually discarding the unitary individual, while keeping its utilitarian perspective on government. As a result, it is providing ammunition to an ongoing process of growing government intrusion in private lives, a key component of which consists of paternalistic policies aimed at protecting people against themselves. This joint development is what this book is about.

The mathematical results about the merits of *laissez-faire* are an attempt to *scientifically* validate limited governments on pure utilitarian considerations. We are not told that excess government involvement in private matters is wrong; we are simply told that it *does not work*. That, in a way, is laudable, to the extent that we do not want an analytical discipline to be polluted by ethical or ideological *a priori*.

Unfortunately science, unlike moral principles, evolves quickly; a theory is unlikely to survive for long if its predictions (or premises) are inconsistent with the empirical evidence. Virtually none of the theories that prevailed in the nineteenth century, whether in the natural or social sciences, is accepted today. And therefore it was only natural that sooner or later the economics on which the “scientific” foundation for individual freedom rests would be challenged on empirical grounds.

These empirical developments undermine the view that individuals are rational, consistent and capable of self-control. They bring economics in line with other intellectual traditions (which had challenged the unitary nature of the individual long before economics); at the same time they invalidate the “theorems” that tell us that *laissez-faire* works well. Since, under the dominant positivist assumptions, this was the main reason why we believed in *laissez-faire*, this opens the door for the pervasive intrusion of government in private affairs.

In his *Road to Serfdom*, Hayek (1944) links the suppression of individual freedom to the well-meaning attempt by intellectuals to “make the world a better place.” The issue, then, was how the government could better allocate material resources by coordinating the economic decisions of individual agents. This, Hayek argued, could only come at the cost of a dictatorship. Fortunately, somehow, the dictatorships that engaged in central planning, despite their suppression of virtually all liberties, miserably failed as economic coordinators—even by their own purely materialistic and quantitative standards. The theoretical idea that governments could improve the lives of people through central planning had been refuted by a tough reality test: the partisans of *dirigisme* would be quiet for a while, unless they found another theory.

Another theory? This is exactly what the above-mentioned developments, with their attack on the consistent, rational view of the individual, give them, and they lost no time in making use of it. While a new brand of economics—so-called behavioral economics—provides foundations for much broader government interventions than before, at the same time we see increased government attempts at regulating individual behavior in matters such as consumption, saving, education, risk taking, and speech. Just as traditional economics could be viewed as an important intellectual cornerstone of the Enlightenment’s “liberal” society, behavioral economics will contribute to the foundation of the new paternalistic state.

As this book will make clear, my opinion is that this is cause for serious concern. If current trends continue, I foresee a gradual elimination of individual freedom as “social science” makes progress in documenting behavioral biases, measuring happiness, and evaluating the effects of coercive policies, while information technology provides ever more efficient tools of control to the government.

A central conclusion of this book is that these developments are the inevitable consequence of the utilitarian agenda of defining the limits of government in a purely scientific fashion, based on the search for an efficient allocation of resources from the point of view of a social welfare function which aggregates individual preferences. Furthermore, because the empirical evidence for behavioral biases is pervasive, one cannot restore the traditional brand of utilitarianism as a foundation for limited governments. Nor can one preserve individual freedom by dismissing paternalistic policies on purely practical grounds by arguing that their implementation is counterproductive. Instead, individual freedom and responsibility must be recognized as central social values rather than as derived as instruments for implementing the calculus of happiness.