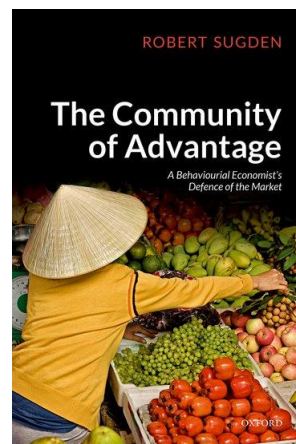


## Sugden's response to *Behavioural Paternalism*

**Sergio Beraldo.**

«The Community of Advantage», by Robert Sugden, has just been published with Oxford University Press. The author is a professor at the University of East Anglia, a member of the British Academy, and an influential economist. In his youth, influenced by Nobel Prize winner James Buchanan, Sugden worked in social choice theory, and focused on the representation of rights and the measurement of opportunity. Then, from the early 1980s, he was a pioneer of experimental and behavioural economics; a heterodox field at the time, integrating economics with psychology in order to better understand human motivations and behaviour.



The book is a passionate defense of the market as a social institution that results from a network of mutually advantageous cooperative relationships among trading partners. It is also a severe critique of the paternalistic turn (nudging) that behavioral economics has taken in the past decade.

### **The Market as a community of advantage**

John Stuart Mill (1806-1873) used the expression “community of advantage” to describe the relationships between countries in a world of free trade. Mill’s objective was to strengthen the enlightened views of his own time against mercantilism, which treated economic relations between countries as if they were relations between rival tradesmen trying to undersell one another. According to Mill, this way of thinking had «overruled for centuries all sense of the general community of advantage which all commercial countries derive from the prosperity of one another». Indeed, commerce showed that the wealth and progress of one’s own country is enhanced by the prosperity of its trading partners – a concept that several policymakers still find difficult to understand today.

As Sugden emphasizes, by participating in mutually beneficially relationships, people come to see one another as cooperative partners rather than rivals, and this perception enhances solidarity and good will. If social life is structured by voluntary cooperation, each of us can get what he wants by helping others to get

what *they* want. Thus, each individual learns the importance of taking seriously other people's interests. The latter idea very much echoes Adam Smith's account of how individuals understand trading relationships, i.e. as mutually advantageous ones.

According to Sugden, Mill's concept of a community of advantage captures the three key components of the liberal tradition of economic thought: cooperation for mutual benefit as a governing principle of social life; competitive market as a network of mutually beneficial transactions; cooperative relationships free from paternalism (it is up to each individual to judge what counts as his/her benefit). As Sugden emphasizes, the key ideas of the liberal economic tradition have been subject to constant critical scrutiny over time. In particular, his book is a response to the new challenge: the rise of behavioural economics.

### **Behavioural Paternalism**

To see why behavioral economics poses serious problems to the liberal tradition of economic thought - in particular to one of its pillars: non-paternalism - consider that the usual criterion used within this tradition to judge economic institutions and policies, is the satisfaction of individual's preferences.

When using preference satisfaction as the key normative criterion, the liberal tradition of economic thought treats each individual as the best judge of his own welfare. It is, in other words, non-paternalistic.

By contrast, behavioral economics argues that individual behavior is essentially context-dependent. Indeed, the experimental evidence it has provided since the late 1970s, suggests that individuals' choices vary according to the viewpoints from which decision problems are assessed and according to the framing of these problems. For example, an individual evaluates a good differently, depending on whether he owns the good or not; and on how given goods are displayed or described.

To sum up, according to the behavioral approach, individual choices are shaped by the context within which individuals operate and exchange. Two consequences follow. First, individuals' preferences depend on the circumstances; second, it may happen that individuals make choices that they later regret.

According to Sugden, most behavioural economists consider that these anomalies lead people to make mistakes. Hence, they argue in favour of reconstructing individuals' "pure" preferences. Put differently, by interpreting these anomalies as deviations from a pure model, behavioral economics opens the way to (and justifies) some subtle and deceptive forms of paternalism, and claims that people ought to be *nudged* towards decisions that avoid mistakes due to the human's psychological shell. This form of paternalism, therefore, works by modifying the way choices are framed/described (e.g. Fig. 1a,b); and by imposing mandatory cooling-off periods before certain decisions – easily influenced by strong emotions as anger – are taken (e.g. Fig 1c).

**Fig. 1. The portion size illusion: the smallest plate might be chosen for it appears to contain more food (a); the Cafeteria example: setting the order in which foods are displayed is a way of inducing people to opt for healthy choices (b); an explanation of a cooling-off period (c).**



These ideas have been very influential in recent years; in many countries governments have created special agencies that detect alleged anomalies in human decision-making, and encourage people to choose what they would *really* want; the Social and Behavioural Sciences Team (US), the Behavioural Insight Team (UK), as well as the European Commission-funded project Nudge-It, are examples of such agencies.

In his book, Sugden argues that it is possible to find a non-paternalistic form of normative economics that is compatible with behavioural findings. To this purpose, he emphasizes the notion of opportunity, and claims that the opportunity to choose between alternative options has intrinsic value, irrespective of whether choices can be rationalized. The key idea is that a person is a «continuing locus of responsibility -- for short, a responsible agent - to the extent that, at each moment in her life, she identifies with her own actions, past, present, and future. To treat ...actions as one's own is to take ...responsibility for them, rather than attributing [them] to an alien» self.

The author's insights into these important issues make this book important and worthy of being read. As Cass R. Sunstein - a prominent supporter of the paternalistic turn in behavioral economics – recognizes, this is Sugden' best work and «one of the very few most important explorations of liberty in the last half-century».