

NUDGING TO PROHIBITION? A REASSESSMENT OF IRVING FISHER'S ECONOMICS OF PROHIBITION IN LIGHT OF MODERN BEHAVIORAL ECONOMICS

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In this paper we argue that Irving Fisher (1867–1947) is an unacknowledged pioneer of modern behavioral economics. Fisher's behaviorist orientation is evident in his writings on alcohol prohibition. In these works, Fisher argued that behavioral anomalies prevent individuals from making rational choices regarding alcohol consumption. Fisher thought these anomalies arose from three sources: 1) incomplete information; 2) limited cognitive abilities; and 3) lack of willpower. These are essentially the same barriers to rational choice identified by modern-day New Paternalists. Therefore, we argue that Fisher's work on Prohibition was a pioneering academic achievement that anticipated recent developments in economics, and not an unscientific diatribe, as previous commentators have presumed. Unlike modern-day 'New Paternalists,' however, Fisher rejected minor alterations to the choice architecture and advocated outright prohibition instead. This helps to illustrate a potential slippery-slope problem with modern New Paternalist arguments that should be addressed.

“It is just because I believe so enthusiastically in enlarging the personal liberty of mankind to enjoy the full possession of its powers that I favor prohibition.” Irving Fisher (1926b, p. 175)

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I. INTRODUCTION

The influential behavioral economist Richard H. Thaler has claimed that Irving Fisher was a “pioneer” of “modern behavioral economics” (2009, p. 439). Thaler argues that Fisher developed unique theories of time preference and money illusion that follow the “behavioral” approach to economic analysis.¹ We believe that Fisher’s contributions to behavioral economics do not end there. Fisher (1926b, 1928, 1930) also employed a proto-behavioral economics approach in his studies on, and campaigning for, alcohol prohibition.

For most of his adult life, Fisher ceaselessly campaigned, through writing, committee work, and speeches, for alcohol prohibition.² Nevertheless, his (1926b, 1928, 1930) three books on Prohibition have long been overlooked as a contribution to economic science. The prevailing consensus among economists is that Fisher’s analysis of Prohibition was merely a normative expression of his personal preferences, and therefore should not be categorized among his academic work.³ Many of his contemporaries failed to take the work seriously due to the bias perceived in the work. As Robert Allen (1993, p. 193) notes:

Unfortunately, he presented the information in such a way that his opponents could and did charge him with manipulating and misinterpreting the data. There were no inaccuracies nor did he give false data, but his own convictions carried him beyond the limits of strict scientific analysis and interpretation. Impartial analysts could see the bias in the book, despite its claim of being scientifically based analysis.

Fisher’s moral crusading, including his advocacy of alcohol prohibition, detracted from his reputation. In Joseph Schumpeter’s (1954, p. 873) words, “In these and other matters, Fisher, a reformer of the highest and purest type, never counted costs—even those most intensive pain costs which consist in being looked upon as something of a crank—and his fame as a scientist suffered correspondingly.”⁴

Fisher’s work on Prohibition has been judged as just another of his cranky and unscientific writings. This judgment, however, was rendered during a neoclassical consensus that granted scientific legitimacy only to work that adhered strictly to the postulate of rational choice (see, for example, Dimand 2019, p. 100). Recently

¹ According to Thaler (2009, p. 439), “Modern behavioral economics is characterized by three features. First, rational choice is used as a starting point for developing theories of economic decision-making and market equilibria. Second, actual individual behavior is analyzed using a variety of data-collection methods. Third, these observations of human behavior, along with some lessons from other social scientists (especially psychologists) are used to explain and understand the ways in which the rational theories fail to describe the world we live in.”

² Fisher had many eccentric crusades such as Prohibition, reform of the calendar, a new world map projection, health and hygiene, eugenics, etc. (see, for example, Allen 1993; Dimand 2019; and Dimand and Geanakoplos 2005).

³ For example, Fisher’s three books on Prohibition are not reprinted with his other scientific studies in his collected works (Barber 1996). Some of Fisher’s public statements and testimonials before Congress on the subject of prohibition are collected in Chapter 4 of volume 13 in his collected works, which is titled “Crusader for Social Causes,” and added almost as an afterthought to what is perceived as his serious work. According to the editor, Barber (1996, p. 1), “The materials gathered in this volume speak to dimensions of Fisher’s interests and activities that extend beyond his work as a professional economist.”

⁴ See also Dimand (1998).

behavioral economics has opened the door for research investigating whether individuals make choices in accordance with the predictions of rational choice or according to some other choice heuristic.⁵ And while Fisher's statistical analysis was at times questionable, we argue that his theoretical analysis of Prohibition, while containing a strong normative policy conclusion, was nevertheless reached through a positive economic analysis with proto-behavioral methods, and therefore needs to be re-evaluated considering the recent ascendancy of behavioral economics.

Fisher's positive analysis of Prohibition follows the basic approach of modern-day behavioral economists who examine addictive substances. Fisher began by collecting extensive statistical data on the effects of alcohol consumption. Then he attempted to estimate the various consequences of Prohibition: for instance, its influence on the consumption and sale of alcohol, on health, income, and efficiency. These findings, combined with his detailed knowledge of the psychological and medical research of his own time period, led him to abandon a strictly rational choice model of decision-making regarding alcohol consumption. He postulated that individuals are cognitively limited in their ability to weigh the long-run costs of drinking alcohol, and that they lack the willpower to limit their current consumption to the amount that maximizes their long-run utility. Furthermore, Fisher thought individuals were making choices about drinking on the basis of imperfect, misleading, and incorrect information. Fisher thought these limitations, taken together, prevent people from making choices that are in their best interest, even as *they would see* their best interest in absence of these limitations. Therefore, his policy conclusion of alcohol prohibition could be considered to be in the individuals' own self-interest, as they themselves define it, because it provides them the means to overcome their innate imperfections and limited information.

While Fisher's positive analysis shares much in common with that of modern behavioral economists, his policy conclusions are much different from those of most of his modern counterparts. While the views of both are rooted in Paternalism, they greatly differ in the type of Paternalism. Fisher advocated for old-school Paternalism with outright prohibition. Modern behavioralists often advocate for a newer, softer form of Paternalism. Despite the differences in actual policy conclusions, we argue that both Fisher and the New Paternalists take individual preferences as given but that these preferences are ill-defined, given bounded rationality, bounded self-control, and asymmetric information. Both argue that greater economic efficiency can therefore be promoted by creating laws that direct people into making those choices that maximize their welfare. And they both profess a deep concern for preserving personal liberty.

Fisher's analysis of Prohibition provides an interesting lens for viewing New Paternalism. Most obviously, it demonstrates how the New Paternalists have markedly improved on the policy analysis of their old Paternalist predecessors. But more subtly, it reveals that the chasm between prohibiting and nudging is a difference without a methodological or logical basis. We argue that the methodological and logical similarities between Fisher and modern behavioralists illustrate a potential downside of New Paternalist policies in light of the growing literature on the slippery-slope critique of New Paternalism.

⁵ For a comprehensive overview of this behavioralist alternative to the mainstream orthodoxy, see Altman (2006) and Heukelom (2014).

In the sections that follow, we examine both the similarities and differences between Fisher's analysis of Prohibition and modern-day behavioral economics. The observations that led Fisher to reject the rationality postulate were less rigorously gathered than those that form the basis of such rejections today because he did not have access to modern-day laboratory techniques. In addition, Fisher's analysis of Prohibition is not a pure exercise in New Paternalism because it also contains some old-fashioned Paternalist sentiment. But this is unsurprising because it is common for a pioneering work to contain elements of the old theories that it attempts to displace. There is also a key difference in terms of policy proscriptions because Fisher advocated outright prohibition of alcohol while New Paternalists typically do not.⁶ These differences notwithstanding, we argue in the following sections that there is much that can be learned about modern behavioral economics from Fisher's analysis of America's experiment with Prohibition.

II. THE ECONOMIST AS AN ADVOCATE FOR SOCIAL CHANGE: FISHER'S ROLE IN THE PROHIBITION MOVEMENT

Irving Fisher's work in economics was wide and varied. According to Robert Dimand and John Geanakoplos (2005, pp. 3–4), Fisher was the most-cited economist of the 1920s in the fields of money and business fluctuations, and made

seminal contributions across an astonishing spectrum of economic science: monetary policy rules, the neoclassical theory of capital and interest, expected inflation as the difference between real and nominal interest, the Fisher "ideal" index number, indexed bonds, correlation analysis, distributed lags, the "Phillips Curve," the debt-deflation process, taxing consumption rather than income, the value of human capital and improvement in health, even the computation of general equilibrium.⁷

Yet, despite his intellectual contributions, Fisher struggled to find acceptance, even with his contemporaries. In Schumpeter's (1954, pp. 872–973) assessment:

This [i.e., the concept of marginal efficiency of capital], together with Fisher's work in the fields of money and cycles, will substantiate the statement that some future historian may well consider Fisher as the greatest of America's scientific economists up to our own day. But this was not the opinion of his contemporaries. In the profession and the world at large, Fisher was, so far as the period under survey is concerned, not widely recognized until he became the Fisher of the 'compensated dollar,' which most people did not like. Even later on it was 'stable money' and '100 per cent reserve against deposits' and so on which diverted attention from his genuinely scientific work.

One reason Fisher's reputation suffered was that he was not content to sit back and work solely on technical economics. He wanted to change the world for the better. Thus, a large part of Fisher's efforts went to economic and social reform. As he himself even

⁶ Outright bans may not be completely out of bounds of the New Paternalist policy options; see, for example, Rizzo and Whitman (2020, pp. 14–15).

⁷ See also Deutscher (1990).

recognized, "Perhaps I'm a Don Quixote but I'm trying to be a Paul Revere" (quoted in Dimand 2019, p. 5).

Fisher was, problematically, overly confident in his social reform ideas and less rigorous as a result. According to James Tobin (2005, pp. 20–21):

For all his scientific prowess and achievement, Fisher was by no means an 'ivory tower' scholar detached from the problems and policy issues of his times. He was a congenital reformer, an inveterate crusader. He was so aggressive and persistent, and so sure he was right, that many of his contemporaries regarded him as a 'crank' and discounted his scientific work accordingly. Science and reform were indeed often combined in Fisher's work. His economic findings, the theoretical and empirical, would suggest to him how to better the world; or dissatisfaction with the state of the world would lead him into scientifically fruitful analysis and research.⁸

Fisher's crusading efforts stemmed from his view that the purpose of economic theory should be a practical application to the real world (Allen 1993). And, in this regard, Fisher (1919a) viewed himself as moving beyond classical political economy by placing the economist in a role of the expert to guide the world to improvement, which required action. In his own (1919a, p. 5) words:

How different they are from those of our own economic teachers a generation ago! Then many economists thought it beneath their dignity to engage at all in practical affairs except to cry: "*Laissez faire*." They believed that a scientist should be simply an observer, compiler, and interpreter of facts, not a guide, counsellor, and friend of humanity.

Along these lines, Fisher took on a number of crusades throughout his career, ranging from economic (price stabilization policies), political (the League of Nations and eugenics), and personal health (alcohol, smoking, gambling, and even oddities like the use of pepper on food) (Allen 1993). Many of Fisher's social reform efforts have aged poorly. As Dimand (2019, p. 227) has noted, "Fisher's involvement in eugenics and immigration restriction, holding views shared by all too many of his contemporaries in economics, remains, and will undoubtedly remain, toxic to his reputation."

Fisher's advocacy of prohibition fits into his broader interest in social reform. He began to study the effects of alcohol for personal reasons. In his first book on Prohibition, Fisher (1926b, pp. 1–2) explains how he became interested in the subject of alcohol out of a concern for his own health:

While recovering my health I undertook a systematic study of how to get, and keep, well. In the course of this study I soon found that, according to the best evidence, alcohol is a physiological poison, and out of place in the human body.... I next applied the results of this study to my own professional subject, economics. I saw that the use of alcoholics was economically costly and wasteful to the nation, and in more ways than one.⁹

The cause of Fisher's health problems was tuberculosis, which he came down with in 1898. After a three-year leave of absence from his professorship at Yale, and another

⁸ See also Samuelson (1982).

⁹ Cook (2007) makes a similar argument today.

three years with a reduced workload, he finally overcame the disease. Fisher's health problems radically altered his notions about the potential realms of fruitful research for economists, as well as his perspective on the role that an economist should play in public policy.¹⁰ Beginning as early as 1900, Fisher began to conduct research on matters related to the public's health and to advocate for legal reforms.¹¹ Over the next decade he was a frequent participant in policy crusades for government-directed health initiatives. When the American Association for the Advancement of Science organized the Committee of One Hundred on national health in April 1907, Fisher figured in as a prominent member.

Fisher first publicly mentioned the drawbacks of drinking at least as far back as 1907 (see Fisher 1907). By 1912 he was addressing the positive role that government could play by curbing alcohol consumption.¹² Fisher soon became an advocate of prohibition, even before America entered World War I.¹³ After the onset of the war, he latched onto the wartime restrictions on alcohol as a means for convincing Congress and the public at large of the merits of prohibition.¹⁴ In 1916 Fisher organized the "Committee of Sixty," with himself as president. The explicit purpose of the organization was to lobby Congress for national prohibition. Fisher (1917) circulated the central arguments for the committee's cause on a handbill distributed in May. During this early stage these arguments consisted mostly of claims about the gains in production that would exist under prohibition because a sober workforce would be more productive and take fewer days of sick leave. Fisher reasoned that 200,000 workers each day were incapacitated from the previous night's drinking, and that many more were working drunk at impaired speeds. He estimated that the total increase in production from instituting prohibition would be at least \$2 billion in an economy with a national

¹⁰ See Fisher (1919a) for a perceptive account of how economists' notions about their own role in society changed, over the first two decades of the twentieth century, from being that of an observer of social phenomena to an active advocate for social change. Fisher argues that his generation of economists, having largely been trained in Germany, introduced to America the Germanic conception of the economist as social activist, which was then embodied in the creation of the American Economic Association. Fisher himself embraced and advocated the economist's new role. For an alternative viewpoint to Fisher's, see Mises (1949, pp. 869–870) and Boettke (2007), who both give a similar account to Fisher's in the historical details but argue that the economists' new role was a harmful diversion.

¹¹ In the words of Allen (1993, p. 82), "Irving Fisher returned to New Haven a new man. He had survived an ordeal, and now came to believe that he had a new mission in life. He must teach the world how to live a long life in good health."

¹² The occasion was Fisher's (1912) testimonial before a subcommittee of the Senate, which was considering the regulation of saloons in Washington, DC. In his testimony Fisher contrasted the moralizing of the American temperance movement with the scientific approach to the effects of alcohol in England, Germany, and especially in Sweden where a record of vital statistics had already been kept for 150 years.

¹³ As Allen (1993, p. 141) notes, "During the prewar years his interest in Prohibition and his opposition to alcohol began to increase. *Youth's Instructor* published an article in 1913 reflecting his opposition to alcohol entitled 'Alcohol and Today.' He also gave a talk on 'Alcohol and Work' in a Boston symposium in May 1913. In 1915 he wrote 'The Attitude of the College Man toward Alcohol' for the *Eli Spring Book* published in New Haven, which the press and magazines widely reprinted. At about the same time he wrote a pamphlet entitled 'National Prohibition: Labor's Friend,' which circulated in the Boston area."

¹⁴ Fisher (1917, p. 1) declared, "Every reason for prohibition in times of peace is multiplied in times of war, and war removes or weakens almost every argument against it." Fisher even came to believe that national prohibition came too soon before war prohibition could be tried and this led to many of the problems the "Noble Experiment" experienced (see Fisher 1926b).

income of \$40 billion; or, in other words, that there would be at least a 5% increase in national output.

Fisher worked tirelessly to ensure that the temporary wartime measures would be strengthened into a national prohibition of alcohol instead of giving way to repeal. In January of 1919, while the 18th Amendment was undergoing the ratification process in several states, Fisher (1919b) wrote an influential article in *The Independent* in order to allay skeptics of their doubts about the enforceability of prohibition. He reasoned that past experience with wartime restrictions were relatively effective, and that this, combined with a consideration of the forces aligned for and against prohibition, indicated strongly that prohibition would be a long-term success.

By the mid-1920s resistance to Prohibition was mounting in response to a perceived lack of success in its enforcement and in its actual delivering on the stated objectives of lower crime and other costs associated with drinking. Fisher was extremely active in continuing to fight for the cause. When he (1926a) was called upon to testify before the Senate,¹⁵ he decided to expand and revise his arguments in light of the fact that Prohibition was proving more difficult to enforce than he had anticipated.¹⁶

Fisher was extremely confident in his arguments for Prohibition and even believed most economists were on his side. In 1927 he attempted to have a roundtable discussion on the issue at the American Economic Association annual meeting. He claimed he was unable to find, despite a thorough search, even a single economist who was willing to speak out against Prohibition (Fisher 1927).¹⁷ Fisher (1926b, 1928, 1930) subsequently wrote three books on Prohibition, expanding the arguments he made in his testimonial. Additionally, Fisher continued to advocate Prohibition even after its repeal in 1933 and he thought that the failure lay in rushing the policy through too fast before a proper educational campaign could have aided the effort (Allen 1993, pp. 192–193).

In summary, Fisher's idiosyncrasies, his tendency to mix his normative views into his positive analysis, his overzealousness in moral crusading, his advocacy of numerous illiberal policies, and the historical failure of the prohibition movement have all served to obscure the one positive element of his analysis of Prohibition, which is its proto-behavioralist approach.

¹⁵ As Allen (1993, p. 191) notes, "In late winter [1926] the chairman of the Senate Subcommittee on the judiciary invited Fisher to testify at committee hearings on prohibition. In April he went to Washington and testified before the committee that Prohibition did not interfere with personal liberty and that it conferred great economic benefits on the nation."

¹⁶ Fisher (1926a) summarized his argument in the following eight bullet points: 1) The present situation of imperfect enforcement is intolerable; 2) Conditions are not, however, as bad as commonly represented; 3) Prohibition has accomplished much good, hygienically, economically, and socially; 4) The "personal liberty" argument is largely illusory; 5) We cannot accomplish what the opponents of Prohibition really want by amending the Volstead Act, without thereby violating or nullifying the 18th Amendment; 6) To repeal the 18th Amendment is out of the question; 7) Therefore, the only practicable solution is to enforce the law; 8) Enforcement is a practical possibility.

¹⁷ As Fisher (1927, p. 5) said, "I got a list of the economists who are supposed to be opposed to Prohibition, and wrote them; they all replied either that I was mistaken in thinking that they were opposed to Prohibition or that, if we were going to confine the discussion to the economics of Prohibition, they would not care to respond. When I found that I was to have no speaker representing the opposite view, I wrote to all American economists listed in 'Minerva' and all American teachers of statistics. I have not received from any one an acceptance."

III. FISHER'S ECONOMIC ANALYSIS OF ALCOHOL PROHIBITION: PIONEER OF BEHAVIORAL ECONOMICS

Fisher's identification of behavioral anomalies puts his advocacy of Prohibition in a different category from that of other prominent champions of the temperance movement. Other leaders of the temperance movement generally made a paternalistic argument that drinkers simply don't know what is best for them, while they, the enlightened, knew better. Fisher, on the other hand, did not believe that individuals should adopt his preferences because he knew what was in their best interest. Rather, he believed that individuals fail to act in accordance with their own true preferences because they lack full information, unlimited cognitive abilities, and a strong willpower.

The extent to which Fisher relied upon similar arguments to those made by modern-day behavioral economists can be seen by comparing Fisher's work on Prohibition side by side with Thaler and Cass Sunstein's (2008) paradigmatic New Paternalist book, *Nudge*. Unlike Fisher, who did not have access to a laboratory, Thaler and Sunstein use evidence from laboratory experiments to show that in certain situations, individuals do not make the choices that a rational choice framework would predict they would make. In order to explain these anomalies, Thaler and Sunstein identify three main obstacles that, they argue, interfere with the process of rational decision making: 1) a lack of full information; 2) limited cognitive abilities; and 3) deficiency of willpower. Fisher identified each of these same three problems as the primary reasons why individuals do not make optimal choices regarding alcohol consumption.

Behavioral economics has intellectual roots going back as far as the 1950s with the work of Herbert Simon. Behavioral economics, in Simon's words, is "concerned with the empirical validity of ... neoclassical assumptions about human behavior and, where they prove invalid, with discovering the empirical laws that describe behaviour as correctly and accurately as possible" (Simon 1987, p. 846). Behavioralists argue that neoclassical models often falter empirically because they assume that agents have complete and certain information and lack any cognitive limitations. Thus Simon (1987, p. 847) proposed that we use the term "[bounded rationality] ... to denote the whole range of limitations on human knowledge and human computation that prevent economic actors in the real world from behaving in ways that approximate the predictions of classical and neoclassical theory."

Simon belonged to what Erik Angner and George Loewenstein (2012) now refer to as the "old" behavioral economics, which took shape in the 1950s and 1960s. Modern or "new" behavioral economics emerged with important works by psychologists, such as Daniel Kahneman and Amos Tversky, and economists, such as Thaler, in the 1970s and 1980s (see Rabin 1998, and Camerer et al. 2003 for fuller treatments of the history of new behavioral economics). Through their work, theories emerged to augment the rational choice model with concepts such as heuristics and biases (Tversky and Kahneman 1974), prospect theory (Kahneman and Tversky 1979), and an assortment of anomalies (Thaler 1992). Further work through the 1980s and up to today has developed theories related to other-regarding preferences, reference dependence, non-linear probability weighting, and hyperbolic time discounting (Angner and Loewenstein 2012, pp. 665–667). These developments in the field of behavioral economics have developed stronger theories backed by empirical work, ranging from laboratory experiments to

field experiments, that illustrate the role of lack of information, limited cognitive abilities, and problems related to willpower.

Fisher's work on Prohibition anticipated these later developments by identifying several areas where deviation from the rational choice framework has been found later to exist, and in methodology through utilization of psychology and cognitive sciences. Fisher devoted a considerable amount of space in his studies in an attempt to show that consumers are ignorant of the true costs of drinking, and therefore lack the full information necessary to make appropriate choices. Specifically, Fisher argued that the average person lacked complete information in two important respects: first, regarding the full array of health problems that can result from drinking and the actual probability that these ailments might develop; and, second, regarding the extent of the economic loss caused by drinking.

Fisher argued that unscientific, misleading, and fabricated statistical studies on the health consequences associated with drinking circulated prevalently and provided consumers with false information about the dangers of drinking. He (1928, p. 354) concluded that "the average man does not even know how little he knows on the subject." And, in Fisher's (1926b, p. 3) judgment, this has important implications for the health of the drinker, especially so-called moderate drinkers;¹⁸ he believed "themerate user generally sees no need of 'reformation.' He does not realize the subtle, steady damage being done to his body and mind, nor the seriousness of the risk he is running of becoming a confirmed addict."

This lack of information results in exactly the opposite of what the experts in the field expound, at least according to Fisher, who thought that for the majority who opposed Prohibition, the root cause stemmed from a failure to look at the evidence. In Fisher's (1926b, p. 103) words, "Those who exaggerate the shortcomings of Prohibition or underrate its benefits consist, for the most part, of unlearned people. In general, the scientific world is in favor of total abstinence as an ideal and Prohibition as a means toward that end. But there are a few exceptions."

Fisher also argued that people were unaware of the extent to which economic prosperity was diminished by drinking. He believed that temperance would make society better off and that everyone would benefit in the long run by the gains in economic productivity. And Fisher (1930, p. 449) held only full confidence that Prohibition was a direct win for the national economy: "so far as I can ascertain after diligent and thorough search there is no economist in the United States who opposes the view that the nation has gained enormously in an economic sense from National Prohibition."¹⁹ The errors, of course, stem from the failure to connect the benefits of Prohibition and the evils of alcohol. As he (1926b, pp. 235–236) explains:

¹⁸ Fisher believed that moderate drinking was a gateway to excessive drinking. As he (1926b, p. 112) put it, "What the statistics do prove is that moderate drinkers are bad risks—the risk always including that of becoming immoderate drinkers." We will talk more on this below.

¹⁹ Fisher (1926b, p. 163) even saw the unseen consequences of reduced spending on alcohol. "When Prohibition came, we were told that to destroy the saloon was to destroy that much business, that saloons help 'make money circulate.' This is what in the classroom we call 'economic non-sense.' To-day I think such talk seems nonsensical to almost everybody. No one has the hardihood to revive such statements, in view of our prosperity since prohibition."

The trouble is that very few people really know how dangerous this alcoholic dynamite is. There are few popular books on the subject.... The average man does not even know how little he knows on the subject. He is generally sure (1) that alcohol is a stimulant, (2) that beer and even light wines are healthful rather than otherwise, (3) that his "thirst" for these is a natural one, and (4) that most people can use them in moderation without danger of using them "in excess"—every one of which four notions is false and has been proved false. Nor does he realize that the interrelations of modern life inevitably involve us in derelictions of a few. He needs to study the social cost of alcohol in poverty, inefficiency, crime, and vice.

Lack of information on the part of average individuals was clearly an important factor in the seemingly irrational behavior of those who chose to drink and those who continued to oppose Prohibition. The evidence as he saw it was an improvement for both health and economic efficiency. Again, in his (1926b, p. 169) own words, "In conclusion, we may say that Prohibition is not only sound hygiene but sound economics; not only is it the greatest hygienic experiment but the greatest economic experiment in history and one of the most successful."

One of the primary reasons why Fisher conducted his own statistical evaluations and made them a focus in his books is that he did not believe that there was enough reliable information on the true costs of alcohol consumption. He wished to educate people about the dangers of drinking so that they could make better informed decisions.²⁰

Fisher did not believe that education alone would be sufficient because he believed that individuals lacked the willpower to limit their intake of addictive substances, such as alcohol and other narcotics, to the quantity that they themselves deemed to be in their long-run self-interest: "The flaw in the moral suasion program as a complete solution of the problem of narcotics, alcohol included, is that *the will is weakened by the drug habit*" (Fisher 1926b, p. 3; emphasis in original). The role of education, as a result, would take us only so far. He (1926b, p. 4; emphasis in original) was convinced education alone would be insufficient to combat the problem of alcohol: "As a practical student I reached the conclusion that, besides education, there must be some *legislation* to lessen, or abolish, the opportunity of the saloon-keeper, the brewer, etc., to snare new recruits." Essentially, according to Fisher, drinking greatly reduced the willpower of those who engaged in drinking.

Fisher believed that addiction is a real phenomenon that can prevent individuals from making choices they would normally make in the absence of substance addiction.²¹ He (1926b, p. 3) concluded, "Ordinarily, there is little or no use in preaching to a dope-fiend or a drunkard. His reason is convinced, but his will is not strong enough to follow his reason, his will has been destroyed by the drug habit and it is too late for the drug habit to be destroyed by the will."

²⁰ This is much like he did in his successful book *How to Live* (Fisher and Fisk 1916).

²¹ This implies that Fisher regarded narcotics consumption as an exception to the ordinary economic assumption of revealed preference. Addiction has often been used as a reason to criticize the rational choice framework within economics. The Chicago school, however, as often attempted to model addiction as rational choice (see, for example, Stigler and Becker 1977). Later, Becker and Murphy (1988, p. 695) admit, "Addiction is a major challenge to the theory of rational behavior," but still nonetheless defend the rationality of addiction by introducing the notion of unstable steady states. For the history of thought on the full integration of habits into the neoclassical framework, see Ault and Ekelund (1988).

Fisher (1926b, p. 113) saw alcohol purely and simply as “a narcotic poison, a habit-forming drug, poisonous as such.” In this view, there was no compromise. The resulting lack of willpower comes from a false illusion the drug creates, or, as he (1926b, p. 128) stated, “[A]lcohol not only works to slow down the human machine, but at the same time it deludes its victims with the persistent belief that they are being sped up and made more efficient. This strengthens the grip of the alcoholic habit.” Therefore, moderate drinking was a surefire path towards a drinking problem: “Many who were moderate drinkers when first insured are certain to become immoderate drinkers later, just because the tendency of all habit-forming drugs is to influence the appetite they seem to satisfy” (1926b, p. 112).

Additionally, alcohol, for Fisher, has the effect of greatly reducing the decision-making powers by its very nature. This means that individuals’ own personal liberty, which we will discuss at greater length in the next section, is greatly impaired by the use of alcohol. And, for Fisher (1926b, pp. 172–173), this greatly limited the cognitive abilities of those who partook in drink:

The mental worker who takes alcohol voluntarily puts a yoke upon himself. He limits the exercise of his faculties, for he cannot judge so wisely, will so forcefully, think so clearly, as when his system is free from alcohol. The athlete who takes alcoholic liquor is similarly handicapped, for he is not free to run so fast, jump so high, pitch a baseball so accurately as when his system is free from the drug. Anyone who has become a “slave to alcohol” has lost the very essence of personal liberty.

Besides these New Paternalist elements, Fisher also had a large old Paternalist streak. He put little faith in many individuals, who he simply thought did not have the intelligence to make proper, rational decisions.²² The increase in wealth was not even without its downside. He (1926b, p. 66) noted “the recent wide diffusion of prosperity, which has put purchasing power into the hands of irresponsible men and women of low mentality.”²³ An individual’s rationalization simply works to undermine the truth even when directly presented with it. As Fisher (1926b, p. 135) notes, “The ‘moderate’ user naturally resents being told the truth about his indulgence. He ‘rationalizes’ his conduct and finds all sorts of ‘reasons’ to justify him-self. Such efforts at self-justification explain a major part of the ingenious arguments and statistics to prove that ‘moderate’ drinking is harmless.”²⁴

Fisher’s observance of these difficulties led him to seek a political remedy, in an analytically similar way to how present-day New Paternalists formulate policy prescriptions. But where the New Paternalists typically recommend simple changes to the choice architecture to improve outcomes, Fisher campaigned for completely restricting

²² This view partially came from Fisher’s take on eugenics. As Fuchs (2005, pp. 416–417), noted, “Fisher held at times a Lamarckian view of evolution. He believed that changes in conditions of living could lead to what he called ‘racial degeneration,’ and he asserted: ‘It is easily practical to alter and improve the human race, and to do so in a very short time.’”

²³ Fisher here is summarizing the findings of Carver (1925, pp. 63–64).

²⁴ Once again, this problem can be associated with Fisher’s views on eugenics; see Leonard (2016). Fisher clearly had misgivings about what he viewed as the lower end of humanity. And, as Fisher (quoted in Allen 1993, p. 139) wrote to his friend Will Eliot in a letter regarding the First World War, “[I]f we could only induce our enemies to join with us in setting up on each side, not the best young men but the worst; ... to get rid of all the degenerates,—I would look upon the war as the best thing that ever happened eugenically.”

the choice of whether to drink alcohol. This raises an interesting question. Why did Fisher advocate outright prohibition of alcohol instead of other, less restrictive policy alternatives that might mitigate the lack of information, willpower, or cognitive ability?

IV. THE SLIPPERY SLOPE OF LIBERTY GUIDED BY EXPERTS?

While Fisher's analysis of alcohol proceeded along a similar, though not identical, theoretical perspective as the modern New Paternalists', he is certainly very different from them in terms of policy prescription. Fisher was an ardent prohibitionist. This differs from the policy prescriptions of many of the New Paternalists. Nevertheless, we argue that Fisher's support of outright prohibition can and does follow from his reasoning, and this shows that many of the New Paternalist arguments are potentially susceptible to important slippery-slope critiques.

The New Paternalism, unlike the old Paternalism, is a form of soft Paternalism. Thaler and Sunstein (2003a, 2008), two of the leading New Paternalists, even go so far as to call their brand of Paternalism "libertarian paternalism." As they (2008, p. 5) put it, "When we use the term *libertarian* to modify the word *paternalism*, we simply mean liberty-preserving. And when we say liberty-preserving, we really mean it. Libertarian paternalists want to make it easy for people to go their own way; they do not want to burden those who want to exercise their freedom." In other words, the older style Paternalists believe *they* know what's best for you and they will make you do it, whereas New Paternalists believe *you* know what's best for you and they will help you do it (Whitman 2006).

Instead of restricting choice, many New Paternalists believe it is possible and legitimate for public institutions to affect behavior while also respecting freedom of choice.²⁵ In order to address problems of time-consistency in regard to certain substances, New Paternalists look for policies that change default choices, or possibly advocate a sin tax on alcohol (see, for example, Cremer et al. 2012; O'Donoghue and Rabin 2003, 2006; and Gruber and Köszegi 2001). These kinds of policies leave choices open but would alter incentives in a way that would increase the cost, thereby "nudging" the individual to lower their consumption more in line with their real preferences. These kinds of New Paternalist policies, of course, are a far cry from outright prohibition.

Despite the old-style Paternalism policy prescription that Fisher advocates, it is based on similar logical and methodological foundations as those of the New Paternalists of today. While this similarity, of course, does not in itself lead to any conclusions, we believe it lends some support to the growing literature on the slippery-slope argument against New Paternalist policies (see, for example, Ikeda 1997; Rizzo and Whitman 2003, 2007, 2009, 2020; Schauer 1985; Volokh 2003; and Walton 1992). The slippery-slope argument against New Paternalism holds that the moderate policies suggested by New Paternalists are subject to expansion beyond their intended results. Particularly, the literature argues that "accepting behavioral paternalist policies creates greater risk of accepting, in the long run, greater restrictions on individual autonomy than have been

²⁵ They believed this not just about public institutions but also private. Thaler and Sunstein (2003b, p. 1162), for example, even minimize the importance of any distinction between the actions of private and public institutions.

acknowledged” (Rizzo and Whitman 2020, p. 350). What we propose in this section is a modest point that if supporters of soft Paternalism do indeed wish to maintain liberty, the potential slippery slope should be taken into consideration as a potential cost.

Fisher's views on liberty illustrate that the concept of liberty, as used by modern behavioralists, creates what the slippery-slope literature refers to as a “gradient,” which allows the slippery slope to flourish (see, for example, Lode 1999, pp. 1477–1482; Rizzo and Whitman 2003, pp. 557–560; and Volokh 2003, pp. 1105–1114). The gradient we believe Fisher presents is the vague and unclear notion of liberty. As Mario Rizzo and Glen Whitman (2020, p. 354) put it, “gradients typically result from the vagueness of a key term.”

The notion of liberty within the New Paternalist paradigm has often been extremely vague and unclear among the different authors and proposals. This has resulted in a wide array of different policy conclusions of varying degrees of autonomy. Some New Paternalists have even shown themselves not to be concerned with the concept of autonomy at all. For example, Sarah Conly (2013), whose book is entitled *Against Autonomy: Justifying Coercive Paternalism*, explicitly states that Thaler and Sunstein fail to go far enough. And some authors suggest that soft Paternalism could be just a beginning step. For instance, Saurabh Bhargava and George Loewenstein (2015, p. 397), in an article with the subtitle “Beyond Nudging,” note that “insights from [behavioral economics] have the potential to expand this [New Paternalism] toolkit and more aggressively address the underlying causes and problems.” This shows that it matters *who* the policy-makers are. Very different policies can arise, with varying levels of autonomy left to the individual, depending on who is making the policy decisions. This may be of little concern in the private sector but could cause a reduction in autonomy in the public sphere through the state's ability to leverage coercion.

But even if autonomy and liberty-preservation are considered important, the vague notion of liberty can potentially lead to a slippery-slope problem. The attempt to correct the biases and systematic “irrationality” related to alcohol abuse could generate a number of different policies that, while still trying to preserve the right of consumers to choose, vary with levels of coercion. If the policy-makers follow the lead of Thaler and Sunstein (2003b), for example, all they might do is pass a law that requires stores to move the alcohol to the top shelf. If the policy-makers follow the ideas of Ted O'Donoghue and Matthew Rabin (2003), they might enact a sin tax. If, however, they follow the ideas of Irving Fisher, we might end up with outright prohibition.

Thus, an important question is: How did Fisher view liberty? The late nineteenth and early twentieth centuries saw a transformation away from the egalitarian and laissez-faire tradition of classical economics towards the difference and hierarchy of the post-classical period (see, for examples, Peart and Levy 2003, 2004, 2005). Sandra Peart and David Levy (2005, p. 3) argue that the classical economists “presumed that humans are the same in their capacity for language and trade; observed differences are then explained by incentives, luck, and history, and it is ‘the vanity of the philosopher’ incorrectly to conclude that ordinary people are somehow different from the expert.” The opposition to this, which came to dominate the post-classical period, viewed differences in ordinary people and the expert as inherently different.²⁶ This led scholars and

²⁶ This is why so many of this era, including Fisher, were so taken by the eugenics movement. For more on the role eugenics played in the late nineteenth and early twentieth centuries, see Leonard (2016), Bateman (2017), Cot (2005), and Peart and Levy (2005).

reformers of the Progressive Era to look for ways to assert social control. As Malcolm Rutherford (2011, p. 42) explained, using Fisher (1919a, p. 21) as an example:

That economists both could and should share in fixing the “foundations of a new economic organization” was the theme of Irving Fisher’s 1918 Presidential Address to the AEA. Economics had established itself as an important tool for government policy formation, and the possibilities for the discipline seemed immense. This provided a critical impetus to the ideas of scientific investigation and social control that were so apparent in Hamilton’s^[27] manifesto and the conference session of which it was a part.

The part of the expert played a new and important role, with elites needing to take direct action. As Thomas Leonard (2016, p. 53) noted:

The forthright elitism of Ely, Ross, and Commons was hardly unknown in American life. But their case for public leadership by social science experts gave elitism a new form and rationale in the Progressive Era, one expanded on by Irving Fisher. The United States had abandoned *laissez-faire*, Fisher said, out of recognition that “the world consists of two classes—the educated and the ignorant—and it is essential for progress that the former should dominate the latter.” When America admitted that it was right for the educated to give instruction to the ignorant, it opened “an almost boundless vista for possible human betterment.”²⁸

And, of course, the expert “bettered society by regulating big business; protecting labor; and also, by restraining drinking, gambling, prostitution, and indecent literature” (p. 53).

Fisher viewed economics as a tool to help solve the problems of the world. As Robert Allen (1993, p. 133) explains:

Thus Fisher aligned himself completely with the approach that combined economic theory and economic policy. He was a utilitarian in the tradition of English economists to whom economic science had little value in itself, and acquired value only as it demonstrated an ability to solve the problems of society and the economy. He was also a pragmatist in the best American sense, ready to abandon a position, such as bimetallicism or the gold standard, without a backward look, once he felt that he had found something better.

Fisher did not advocate for total control and maintained the importance of the democratic process (see, for example, Fisher 1919a).²⁹ Nonetheless, he was far from

²⁷ Rutherford (2011) is referring to Walton Hamilton. Hamilton plays a major role in Rutherford’s argument as a key founder of institutional economics. While Fisher did overlap with the institutionalists, it would not be accurate to say he was one of them.

²⁸ Cook (2016, p. 249) makes an interesting argument that places Fisher oddly as both a progressive and neoclassical economist: “Like most progressives, he rejected *laissez-faire* and believed in top-down, expert-based government reform based on quantitative bureaucratic principles. That said, unlike many other progressives, his reform agenda was nonetheless predicated on a belief that society was nothing more than a series of market transactions.”

²⁹ As Leonard (2016, p. 53) pointed out, “Like most progressives, Fisher disavowed socialism, warning that when one class attempted to rule another, the result was corruption, inefficiency, lack of adaptability, and abuse of power. Having just advocated expert rule of ignorant, Fisher simply did not consider that the expert, his class, might also fall prey to corruption, inefficiency, inflexibility, or abuse of power.”

an advocate of the *laissez-faire* position taken by the classical political economists. According to Fisher (1907, p. 20) in his 1907 speech "Why Has the Doctrine of *Laissez Faire* Been Abandoned?," "We can not let any dogma of *laissez faire* prevent us from checking suicidal ignorance. The world consists of two classes—the educated and the ignorant—and it is essential for progress that the former should be allowed to dominate the latter." The expert, through proper understanding, will thus help guide society to their true preferences. As Fisher (1919a, p. 17; emphasis in original) put it:

I hope that psychologists may some day, in cooperation with economists, help to a truer understanding of the nature of human freedom. What we liberty lovers are really groping for is, apparently, not to do as we *think* we please but to do what will actually please us after it is done; that is to satisfy fairly well all the great fundamental human instincts, of which there are many besides the instinct of self-preservation or of making a living.

Thus, for Fisher, true liberty comes not in doing what we wish but rather in achieving our true long-term goals and preferences. And, much like the modern behavioralists, Fisher relies upon psychology.

And so, while it is certainly true that prohibition itself is not a nudge but an outright push, Fisher's works on alcohol prohibition sound remarkably "nudge"-like. Fisher makes the case that Prohibition is in each person's ultimate interest as well as the interests of society as a whole. While Thaler and Sunstein, or any of the modern behavioral Paternalists, might not necessarily agree with Fisher, they use the method and the language in remarkably similar ways to Fisher. In other words, Fisher justifies Prohibition in the same "liberty-preserving" language. Of course, their concepts of liberty differ greatly, but this aids understanding of the vagueness of the term and places importance on *who* policy-makers are and/or listen to. For example, Fisher (1926b, p. 208) even proclaims that liberty is impossible, given the choice to drink: "I know nothing that can add so much to the liberties of our people as a whole as Prohibition. America will never be truly free until wholly free from the slavery to alcohol that now limits and endangers our freedom to exercise the faculties with which 'nature and nature's God' endowed us."

Again, Fisher was a proto-behavioralist and not a libertarian New Paternalist. Most of the New Paternalists would hardly support outright prohibition. Still, the justification in Fisher's view is one of preserving liberty, which alcohol, in his eyes, indisputably destroys, not just for the individual but for others and society at large. In Fisher's (1926b, pp. 173–174) words:

The liberty of the alcoholic-drink manufacturer and seller to profit by the enslavement of the drinker was prohibited in 1920 by the adoption of the Eighteenth Amendment to the Constitution and the passage of the Volstead act. That is, the liberty of one man to impair the liberty of another man to make and sell intoxicating drink was held to impair the liberty of another man to enjoy health and economic and social welfare. Ask the wife of the workingman who wants full "personal liberty" to drink whether this would increase her personal liberty. She will cut out the technicalities and go straight to the main point—that her husband's personal liberty to drink takes away her personal liberty to eat!³⁰

³⁰ In this view Fisher (1926b, p. 196) sees a conflict in the choice to drink. Drinking cannot be a right because that right would impinge on the rights of others and so the liberty is really one for the sellers of alcohol. "One

And all three of his books (Fisher 1926b, 1928, and 1930) are filled with many more quotes to the same effect.

There is a difference in the level of coercion involved in the policies described by Fisher and that of modern behavioral economists. Either way the concern, however right or wrong, is about preserving liberty paternalistically. In Fisher's (1926b, pp. 174–175) view, "We see then, that properly defined and analyzed, true personal liberty is enlarged through Prohibition just as it is enlarged through compulsory education or through any other beneficent legislation."

Interestingly, Fisher's policy conclusion of Prohibition was not his initial stance. Originally, at least in 1907, Fisher (1907, p. 19; emphasis added) held a different view, as he notes, "While most of us would still agree that *sumptuary laws are ill-advised*, there is certainly good ground for maintaining that liquor traffic should be put under some restraint, even if only by high license." This indicates that Fisher initially proposed softer forms of restraints upon the liquor traffic and later came to the conclusion, at least by 1912, of full prohibition.

The shifting of Fisher's own policy proposals is a concrete example of the slippery-slope effect in action. With a wide variety of potential interpretations of an idea, such as the notion and definition of liberty, rendering the idea vague and unclear, it should be expected that a wide array of policy outcomes could occur, and that some of these outcomes might go beyond what most individuals in society deem desirable. As Whitman noted (2010; emphasis added):

But if you dig deeper, you'll find a wide-ranging policy agenda at work.... The story begins with the seemingly innocuous proposal to enroll all employees in savings plans automatically (with the ability to opt out). Then it progresses to new default rules in contracts, such as a presumption of "for cause" rather than "at will" employment, again with an opt-out. And then? Default rules that can be waived only through a cumbersome legal procedure. Then default rules with some options ruled out entirely—such as maximum hours that cannot be waived for less than time-and-a-half pay. Then cooling-off periods for high-cost purchases. Then sin taxes for fatty or sodium-rich foods. Then *outright bans* on ingredients like trans fats.

While it is beyond of the scope of this paper to present a thorough critique of the New Paternalist literature,³¹ we believe that the similarities in Fisher's reasoning with modern behavioral economics help to illustrate a potential slippery-slope problem with New Paternalism. Again, we do not believe that the similarities point out who is right or who is wrong, but rather that they illustrate potential costs, which may help to avoid what Harold Demsetz (1969, p. 1) called "the Nirvana Fallacy," in which any deviation by a real-world scenario from the ideal is considered enough to justify an intervention.

It is worth commending both modern behavioral economists and Irving Fisher for advocating the postulate that individuals fail to behave in the way that rational choice, in a strict neoclassical sense, would predict. Nevertheless, there is a potential problem in

can scarcely go over such a record of 'personal liberty' leagues, past and present, without realizing that, however sincerely used by innocent people, the 'personal liberty' slogan is, in origin and effect, little more than a camouflage for the liberty of the brewers to resume their parasitic traffic."

³¹ For an extensive critique of new paternalism, see Rizzo and Whitman (2020).

assuming the policy-makers are immune to the very cognitive problems that normal individuals suffer from. As Peter Boettke, Zachary Caceres, and Adam Martin (2013, p. 106) note:

It is especially troubling that behavioral economists are wont to suggest policy measures to correct these “market failures.” This normative project moves far too quickly. To be really convincing, policy proposals based on behavioral market failures would require a comparative analysis of how markets and civil society on the one hand and government on the other cope with behavioral biases. Policy makers—like central planners—cannot be exempt from our understanding of the limits of human cognition. That policy measures are suggested in the absence of such analysis should make us suspicious.

New Paternalist policy proposals are particularly problematic when the political actors themselves suffer from the cognitive and epistemological problems that behavioral economics point out for other people. As Rizzo and Whitman (2020, p. 348; emphasis in original) explain:

Such biases are *more* worrisome in the public sector than the private sector, because the public sector offers far worse incentives for people to curb their irrational tendencies and numerous opportunities to indulge pleasing beliefs and prejudices at low cost ... as a result we should expect paternalists (and other) policymaking to suffer from the effects of action bias, overconfidence, the illusion explanatory depth, confirmation bias, availability bias, and other cognitive limitations.

We believe Irving Fisher's views and impact on alcohol prohibition are a stunning affirmation of this point.

V. CONCLUSION

Irving Fisher's reputation within the economics profession has been resuscitated (Dimand 2019, p. 1), as many historians of economic thought today see him as one of the United States' greatest economists. His work in monetary theory, business cycles, mathematical economics, and equilibrium theory puts his name near the top of important economic thinkers, just as Schumpeter (1954, p. 872) predicted. In this paper we have attempted to contribute to this reappraisal of Fisher by showing that Thaler (2009) was correct in labeling Fisher a pioneer of behavioral economics. In our view, Fisher expanded behavioralist ideas beyond the realm of financial reasoning noted by Thaler into his crusade work on alcohol prohibition. Fisher saw some of the same systematic biases as modern behavioral economists saw when looking at why people abuse alcohol.

Fisher did not advocate the same “soft” Paternalist policies as many of today's behavioralists do and argued for outright prohibition. But rather than illustrating a difference in kind, Fisher simply marched further down the slippery slope of the same path. Fisher's contributions to the analysis of alcohol prohibition are important for today's discussion due to his sophisticated analysis with a psychological foundation, but also because they illuminate a possible slippery-slope problem with New Paternalism.

COMPETING INTERESTS

The authors declare no competing interests exist.

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