Prof. Robert Sugden: “Start behavioural economics from a more liberal approach.”

On Friday 29 November 2019 the symposium 'Dealing with Normative Issues in Behavioural Welfare Economics' with keynote speaker prof. Robert Sugden (University of East Anglia) took place at Erasmus University Rotterdam, organized by the Erasmus Values in Economics Network (EVEN). The symposium commenced by prof. Werner Brouwer introducing EVEN, which is a multidisciplinary research network aimed at studying individual and societal decision making that is aligned with long-term goals and values in society. EVEN organized this first symposium to set the stage for the research performed by PhD candidates Måns Abrahamson and Merel van Hulsen, and their interdisciplinary supervisory teams.

Preferences

For many years, it was assumed that welfare could be improved by trying to satisfy the preferences of as many people as possible, preferably without making anyone worse off. But what if people’s preferences do not necessarily improve their welfare? What if, as an abundance of studies in behavioural economics has shown, our preferences differ from one day to another, or depend heavily on contextual cues?

In his keynote, prof. Robert Sugden critically reflected on some of the current approaches that are dealing with inconsistent or context-dependent preferences. He argued against approaches that try to correct for, or utilize these psychological influences on preferences, such as nudging and purification or laundering of preferences. He argues that such approaches adhere to a psychologically implausible view on decision-making: they presuppose a consistent decision-maker trapped in a psychological shell. Instead, he suggests to drop the notion of preference altogether, and presented an alternative maximand for social welfare: opportunities.

Market

In his book ‘The Community of Advantage: A Behavioural Economist’s Defence of the Market’, Sugden provides a compelling argument for the liberal tradition of market-based welfare policy. “I am a behavioural economist, but I also want to tell people why the market is good for them.” Crucial to his contractarian approach to social welfare are two notions: the opportunity criterion and the principle of mutual benefit. The former can be understood as: more opportunities to choose from is better than less. The principle of mutual benefit encompasses that markets allow for individuals to voluntarily engage in mutually beneficial cooperation to make the most of the opportunities offered. Furthermore, he argued that economists should pay more attention to the policy implications following from their research, and hence be more aware of the actual addressee of their work. Economists prefer an addressee who is benevolent (thus, concerned about welfare), and unconstrained (able to act upon it). Referring to several complex contemporary political situations, he shows that such addressees are rarely present in the policy field. Instead, from the contractarian approach he advocates, an economist has to convince the citizens themselves to act in their own interest.

Normativity

After a short break, two presentation followed. Philosopher dr. Constanze Binder (Erasmus School of Philosophy) raised several normative questions about Sugden's approach. First, she asked how an increase in opportunity can be assessed without some value judgment about which increases in choices really matter, and which perhaps do not. "How can we individuate options without accounting for the differences that matter to people?" Second, seeing voluntariness as crucial to the principle of mutual benefit, dr. Binder explored if merely offering an alternative is a sufficient condition for voluntariness, or if it is relevant that this alternative has to be acceptable to the individual. Binder's proposed answer to these question follows the contractarian approach: they should be answered by all members that are part of the contract (i.e. the individuals that make up the market).

Historical context

Next, prof. Peter Wakker (Erasmus School of Economics) provided historical context to the now prevailing belief that a behavioural approach is needed to understand individual preferences. In the early 1900s economists moved away from introspection, and the field of economics was defined as being solely based on (measurable) choices. After this, direly needed common ground was established, and a purely choice-based theoretical account of rationality was developed. This approach lead to many breakthroughs in what is now referred to as the 'ordinal revolution'. According to Wakker, even back then every economist was probably aware of the fact that individuals often did not follow the formal axioms that make up rationality. However, no other theory was available that allowed integration of such behavioural insight into formal economic thinking. The introduction of prospect theory in 1979 changed all that, as now deviations from rationality could be predicted within a formal context. The rest, as they say, is history!

The symposium ended with a spirited panel discussion. Two highlights from this discussion: i) Wakker and Sugden agreed that even after 35 years of correspondence they still disagreed on their ideas of rational choice and how to treat deviations thereof, and ii) Sugden agreed that the questions posed by Binder were relevant and discussed her contractarian answer to them.

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