A review on
Daniel Hausman (2012): *Preference, value, choice, and welfare*, Cambridge University Press, Cambridge

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Preferences as total subjective comparative evaluations

I always look forward to read the texts of some philosophers because I have learned that they invariably give me something to think about. I consider Daniel Hausman as one such philosopher, and his new book did not let me down. *Preference, value, choice, and welfare* is compulsory reading for anyone interested in the preferential foundations of economics, ethics in economics, the role of preferences in game theory, welfare economics, or the psychology of choice. The book is in three parts. The first part deals with the explanatory and predictive role of preferences in economics, and the second with the role of preferences in welfare economics, arguing that that the connection between preferences and welfare is evidential. The last part describes the empirical shortcomings with the standard economic model of choice, and argues that economists should devote more effort to modelling preference formation. Given that he does an excellent job in telling the reader what is to come in the introduction, I will not try to provide a detailed summary of the various chapters. Instead, in what follows, I will concentrate on the main idea of the book which is mostly discussed in the first part. In addition to trying to further illuminate the content of his proposal, I will express some qualms about it.

The reason for writing a whole new book is that Hausman has developed an account of what preferences are in economics: They are *total subjective comparative evaluations*. They are evaluations because they are more akin to judgments than feelings, and they are comparative because unlike desires, they always compare at least two possible options, consequences or states of affairs. They are subjective because only the subject who is making choices ultimately knows what he or she takes to be the choice alternatives or their consequences. Choices cannot define preferences. Most importantly, they are total rather than partial in that they take into account all considerations that affect a person's evaluations. An *overall* comparative evaluation takes some of the factors that affect the evaluation of alternatives as competing with preferences rather than as influencing them. Preferences are also total rather than overall in that all considerations that are not included in the beliefs or in the constraints are included in the preferences rather than compete with them.

Hausman's account surely meshes with economists' own understanding of preferences. Indeed, it is somewhat surprising that Hausman does not even mention the fact that various game theorists have made similar claims about preferences. Kohlberg and Mertens (1986), Rubinstein (1991) and Binmore (1994) all argue that payoffs in games should include all possible considerations that affect the players' preferences and thus their choices. It is possible that the omission is deliberate: unlike some of the above mentioned authors, Hausman does not want to go all the way to revealed preferences – he has been a vocal critique of them. He repeatedly points out that his account of preferences makes the connection between choice and preference rather tight. There is indeed a link between his account of preferences and revealed preferences: if preferences contain all the relevant information about what motivates the agents (i.e. what affects their evaluations), and if beliefs (and constraints) can be taken to be reasonably well-known, then choices provide reliable information on total comparative evaluations. Hausman's account does not reduce to revealed preferences, of course, because as he argues, beliefs and constraints also affect choices, so that the latter cannot be taken to define preferences. Furthermore, as he has argued in earlier publications (2005; 2011), there are circumstances under which a person simply cannot make a choice between two outcomes, but preferences must be defined for those outcomes in order for a game to be defined.

One way to read this book is to consider it as a critique of Amartya Sen's (1977) 'rational fools' account. Sen argued that economists take individuals as having one preference ordering which is supposed to reflect their interests, represent their welfare, summarise their idea of what should be done, and describe their actual choices and behaviour. A person who is unable to make distinctions between these various meanings of preferences is a bit of a fool. Hausman agrees with Sen in that the distinctions are important – and indeed argues, for example, that satisfaction of preferences is not to be equated with well-being. His critique is more concerned with whether economists should work with a single notion of preference or whether they should use several concepts. However, it is not clear to me whether Sen even accepts the 'multiple utility' frameworks (see Brennan 1993). The real disagreements between Hausman and Sen have to do with whether preferences are total or overall, and whether counterpreferential choice is possible.

Hausman argues that considerations such as commitments should be included in the preferences rather than taken to compete with them. Sen argues for counterpreferential choice in his account of commitment. Sen distinguishes between sympathy and commitment as follows. A person acts out of sympathy if she pursues her own self-interest but that self-interest positively depends on other people's welfare. A person acts out of commitment if her self-interest does not depend on other people's predicament. Such a choice is counterpreferential because the link between the person's choice and her preferences is broken.

Hausman argues, somewhat convincingly I think, that if preferences are total subjective comparative evaluations, then they are likely to be complete and transitive. The interesting claim comes when he argues that this conception also supports what he calls *choice determination* (p. 15): among the alternatives they believe to be available, agents will choose one that is at the top of their preference ranking. Choice determination implies that preferences motivate action: if the agent has a preference ordering, then he or she must choose the most preferred alternative. And because preferences determine choices, they must take into account everything relevant to choice. If preferences contain all the relevant considerations for choice, counterpreferential choice becomes impossible: one may choose one option rather another even though the choice violates the agent's expected benefit, but given that the preferences are total, the agent's choice is, all things considered, the most preferred one.

Choice determination explains why Hausman cannot accept Sen's argument that commitment is counterpreferential. In order to understand what is going on here, we need to have a look at what Hausman calls 'the standard model' of choice (introduced on p. 36-7). According to this model, choice depends on three components:

preferences among alternative actions, beliefs about what is feasible, and constraints. Hausman takes constraints to be ‘facts about what can be chosen’ (p. 36), and he does not accept Sen’s view that self-imposed restrictions to choice also qualify as constraints (pp. 60-1). Neither does he endorse Sen’s argument that self-imposed restrictions affect choices differently than desires, and he gives two arguments against Sen. First, self-imposed constraints are not proper constraints because they do not imply that the alternatives *cannot* be chosen. Secondly, interpreting commitments as self-imposed constraints only shows that choices may misleadingly appear counterpreferential. Hausman briefly discusses Sen’s example of lowering the window pane in an airplane so as to allow a fellow passenger play a silly computer game. According to Hausman, an outside observer may mistakenly believe that Sen’s choice is counterpreferential just because she has identified the choice alternatives incorrectly: if Sen’s acceptance of norms of courtesy rules out the possibility that he can leave his shade open, then closing it does not go against Sen’s preferences. Given Sen’s acceptance of courtesy rules, lowering the pane is what he most prefers.

I think that Hausman’s argument is not very persuasive here. It simply isn’t very plausible to say that Amartya preferred to lower the window pane to not lowering it. The intuitive plausibility matters because Hausman and Sen agree on what kind of considerations go into explaining his action, and the dispute is all about what is the appropriate concept for analysing commitment in this example. Furthermore, Hausman’s argument is persuasive only if one already accepts his claim that preferences are total. Whatever an outside observer thinks about Sen’s choice options in the airplane, Sen himself is not mistaken about them and it is his view about his preferences and constraints that count in evaluating whether he has identified the choice alternatives correctly.

Hausman gives four arguments for adopting a single notion of preference as total comparative evaluations (pp. 64-5, also in 2005). First, this reflects economic practice. Secondly, it allows for distinguishing between what preferences are and what they depend on. Thirdly, it conforms roughly with the everyday practice of using the term ‘preference’. Fourthly, only total preferences permit game theory and expected utility theory to serve their predictive and explanatory roles. The first three arguments refer to pragmatic factors, and as such, carry considerably less weight than the fourth one. Hausman thus spends a whole section (6.5) to discuss it for good reason.

His discussion begins by noting that many people seem to cooperate in game forms that would correspond to the prisoner’s dilemma if only the preferences depended solely on the players’ monetary rewards. I take the following quote to contain Hausman’s main argument.

> Sen’s proposal that economists adopt a multiplicity of notions of preference corresponding to different specific evaluative concerns and interpret the payoffs of games so that strategy choices are no longer deducible from normal forms such as the one shown in Figure 6.2 [which depicts a prisoner’s dilemma game rather than a game form] is one way to address the complexities of the players’ interpretations of the strategic situation. I maintain, however, that the costs of divorcing choice from preference and belief are too high. If preference and belief do not

> determine choice, what will? Preserving the possibility of predicting what players will choose from the specification of the game they are playing provides a decisive reason to take preferences to be total rankings. (p. 69)

There are two arguments here. The first is that only preferences and beliefs determine choices. The second is that preferences must be choice-determining because otherwise one cannot use game theory to predict or explain people's choices. Hausman concurs with Binmore (1994) that if some players cooperate in a game form that looks like a prisoner's dilemma, then they are either irrational or are not really playing a prisoner's dilemma but rather some other game. Hausman also seems to accept Binmore's (1994) distinction between analysing and modelling games. He writes: 'A better way to meet Sen's concerns is to conclude that economists need more than game theory and preference-based prediction and explanation. To model strategic interactions, they also need to investigate how players construct their preferences over comprehensive outcomes.' (p. 69) Given that modelling a game involves constructing the players' preferences, he effectively counsels paying attention to modelling.

Hausman neglects one possible way in which Sen might respond. In game theory, the players' beliefs and preferences are not sufficient to determine their choices. A solution concept is also needed. But then, if e.g., commitment is modelled through the solution concept, it is not part of beliefs or preferences, yet it may be taken to determine the players' choices. One might thus cheerfully admit that people who cooperate in a real prisoner's dilemma are irrational, and that their commitment-driven choice is counterpreferential. Does Hausman have good arguments for the claim that commitment must be part of preferences rather than solution concepts? Is he willing to claim, just like Binmore, that solution concepts must be based on rational behaviour? It seems to me that commitments are usually not treated in terms of solution concepts because it would be very difficult to formalise what they imply in various games, and it would be difficult to say when to invoke such a solution concept. The disagreement concerning the proper way of conceptualising commitment may be difficult to solve in part because economic and game theoretical tools are not particularly apt for analysing problems that involve commitment.

I do not mean to say that if commitments are modelled through the solution concept, then preferences must be interpreted to be overall. On the contrary, I agree with Hausman (and Binmore and many others) that payoffs in games should include everything that could motivate the players to choose in some way. The point is just that it is difficult to say whether commitments are best treated as part of preferences or as determining the constraints (as might be the case in the airplane example) or as solution concepts (as might be the case in the prisoner's dilemma).

In fact, I have already argued for total preferences in print (Lehtinen 2011). The reason is similar to what Hausman is arguing: if one does not include all the motivating factors into the payoffs, the game is incompletely specified, and its analysis cannot provide the right answers. If there is a point to game theory, it is that it provides interesting and convincing analyses of play by way of analysing solution concepts. In order to be able to concentrate on analysing the games, game theorists have good reasons to be as silent as possible on the content of the preferences.

All in all, I am not so sure that Hausman's views differ from Sen's all that much, and I am more convinced about the intuitive appeal of Hausman's total subjective comparative evaluations in economics than his criticisms of Sen. As I have already noted, Hausman also distinguishes between welfare, choice, preferences, desires etc, and Sen has never explicitly endorsed the multiple utility frameworks. He merely encourages us to pay attention to the various ways in which preferences may be interpreted in different circumstances. There is, however, genuine disagreement between Hausman and Sen concerning counterpreferential choice.

As Hausman points out, economists are mostly interested in the consequences of individual choices rather than the choices themselves. In such exercises, getting the reasons for choices right has merely an instrumental value, and the account of choices only needs to be sufficiently credible. If the consequences of the interaction of people are the focus of interest, it makes sense to have a notion of preferences which is rather thin. Psychological and moral aspects of a strategic choice situation are usually not highly important if the mechanisms that translate individual actions into social level outcomes are already carrying the main explanatory burden. Hausman is well aware of this, and rightly notes that economists are perfectly justified to use their account of preferences even though it does not allow them to discuss some philosophical problems of action such as akrasia, agency, and self-governance (p. 71). This creates an inevitable difficulty for evaluating Hausman's proposal, however, because it is difficult to tell in advance whether any given choice situation is close enough to a typical problem in economics so as to be suitable to be interpreted in terms of total subjective comparative evaluations.

In conclusion, Hausman has written yet another important book in the philosophy of economics. I am expecting a heated debate on various arguments in the book, not least because he has become increasingly apologetic of the way in which economists treat preferences. This is my judgment despite the fact that he discusses five problematic claims (listed on p. 8) about preferences that economists are wont to make.

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