If individuals' ability to make rational decisions is limited, wouldn't their ability to make political decisions also be limited?

Paternalism and Psychology

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An increasingly large body of evidence on bounded rationality has led many scholars to question economics' traditional hostility toward paternalism. After all, if individuals have so many cognitive difficulties, then it is surely possible that government intervention can improve welfare.

As Christine Jolls, Cass Sunstein, and Richard Thaler write in a 1998 *Stanford Law Review* article, "bounded rationality pushes toward a sort of anti-antipaternalism—a skepticism about antipaternalism, but not an affirmative defense of paternalism." Even if the authors stop short of endorsing traditional hard paternalism, such as sin taxes and prohibitions, Jolls, Sunstein, and Thaler are enthusiastic about "soft" or "libertarian" paternalism, where the government engages in "debiasing"—changing default rules and other policies that will change behavior without limiting choice.

But flaws in human cognition should make us more, not less, wary about trusting government decisionmaking. After all, if humans make mistakes in market transactions, then they will make at least as many mistakes in electing representatives, and those representatives will likely make mistakes when policymaking.

While I generally share Jolls, Sunstein, and Thaler's view that soft paternalism is less damaging than hard paternalism and that in many cases some form of paternalism is inevitable, I respectfully disagree with their view that this type of paternalism "should be acceptable to even the most ardent libertarian." Soft paternalism is neither innocuous nor obviously benign.

Hard paternalism in the form of tax rates or bans is easy to monitor and control; soft paternalism is not. Soft paternalism often relies on stigmatizing behavior like smoking, drinking, or homosexuality, and that can lead (and has led) to dislike or hatred of individuals who continue to engage in the disapproved activities. Moreover, soft paternalism will surely increase support for hard paternalism, as it seems to have done in the case of cigarettes.

Finally, persuasion lies at the heart of much of soft paternalism. It is not obvious that we want governments to become more adept at persuading voters or for governments to invest in infrastructure that will support persuasion. Governments have a strong incentive to abuse any persuasion-related infrastructure and use it for their own interests, mostly keeping themselves in power.

THE SUPPLY OF ERROR

Psychology and social science have an enormously rich tradition of showing that individuals are heavily subject to social influence and that errors easily result from external stimuli. The pioneering social psychologist Solomon Asch demonstrated that individuals who have been shown illustrations of two different-sized lines are more likely to report that the shorter line is longer if they are exposed to planted confederates who declare that the shorter line is longer. Asch's basic result has been reproduced hundreds of times throughout the globe with many different types of questions. More generally, there is widespread agreement in the experimental literature that even modest changes in framing can create wildly different results.

Outside of the laboratory, there is also substantial evidence suggesting that suppliers are able to manipulate beliefs. In the legal sphere, competent attorneys are paid well to shape the beliefs of juries. Firms spend large amounts of money on adver-

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tising and other forms of belief manipulation. While some of this manipulation can be seen as correcting errors (that is, informing the consumer), not all advertising is strictly informative. In the pre-modern era, false advertising was common (touting the miraculous advantages of patent medicine for example) and presumably firms would not have spent on this unless it was having an effect.

Is there strong evidence that attempts at belief manipulation are successful on a large scale outside of the laboratory? There have been few compelling natural experiments, although anecdotes with some evidence showing the power of indoctrination are common. For example, Bruce Sacerdote and I examine the connection between education and religiosity across countries. In the former Warsaw Pact countries, where attacking religious beliefs was a stated curricular aim, the levels of religious belief are extremely low and the negative connection between education and religious beliefs is remarkably high.

Indoctrination about economic facts also appears to be effective. Alberto Alesina and I report that 60 percent of Americans believe that the poor are lazy, but only 26 percent of Europeans share that view. By contrast, 60 percent of Europeans think that the poor are trapped in poverty, but only 29 percent of Americans share that opinion. In reality, the American poor generally work harder than their European counterparts and have a lower probability of exiting from poverty. While these differences in beliefs do not reflect differences in reality, they do reflect the impact of 100 years of relatively leftist indoctrination in European schools and relatively rightist indoctrination in American schools. Alesina and I document the substantive differences in what European children and American children are taught about the nature of poverty.

If one major source of cognitive errors is the supply of beliefs, then errors will not be random. Errors will, in part, reflect the costs and incentives faced by belief suppliers, who

will increase advertising and indoctrination when returns rise and decrease them when costs rise. Advertisers spend disproportionately in order to reach high-spending segments of the market. The role of suppliers in creating errors suggests that there will be more errors when the suppliers face high returns from moving opinion and less error when the costs of manipulating beliefs are high.

ERROR CORRECTION

Even with their shortcomings, human beings are not irrational automata. With motivation, they should be able to reduce cognitive errors. Amos Tversky and Ward Edwards, for example, show that paying subjects five cents for right answers increases the accuracy of predictions. Colin Camerer and Robin Hogarth conclude that "the presence and amount of incentive does seem to affect average performance in many tasks, particularly judgment tasks." There is a modest body of experimental evidence suggesting that errors decline as incentives grow stronger.

There are many reasons to think that incentive effects will be much stronger in the real world than in the laboratory. The existence of substantial industries specializing in advice and information suggests that in many contexts people are really interested in knowing the truth. For example, 6.8 million people subscribe to *Consumer Reports*, one potential source of information that can undo supplier-created biases in consumer spending. There is a thriving industry of management consultants who provide information to firms. Self-help books, at least some of which are informative, abound. No one would claim that these resources eliminate all errors, but they do provide tools with which a motivated consumer can reduce error. And a particularly important way in which consumers are able to reduce error is through experience.

PRIVATE VS. PUBLIC While private decisionmakers do make errors, errors are more likely in political markets where the incentives to correct are weak. In at least one opinion poll, a majority of respondents in the United States thought that Saddam Hussein was personally behind the World Trade Center attacks. Even more strikingly, in a Pew poll in 1998, 63 percent of respondents thought that the United States spends more on foreign aid than on Medicare (only 27 percent gave the right answer). Those errors in basic public policy knowledge suggest that errors will be more likely in voting than in private decisions. Hence, I am skeptical that a richer model of psychology should increase our enthusiasm for government intervention. Economic theory pushes us to think that private decisions will often be more accurate than public decisions.

Consider, for instance, an activity in which supporters of public decisionmaking claim it is preferable to private decisionmaking: smoking. The supporters claim that the true cost of smoking is greater than the short-term benefits, but not everyone knows the true cost of smoking. Now consider the two extremes in public response to this activity: paternalism, where the government decides whether people will be allowed to smoke, and laissez-faire, where individuals make their own choices. To make things really simple, let us further assume that everyone is the same, so we can ignore the costs that come from government-enforced uniformity. This is stacking the deck against laissez-faire, but it makes sense to focus on an extreme example.

In this case, governmental decisionmaking increases welfare if and only if the probability that the government knows the true cost of smoking is greater than the probability that individuals know the true cost. Theory suggests three reasons to believe that private decisionmaking will be less erroneous than public decisionmaking: private decisionmakers have better-aligned incentives, public decisionmaking is more vulnerable to erroneous persuasion, and public decisionmaking in a democracy is subject to private errors.

INCENTIVES If errors can be corrected either by learning or consultation, then the quality of decisionmaking will be based, at least in part, on the willingness to expend effort to find out the truth. Private decisionmakers are more likely to put in more effort to acquire information when buying a car than when buying a pack of chewing gum. If incentives to make good decisions increase the quality of decisionmaking, then this provides us with one reason why private decisions should be better than public decisions: government decisionmakers do not care as much about the individual's well-being as the individual himself does.

While government bureaucrats may be well-meaning, even the most extreme advocates of paternalism would not argue that a government decisionmaker would be willing to pay the same personal costs to make a citizen's life better as the citizen himself would. Thus, the government will be less likely than private individuals to expend effort to correct errors in that individual's decisions. Moreover, the advantages of private decisionmaking that result from good incentives will become more important as psychological weaknesses multiply. The private response to those weaknesses will be greater than the public response because the private individual's welfare is more directly tied to the magnitude of mistakes.

Obviously, the advantages of strong incentives might be offset if government has access to better learning technologies and there are returns to scale in learning. If governmental information acquisition is spread over enough consumers, that would represent a real advantage, albeit one coming from the well-accepted public-good aspect of information, not from paternalism per se.

Still, the existence of better incentives at the private level does suggest one advantage of private decisionmaking. And the magnitude of this advantage may increase as the degree of error rises.

PERSUASION Some errors result from persuasion. Consumer and political advertising are major industries that change people's beliefs and occasionally encourage mistakes. If it is more expensive to persuade more people, then this creates a second reason why private decisionmaking is preferable to state control, especially in the presence of cognitive limitations. Is it cheaper to sway a limited number of governmental decisionmakers than to move the beliefs of millions?

One piece of evidence supporting the affirmative answer to that question is that much more is spent on consumer advertising than on political spending. For example, the Federal Election Commission reports that total funds raised during the 2004

election for both houses of Congress and the presidency came to slightly under $2 billion. The Center for Responsive Politics reports that total lobbyist spending in 2000 was $1.03 billion.

As large as those numbers are, they are dwarfed by consumer advertising. *Advertising Age* reports that 30 companies each spent more than $1.555 billion on consumer advertising in 2004, and 10 companies had advertising budgets bigger than all spending on the 2004 federal campaigns. The health sector as a whole spent $209 million on lobbying in 2000, but Pfizer spent $2.96 billion on advertising last year and Johnson and Johnson spent $2.17 billion. These numbers reflect only spending, not the marginal cost of changing opinions, but the much greater spending on consumer advertising supports the idea that it is more expensive to move millions of consumers than a small number of politicians.

And if it is more costly to persuade large amounts of consumers than a few bureaucrats, then we should expect more persuasion and more errors once decisionmaking is given over to governments. Certainly, there is plenty of evidence that government leaders can be persuaded to believe all sorts of nonsense. European governments seem to buy the famous "lump of work fallacy," which erroneously suggests that by getting people to work fewer hours, there will be more employment. No doubt, readers of this magazine can offer many similar instances of policymakers embracing ridiculous notions.

As errors increase, the gains from private decisionmaking increase because private decisionmakers are less likely to err, and this accuracy is worth more if errors increase. The greater ease of convincing a few bureaucrats means that the relative costs of governmental decisionmaking increase as the limits to rationality increase. When no one is subject to influence, then government and private decisionmaking will both be correct. As soon as the capacity for errors increases, then the greater expense of convincing a multitude will increasingly give private decisionmaking an edge.

One caveat to this argument is that in a divided system of government, imposing paternalistic policies requires the approval of a number of different decisionmakers (e.g., the courts, the legislature, the executive). Divided government will tend to increase the costs of influence and reduce the errors from government decisionmaking, and the fans of divided government well understand this advantage.

DEMOCRACY So far, I have treated government decisionmakers as distinct from private decisionmakers. But in many cases, paternalistic policies are decided by the same voters who will make private decisions. In that case, the key question becomes whether decisions made at the ballot box are better or worse than decisions made at the cash register.

As noted above, private decisionmakers face at least moderate incentives to correct errors and resist persuasion when they are making personal consumption decisions. However, when voting, a mistake carries essentially no consequences. Because elections are essentially never decided by one vote, casting a poorly researched vote is essentially costless. (See "The Public Choice Revolution," Fall 2004.) The expected return from investing in information is essentially zero for voters. Thus, the quality of decisionmaking should be much lower when people are casting ballots than when they are buying commodities.

There is at least one potential advantage from electoral decisionmaking: the tyranny of a well-informed majority. If the median voter votes for the right policy, everyone benefits (ignoring the costs of enforcing uniformity on a population with heterogeneous preferences). But if the median voter is misinformed, enforcing uniformity will ensure that everyone does the wrong thing.

As the limits to rationality increase, the disadvantages of government decisionmaking increase. The one advantage of government decisionmaking—enforcing the wise majority's views on the foolish minority—disappears as psychological errors grow and the majority itself is likely to be misinformed.

HISTORY The preceding arguments offer three settings in which it is clear that errors should be greater when the state makes decisions than when private individuals make decisions. This tendency appears to increase when psychological problems increase. There are other factors that support this view. Because elections are complex events that combine a host of different issues, individuals should be expected to have more problems eliminating psychological errors. It should also be cheaper to influence an election than to change the minds of consumers because the complexities of an election probably make it easier to confuse voters. Elections do not always deliver candidates that are bad for voters, but there is certainly every reason to believe that errors in a complicated electoral situation (without incentives) will be worse than individual decisionmaking in a setting where incentives are much stronger.

There are sound theoretical reasons for believing that paternalistic governmental decisionmaking will generally lead to bad outcomes. Is this implication wildly at odds with the evidence? Have paternalistic innovations generally been great successes?

Paternalism does seem to have had successes. For example,

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the 50 percent reduction in cigarette smoking per capita since the surgeon general's 1965 warning can be seen as a successful paternalistic intervention (especially of the softer kind). But the fight against cigarettes must be put in the context of the other significant paternalistic crusades both in the United States and elsewhere. Paternalism has been used to justify government actions and rhetoric toward alcohol, drugs, homosexuality, religion-related activity, slavery, and even loyalty to the government itself. The nineteenth-century crusade against alcohol brought Prohibition, which appears to have had only a modest impact on alcohol abuse while supporting a large, violent underground economy. The fight against other drugs is more defensible, but the advocates of marijuana legalization argue that the costs of this government policy far exceed the benefits. Governments have attacked homosexuality for centuries and often used paternalistic rhetoric for doing so.

The track record of American pro-religion paternalism is generally free of the genocide that has existed elsewhere, but it is still disturbingly full of odd restrictions on behavior, intolerance between religious groups, and even violent outbursts. According to historian Eugene Genovese, slavery was frequently defended by Southern apologists as a paternalistic institution that was needed to protect transplanted Africans from the harsh realities of the marketplace:

> Southerners, from social theorists to divines to politicians to ordinary slaveholders and yeomen, insisted fiercely that emancipation would cast blacks into a marketplace in which they could not compete and would condemn them to the fate of the Indians or worse.

Most disturbingly, governments are often persuaded that service to themselves is the highest of callings, and that people should be induced to serve and be loyal to the government. In the United States, this form of paternalism has been pretty benign, at least by world standards (e.g., pledges of allegiance, jailing critics of World War I, compulsory military service in peacetime). Places with fewer checks and balances, like Nazi Germany or Soviet Russia, turned to paternalistically justified pro-state policies with awful results.

Some paternalistic policies have had positive benefits, to be sure. But much of the time, paternalism has been pretty harmful. Social welfare may be well-served by a general bias against paternalistic interventions.

SOFT PATERNALISM

In the previous section, I questioned the view that psychology should make us more confident about paternalistic governments. In this section, I specifically question the use of soft paternalism, which I will take to mean government policies that change behavior without actually changing consumers' options. Typical examples of soft paternalism include "debiasing" campaigns, default rules, and other interventions that change beliefs and attitudes without altering the formal prices faced by consumers. There are many reasons to suspect that such paternalism can be quite harmful and that we should not blindly rush to endorse soft paternalism as a tool.

TAX WITHOUT REVENUE Many examples of soft paternalism result from people's belief that some particular behavior is harmful. As George Loewenstein and Ted O'Donoghue emphasize in an unpublished 2005 paper, creating an impression of danger is quite similar to a tax. Hopefully, it will lower the amount of the activity and decrease the enjoyment of those who continue the activity.

Government "education" programs about cigarettes or safe sex have the result of convincing people that smoking or unsafe sex is dangerous, which presumably lowers the enjoyment of those who continue to smoke or engage in unsafe sex. The surgeon general's warning has acted to stigmatize smoking, and as Loewenstein and O'Donoghue argue, similar campaigns against obesity have the effect of turning eating into an exercise that produces shame and guilt.

While sin taxes produce revenues for the government from those whose behavior is unchanged, soft paternalism creates pure utility losses with no offsetting transfer to the government. For this reason, Loewenstein and O'Donoghue are surely correct that even if government chooses its soft paternalism policies perfectly, those policies will still involve deadweight losses that can easily be larger than the losses from standard hard paternalism.

BAD DECISIONS The previous argument against soft paternalism is that if soft paternalism can affect behavior, then this has just as much possibility of creating social losses as traditional hard paternalism. After all, government education programs will change behavior, just like taxes.

Those education programs seem to have just as much possibility of being erroneously calibrated, and therefore causing inappropriate decisions. Soft paternalism may be more attractive than hard paternalism for people who value freedom as an object in and of itself, but it should not be particularly attractive to people who think that the big problem with hard paternalism is government error.

PUBLIC MONITORING Hard paternalism generally involves measurable instruments. The public can observe the size of sin taxes and voters can tell that certain activities have been outlawed. Rules can be set in advance about how far governments can go in pursuing their policies of hard paternalism.

Effective soft paternalism must be situation-specific and creative in the language of its message. Those requirements make soft paternalism intrinsically difficult to control and mean that it is, at least on those grounds, more subject to abuse than hard paternalism. It is hard to limit soft paternalism because it is so difficult to determine whether a politician or public statement violated linguistic boundaries.

One recent example of this phenomenon is the debate over gay marriage and the "sanctity" of traditional marriage. According to recent polls, 53 percent of Americans believe that homosexuality is wrong and less than 50 percent believe that homosexuality is an acceptable alternative lifestyle.

The debate about same-sex marriage may be partially about policies with real effects toward homosexual unions, but it is at least as much an example of soft paternalism. Opponents of

same-sex marriage want to deprive gays and lesbians of the word "marriage," which is seen as giving societal sanction to homosexual unions. By contrast, the supporters of gay marriage want to end the longstanding soft paternalism that stigmatizes homosexuality.

Surrounding the debate over gay marriage is a steady barrage of language against homosexuality that is itself a form of soft paternalism. It is difficult to set rules that would control this language and it is even a matter of debate whether some political speeches are actually hostile to gays. It would be much easier to discuss the appropriate size of a tax on homosexual marriage than to determine the rules that should restrict political language on traditional marriages.

PUBLIC SUPPORT A natural check on hard paternalism is the opposition of those who regularly engage in a taxed or regulated behavior. Cigarette smokers generally oppose politicians who favor tobacco regulations and drinkers were eager to get rid of Prohibition. Any politician who favors hard paternalism must weigh the perceived benefits of such policies against the cost of alienating a potentially large group of voters.

By contrast, soft paternalism largely avoids the stigma that attaches to more hard-line policies. Instead, politicians who endorse soft paternalism often receive support from the public. Even soft paternalism that creates too much fear against an activity will increase the popularity of a leader if that leader is strongly identified with the fight against some behavior that the public considers undesirable. As a result, we should expect more abuse of soft paternalism than hard paternalism.

HATRED The previous arguments focused on the reasons why soft paternalism is likely to be abused. This argument focuses on an unfortunate side effect of soft paternalism: fostering dislike and even hatred within the population.

Much of the most effective soft paternalism involves broadcasting the message that a given behavior is bad or reflects self-destructive weakness. Individuals who do not engage in the behavior and who are exposed to such messages will come to think that people who do engage in the behavior are unattractive human beings. That will create societal divisions and possibly lead people who engage in the behavior to become increasingly uncomfortable in social situations.

There are many examples of this dynamic. Public campaigns against smoking have led many people to think that smoking is a self-destructive habit and that smokers are weak and probably insensitive to those around them. Public campaigns about recycling and environmentalism have led many people to see the failure to recycle as a moral failing appropriately treated with moral opprobrium. The costs that smokers and non-recyclers face are real and potentially quite costly.

A particularly striking example of this occurs in the welfare context. For decades, right-wing politicians have tried to stigmatize welfare recipients, particularly with stories about welfare cheats. These stories were certainly justifiable as a form of soft paternalism, inducing people to want to work by stigmatizing government handouts. But is it obvious that making the more fortunate members of society think that the destitute are morally deficient is good policy?

GATEWAY By its nature, soft paternalism builds support for hard paternalism. Successful soft paternalism will tend to create social dislike for the activity in question and reduce the number of people who engage in it. In any reasonable political economy model, changing beliefs in a way that convinces voters that a behavior is socially harmful will eventually lead to public support for more regulation. Hard paternalism will become an increasingly attractive option to the electorate, politicians, and the courts.

Successful soft paternalism will make hard paternalism become an increasingly attractive option to the electorate, politicians, and the courts.

The modern history of cigarette regulation shows this dynamic in action. The first major government policy toward cigarettes was a classic example of soft paternalism. The surgeon general's 1964 report simply warned, "Cigarette smoking is a health hazard of sufficient importance in the United States to warrant appropriate remedial action." But then in both 1965 and 1969, Congress passed laws that required health warnings on cigarette packages in advertising.

The surgeon general's warning was associated with a remarkable turnaround in cigarette consumption, which had been rising steadily over the twentieth century. In 1963, Americans on average smoked 2,772 cigarettes, or 7.6 cigarettes per day. In 2004, annual average cigarette consumption had fallen to 1,326, or 3.6 cigarettes per day. While it would be foolish to attribute this entire decline to soft paternalism, it is also true that beliefs about the harmfulness of cigarettes have changed over time. Across countries, there is a negative correlation between beliefs about smoking and smoking prevalence.

During the initial period of declining cigarette consumption following the surgeon general's warning, there was little change in the taxation of tobacco. The most natural interpretation of the reversal of the trend in cigarette consumption is that the ensuing soft paternalism worked. However, the change in beliefs about smoking was also accompanied by an increased

desire to regulate and tax cigarettes. Over time, in response to those popular beliefs, the courts and legislatures have increasingly taxed, fined, and regulated cigarette consumption.

That pattern is not unique to cigarettes. The road to prohibition of alcohol also began with advocates of soft paternalism who tried to change societal norms rather than banning alcohol by law.

OTHER PERSUASIONS Soft paternalism requires a government bureaucracy that is skilled in manipulating beliefs. A persuasive government bureaucracy is inherently dangerous because the apparatus can be used in contexts far away from the initial paternalistic domain. Political leaders have a number of goals, only some of which relate to improving individual well-being. Investing in the tools of persuasion enables the government to change perceptions of many things, not only the behavior in question. There is great potential for abuse.

As a hypothetical example, consider Daniel Benjamin and David Laibson's recommendation that soft paternalism be used to increase savings. Assume that soft paternalism involved a public education campaign to induce people to think more about the future and make people aware that their own rosy scenarios will not necessarily occur. As Benjamin and Laibson suggest, from the point of view of fighting self-control problems, such a campaign might indeed have beneficial results.

But this public education campaign also offers many degrees of freedom that can be used in other, less benign ways. Perhaps the soft paternalism campaign would warn of inflation and might suggest that other, less careful political leaders (that is, the opposition party) might print money and devalue nominal dollars. Perhaps the soft paternalism campaign might suggest that the stock market might fall, especially if non–business friendly leaders were elected. Perhaps the government might suggest that investing abroad is particularly perilous, given the unreliability of other countries (especially, say, France). All of these messages might be justifiable, but would also be pernicious.

While this example may seem extreme, recent public relations spending by the Department of Education for the No Child Left Behind Act included payments to syndicated columnist Armstrong Williams, who regularly promoted the legislation and praised the devotion of President Bush and Education Secretary Rod Paige to improving the quality of education for America's children. The commotion surrounding this expenditure should remind us that the ability of incumbents to ensure victory through the powers of office, which include the bully pulpit, is a constant risk in democracy. Advocating soft paternalism is akin to advocating an increased role of the incumbent government as an agent of persuasion. Given how attractive it is to use persuasion for political advantage, an increased investment in soft paternalism seems to carry great risks.

CONCLUSION

I will end this article by acknowledging that paternalism is here to stay. But I want to suggest a few rules motivated by psychology for guiding that paternalism:

First, restrict paternalistic activities to areas like particularly dangerous drugs or suicide, where there is strong evidence of self-harm. Doing so will minimize welfare-reducing policies.

Second, given the value of experience in checking cognitive errors, sticking close to existing policies (conservatism) seems likely to reduce errors. Voters should be better at evaluating a new policy if it closely resembles policies that have been tried in the past. The same argument suggests that small-scale policy experimentation is helpful and federalism continues to have value in allowing for laboratories of democracy.

Another principle derived from psychology is that because beliefs, particularly political beliefs, are so prone to error, limits on direct democracy may increase social welfare. Deliberative institutions like the Supreme Court and the Senate, which are not under constant election pressure, foster debate and analysis in American policymaking and are likely to reduce errors of policy. Separation of powers, which requires the suppliers of influence to convince a number of different governmental actors, may decrease the amount of public error. Simple debates, such as those surrounding single-issue referenda, may also reduce errors.

Given that errors are greatly exacerbated by the suppliers of bias, situations with strongly interested parties that are likely to skew beliefs are particularly dangerous. Free entry in the battle of ideas is a helpful check on this, but if one side has much more ability to influence than the others, free entry may not be enough. Rules that prevent interventions (soft or hard) in areas where there are potential providers of bias that have extremely strong incentives may reduce supplier-created bias. R

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