"Summary of article by Mark Sagoff: Should Preferences Count?" in Frontier Issues in Economic Thought, Volume 3: Human Well-Being and Economic Goals. Island Press: Washington DC, 1997. pp. 188-191

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A leading assumption of welfare economics, which presents itself as a normative discipline, is that satisfying preferences (our natural inclinations, desires, drives, etc.) should be an important consideration in resource allocation. Welfare economists justify this assumption with reference either to the concept of choice or to that of well-being. This article argues that the concept of preferences is neither clear nor useful. Preferences do not necessarily correspond to the choices people actually make, and satisfying people's preferences bears little relationship to increasing their well-being.

DEFINITIONS OF PREFERENCES

Psychologists view preferences as the underlying motivations for our actions. Psychologists also recognize that these motivations usually cannot be empirically determined in humans. While a rat's simple behavior can be described as revealing underlying preferences, the preferences of humans are far more complex. Human preferences are private mental states that are not observable and that cannot be scientifically tested. Thus, a father standing with his son in line for a ride at Disney World may be described as preferring to stand in line as opposed to walking around, or he may be described as preferring to fulfill a promise to his son rather than live with the guilt of refusing to take him. The way the action is described will determine which preferences can be said to cause the behavior.

In contrast to a psychological definition of preferences, social choice theory does not speculate on the causes of behavior. It defines preferences not as a state of mind, but as theoretical attributes of a person or thing that are inferred logically from stipulated descriptions of behavior. Descriptions of particular behaviors are selected as starting points, and preference orderings or maps are constructed for each individual. Since the preference rankings are logically derived from the descriptions of behavior, they imply nothing about underlying motivation. Social choice theory concerns itself with logical reconstruction, not psychological motivation.

Problems arise if preferences as constructed in social choice theory are confused with preferences in the psychological sense in which they cause human action. Welfare economists use the social choice methodology to construct preference rankings from stipulated descriptions of behavior. However, they then assert that these logical constructs are the psychological causes of what people do. This practice confuses the ranking of descriptions of behaviors with mental entities supposed to causes those behaviors. An indefinite number of ways to describe and explain a given behavior are consistent with the motions one can observe. Preferences are little more than rhetorical constructs based on ad hoc descriptions. But this sort of epistemological construction is not a psychological explanation. Preference maps exist in the eye of the observer, not in the mind of the observed individual.

SHOULD ALLOCATIONS BE BASED ON PREFERENCES OR ON CHOICE?

A principal goal of resource economics is to maximize the satisfaction of preferences. Yet the choices we actually make are often quite different from our preferences. Many preferences are simply selfish drives and desires which moral maturity often requires us to control rather than to satisfy. Choice involves the exercise of liberty in an open society, while maximizing the satisfaction of preferences could be a goal of a benign despot.

Critics of resource economics argue that the choices people make have value beyond simply revealing underlying preferences. Choices have moral qualities - consent, responsibility, and liberty - that are not involved in the satisfaction of preferences. To identify choices with preferences is to confuse acts which have moral and legal consequences with private mental states. A society in which individual choice guides resource allocation would include responsibility, consent, free will, cooperation, commitment, accountability, social interaction, and self-reliance, as well as other virtues. A society that leaves it to experts to elicit preference and thus “correct” market, may possess none of these virtues.

Further, preferences constantly change in response to the creation of new desires by the market. Like markets, the processes of public discussion and debate in a democracy often modify preferences. Even if free markets and democratic institutions fail to satisfy preferences, they still encourage and facilitate individual and collective choices and their attendant virtues.

PREFERENCE SATISFACTION VERSES WELL-BEING

Microeconomic theory assumes that when a person's preferences are satisfied in the sense of being met, that person's well-being is increased. Individuals are thought to be the best judges of how to increase their well-being, as expressed by their preferences. Resource economists tend to assume that people are concerned only with their own wellbeing --as if larger political and moral questions were beyond them.

There is ample evidence to show that merely fulfilling preferences does not increase happiness. For example, there is no correlation between happiness and increased income (which should allow the individual to meet more of his wants). The evidence proves what wisdom already suggests: "[t]he things that make one happy - friends, family, achievement, health - depend largely on virtue and luck; they are not available on a willingness-to-pay basis."[137]
Yet, well-being in the economic sense is not a function of happiness, but of willingness to pay. When formulated in this way, the entire exercise meant to maximize well-being simply allocates resources to the highest bidders. Asserting that increased willingness to pay reflects increased welfare thus turns environmental economics into a trivial tautology.

The relationship between welfare and preference-satisfaction is further strained when environmental and other community issues are considered. Consumer theory assumes that individuals prefer what they believe will increase their own well-being. Yet people often make choices based on what they believe will benefit the good of the whole, rather than their own personal welfare. Choices made for the benefit of others reflect commitment values. As Sen says, commitment values drive "a wedge between personal choice and personal welfare, and much of traditional economic theory relies on the identity of the two."[1]

Resource economists have sought to find ways to include such commitment values in the welfare function. They have developed such concepts as existence values, vicarious benefit, bequest, and stewardship to describe people's willingness to pay for causes other than their own personal welfare. Resource economists regard these values as providing some sort of psychic satisfaction for which people are willing to pay. Yet to construe such ideal-regarding or commitment preferences as somehow always serving to increase personal welfare denies the ethical and political nature of human beings. It confuses the concept of humans as citizens with that of humans as consumers.

In the end, preferences are only theoretical constructs. Attempting to describe and understand them, much less base policies on them, is a futile exercise. The choices we actually make demonstrate that responsibility and ethical concerns often override self-interested preferences. Basing allocations on choices rather than preferences enables moral maturity to be exercised by individuals and society. Further, the mere satisfaction of preferences cannot bring happiness. Attempting to explain all personal motivations on the basis of self-centered preferences denies that people are ethical beings who will make personal sacrifices for the common good and who entertain goals more important than their own personal welfare.

Since welfare economics defines well-being in terms of preference-satisfaction, it loses any normative significance, since it can no longer cite well-being as the justification for satisfying preferences. We must thus return to the question with which moral philosophers since Plato have grappled: What is happiness and how can it be achieved? Concepts such as virtue, knowledge, faith, love, and luck -- rather than preference-satisfaction -- have been suggested in answer. We must also consider the further question of what constitutes a good society. Neither of these questions can be answered by contemporary welfare economics.

Notes

1. A.K. Sen, “Rational Fools: A Critique of the Behavioral Foundations of Economic Theory,” Philosophy and Public Affairs 6 (1977): 327-344; cited by Sagoff, 139.