Chapter 1: The Liberal Tradition and the Challenge from Behavioural Economics

Sugden will argue that (1) findings from behavioural economics pose a serious problem to traditional neoclassical welfare economics, but (2) these problems are not fatal for the liberal tradition itself.

Three core components of a **liberal tradition** of economic thought:

1. *Cooperation for Mutual Benefit*. "[I]n a well-ordered society, cooperation for mutual benefit is a governing principle of social life."
2. *Markets are Mutually Beneficial*. "[C]ompetitive markets belong to the class of institutions in which individuals cooperate for mutual benefit. These institutions have moral value by virtue of the reciprocity they express and the mutual benefit they tend to create."
3. *Non-Paternalism*. "[I]n cooperative relationships, it is for each individual to judge what counts as his or her benefit."

According to the standard form of **neoclassical economic theory**, people have well-articulated preferences over all economically relevant outcomes. These preferences are assumed to be:

1. *Stable.* They are "not liable to sharp changes over short periods of time, and not subject to significant degrees of random variation."
2. *Context-independent*. They are "not affected by variations in the 'framing' of what, in terms of economic theory, is the same decision problem."
3. *Internally consistent*. They satisfy "conventional properties of consistency, such as completeness and transitivity."
4. *Non-tuistic*.* They "take no account of the interests of other participants in the economic activities that the theory is intended to explain." *(This is assumed in most but not all applications.)

Sugden calls preferences that satisfy 1-3 '*integrated*'.

Explanation:	Economic behavior is explained by assuming that every individual always chooses the most preferred of the available options. (Maximization.)
Normativity:	Institutions and policies are evaluated in terms of where their outcomes rank in individuals' preference orderings. (Preference-satisfaction.)

Four experiments from **behavioural economics** that cast doubt on the empirical validity of the standard economic assumptions about preferences.

1. *Loss Aversion.* "[L]osses have greater psychological salience than equal and opposite gains." (Challenges the assumption of context-independence?)
2. *Attention.* The time of day at which the decision is made affects which option is chosen. (Challenges the assumption of stability? Context-independence?)
3. *Allais Paradox*. People violate the axioms of expected utility theory.

(Challenges the assumption of internal consistency.)

4. *Trust Game*. Players transfer money to each other even though rational self-interested players wouldn't.
   (Challenges the assumption that preferences are non-tuistic.)

Consensus: Normative analysis is concerned with assessing individual well-being, but individuals' choices *do not* reliably reveal their accurate judgements about their well-being.
It is the task of Welfare economics to reconstruct the 'true' underlying preferences of individuals --- "the preferences that the individual would have revealed in the absence of error."

Sugden will present a critique of Consensus, and offer a *contractarian* (as opposed to consequentialist) justification for liberal institutions.

Chapter 2: The View from Nowhere

Welfare economics ('the majority position') aims to evaluate states of affairs from an **impartial point of view**. It aims to assess what is good for each person, all things considered, and then aggregate those assessments.

Preference-satisfaction: If you prefer one state of affairs to another, the former is deemed to be better for you than the latter.

Neoclassical Welfare economics presupposes that each individual has integrated preferences over the relevant social states, that these preferences are revealed by the individual's choices, and that they express the individual's judgments about what is good for him.

In Behavioral Welfare economics, however, "[i]f an individual's revealed preferences vary according to contextual features that have no plausible connection with well-being, the viewer needs to construct her own judgments about that individual's welfare, using whatever information is to hand."

To whom are the recommendations of Welfare economics addressed?

To 'the policy-maker', 'the government', 'the social planner'. Implicitly, to a **benevolent autocrat:** impartially benevolent (in order to have the motivation to act on the recommendations), with the powers of an enlightened despot (in order to have the power to enact the recommendation), and who agrees with the welfare economist's normative assessments. [Thaler & Sunstein, etc.]

To individuals **as citizens engaged in public reasoning** who are trying to reach agreement on an impartial assessment of the social good. [Sen.]

Both views presuppose a 'view from nowhere.'