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People are rational [1]

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Tim Harford's new book, The Logic of Life [3] is hitting the bookshelves just about now. His essential point is that we are in fact rational beings and that we do act rationally. But this isn't the "hard" version of such a statement. Not all human beings in all situations do so. There are times when we are in the grip of irrational emotions, others when we don't in fact know enough to make a rational decision.

Depending how you look at it this can be used to either attack or defend the Nanny State: if people are rational most of the time then we don't need that much nannying, but if people are ever irrational some would argue that all should be prevented from making such irrational decisions. All prevented all the time by law, that is.

But Harford takes us further: there have been many pieces of experimental economics showing irrational behaviour, something which supports the Statists. But as John List has pointed out, this is precisely because we are putting ordinary people in extraordinary situations:

> *...by contrast, when you ask an ordinary person to make the kind of decisions he or she makes every day, you will tend to see rational behaviour.*

When we don't have enough information, when we're not *au fait* with what's going on we can and do make basic errors. Thus there might be good arguments for having reasonably strict regulation (as we do) on, say, pension funds, something we're likely to set up only once in a lifetime. However:

> *...most shopping is done by experienced shoppers.*

That is, by people who do have enough information, who are *au fait* with what is going on and are thus making rational choices. Which means that we don't in fact need regulation of the salt content, the sugar, in foods, we don't need imposed traffic light signals on every box, we can work perfectly well with a simple listing of ingredients.

That there needs to be regulation in the economy at times is accepted: the argument is about how much of it there should be. This result shows us that such regulation should be extraordinary, at least as far as people's choices are concerned, for it's only required when we are acting potentially irrationally which is, as shown, only in extraordinary times.

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