An economist’s quirky look at behavior, choice, happiness, and ethics: stuff most economists mostly don’t think about

We exhibit behaviors such as going to work, watching TV, kissing the spouse, and buying M&Ms. Most of us are mostly aware of our actions and perceive them as our actions, things that we chose to do. This book might be for you if you wonder why you do what you do rather than something else—wonder how much of it you really chose—and wonder whether what you do is best for you. I thread the discussion around how economists model behavior, but you needn’t be one. I survey the psychology, neuroscience, evolutionary biology, philosophy, and economics of choice and behavior. While this not a self-help book, a better understanding of behavior and choice has increased my well-being. However, if questioning makes you shudder, you might want to stop here.
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Introduction: What is this book about?[^1]

We do things: go to work, watch TV, kiss the partner, and buy M&Ms: we behave in certain ways. Most of us are mostly aware of our actions and perceive them as our actions, things that we chose to do. This book might be for you if you wonder why you do what you do, while wondering how much of what happens is under your control.

Since I am an economist, I thread the discussion around how economists have historically modeled behavior, but you don't need to be one, or even like the discipline, to proceed. If, however, you shudder at the idea of questioning your beliefs about why you do what you do, you might want to stop here.

If you are not a hermit, others observe your behavior; this is how they find out about you. Sometimes our behavior is ethical: we think good thoughts and do good things for ourselves and others, and sometimes our behavior is unethical: we think bad thoughts and do bad things, to ourselves and to others. Of course, what I find ethical you might find unethical. There are many moral philosophies/ethical systems and, not surprisingly, they have different, and often conflicting, ways of parsing the moral from the immoral. Chapters 2 and 14 review some of the more prominent moral philosophies and contrast them with the primary moral philosophy of economics uses to judge behavior, *welfare economics*.

In introductory economics, I teach that you and everyone else make choices, and that economists assume that you choose, subject to your circumstances (constraints), what you perceive as being best for you. And—what you perceive as best for you is, in fact, best for you. That is, you choose your best path through life subject to your constraints. Everyone else does the same—none of us make well-being-reducing choices: if we act weird it is because we have weird tastes or unusual constraints. This is, simply put, economic choice theory, CT, a set of assumptions that are meant to predict and explain what you will do and why. It is called choice theory because it assumes you choose to behave the way you do in contrast to assuming either you have little control over what you do, or you have little conscious control over what you do. The book starts, Chapter 1, by laying out the implicit details of a theory of choice; to behave according to CT requires assumptions about how your brain works, assumptions that are not so obvious, assumptions that economists typically do not think about.

[^1]: Morey: Choice, Happiness, and Ethics
Assuming that we all behave according to CT, to predict your behavior a researcher needs to identify your constraints (which paths are feasible) and your ranking of paths. If an economist has identified both your ranking and constraints, they will predict that you will move to Maine, with Mary, and become a plumber if Maine, Mary, and plumbing are part of your highest-ranked feasible path.

If a path is not feasible, you can’t experience it. You might like to dine tonight with Springsteen (my wife does) but he is not available, tonight or ever. So, for my wife, paths that include dinners with Bruce are not feasible. For me, Bruce is also out, along with great wines and an apartment in Rome. Economist are explicit about which paths you cannot afford given prices and your income. There are many other things that constrain to different degrees (e.g., your health, gender, age, level of fitness, culture, morals, and obligations to friends and family) but economists typically do not model these as explicit constraints. This is, in part, because they are difficult to model (they tend to be fuzzy constraints). And because it is easy to simply say that such things affect your ranking of paths. It might also be because economists are inclined towards interpreting actions are choices rather than constraints.

Determining someone else’s ranking of paths is difficult. A researcher could simply ask you whether you rank higher Path Q or Path G, but most economists are hesitant to believe that if you answer, “Q” that means you rank Q over G. So, rather than asking, economists simply assume that if you choose Q over G you must rank Q over G—whatever you do must be best for you, given your constraints. So if I drink motor oil and beat the kids it must be the best option for me, given my constraints.

While CT assumes you are always able to determine whether path A or B is ranked higher, and choose the higher-ranked path if both are feasible, both of these assumptions are questionable. Maybe you have no idea whether A is ranked higher, or maybe you don’t even have a ranking. While most of us believe we act in our own best interests (choose our highest-ranked feasible path), most of us are convinced that other people often don’t. Research by psychologists—research that will be investigated in Chapters 6 - 9—suggests that we all make them, even you and I—you are making a *WB-reducing choice* if there is a feasible path that
would generated, for you, more WB than the path you are on.\textsuperscript{1} An important issue is whether such mistakes are random or systematically biased. Some types of WB-reducing choices are systematic, so if you keep in mind that you tend to err in a certain direction, there is the potential for you to err less. Two systematic errors are duration bias and empathy gaps. Duration bias occurs when we fail to appreciate that we will adjust to things, both good and bad. What makes us happy today (e.g. yesterday’s pay raise) will not make us happy forever, and even though many of us would be distraught right after a diagnosis of a permanent disability, most of us will adjust more than we can imagine, and return to a state of happiness (or unhappiness) that approaches the level before the diagnosis. Duration bias is we incorrectly assume we won’t adjust and make choices based on this false assumption. For example, if I get terribly anxious I am inclined to believe the feeling will persist unless I take a pill or have a drink; I mistakenly believe the anxiety won’t abate by itself, so drink too much. The empathy gap is we are very bad at predicting what we will do in another emotional state or with our future self: we are unable to empathize with our other selves. For example, if you are depressed you will rank paths differently than when you are not depressed, and, while depressed, assume your depression ranking of paths will be your ranking even when you are not depressed. The research on both will be discussed in detail.

While economists assume you rank paths in terms of preference, economists are not particularly clear on what it means to “prefer”. Most economists would accept the notion that if you rank Path $w$ higher than Path $e$ you would be better off with $w$ than with $e$, or you desire $w$ more than $e$, or both. Then there is the question of what better-off means. For example does better-off mean more emotional well-being (more happiness and less sadness) or does it mean more life satisfaction. For the rest of the book, I will abbreviate “well-being” with “WB”, as in “emotional WB” is one type of WB. Going forward I use both the word “happiness” and the term “emotional WB” depending on the context. Historically “happiness” is the word used to mean emotional WB (making the two synonyms) but “happiness” can also have a broader meaning. Hopefully what “happiness” means will be clear from the context.

\textsuperscript{1} A WB-reducing choice needs to be contrasted with psychological terms such as abnormal behaviors, mental disorders and mental illnesses, and pathologies of mind, mood or behavior. For example, abnormal and pathological behaviors are not necessarily WB-reducing choices, and WB-reducing choices do not imply the individual has a mental disorder.
What it means to be happy has drastically changed over the ages (Chapter 4); the current notion is that happiness is a chemical/electrical brain state—many of my students hate the idea that happiness is only a choreographed dance of brain synapses, choreographed by God-knows-who, or what.

Turning from explaining to judging, a researcher can build a model to explain and predict what you will do without judging whether your behavior is ethical (moral or immoral for you and others). But welfare economists also want to judge your behavior—we want to be moral philosophers. Welfare economists—defined in Chapter 2—assume that a society’s ethical objective should be maximizing, in some sense, the welfare (well-faring) of its citizens. In explanation, welfare economists are a type of welfare consequentialist, believing that how an action affects the WB’s of society’s members should be the only determinant of whether the action is good/ethical/moral. This raises the question of whose WB counts: who is a member of society? For example, in Canadian society do Italians count, and, if so, as much as Canadians? How about chimps and squirrels? Most economists assume the WB of chimps and squirrels do not count, but there is nothing in CT per se that requires this. Maybe CT explains squirrel behavior better than human behavior. Consider the implications of expanding the notion of who counts to other species, even if you personally believe their WB should not count. When it comes to humans, welfare economists do not have an ethical answer to which humans should count.

While some moral philosophers are welfare consequentialists, most are not. And of those that are welfare consequentialists, many reject aspects of the welfare consequentialism of welfare economists. Most regular people feel that while welfare should be a criteria in judging right from wrong, it should not be the only criteria. Most economists seem oblivious to the fact that most others reject welfare consequentialism as how one should parse right from wrong.

Implementing welfare consequentialism in general, and specifically welfare economics is difficult. Consider first, a world of only one individual, you. Since ethics does not have to consider how your behavior will affect others, the best ethical outcome from the perspective of welfare consequentialism is the outcome that is best for you. If you always choose the path that is best for you, the moral imperative is to constrain you as little as possible. So, you would hope to live in a world where there are no laws or religious sanctions, but vast resources—the Tea Party dream. If, alternatively, you are inclined to make WB-reducing choices then welfare
consequentialism suggests forcing you, for your own good, to do things you would not choose to do. For example, you might be better off if the government stops you from joining ISIS.

What welfare consequentialism implies for behaviors complicates greatly when there is more than one citizen and their behaviors directly affect each other. Consider, for example, a society of two people, you and Fred. You paint your house purple and your yard is filled with plastic statues of Snow White and the dwarfs: the visual affects bring joy to your heart. The visual effect makes Fred, your neighbor, sick. Fred, on the other hand, loves to get drunk and belt out badly—over and over—the swan song from the tragic opera La Traviata. In this case, the welfare consequentialism requires that your welfare be weighed against Fred’s welfare, but welfare economics has no rule for doing this.

Most economists don’t imagine alternative moral philosophies in which whether an action is right or wrong is independent of how it makes us feel or how much satisfaction we report, but such philosophies are common. An example: I was brought up with an ethic that good vs. bad was all about serving God, honoring God, and following his rules. The objective was not experiencing good feelings, many of those were sins. Such a view is not limited to religious moralities, Kantian ethics, for example, puts it emphasis on doing one’s duty—happiness is ok but not the objective. Virtue ethics is about being virtuous, not feeling happy.

Returning to the issue of explaining choice: as I note in my second sentence, “Most of us are mostly aware of our actions and perceive them as our actions, things that we choose to do.” We believe we make choices, and this is what CT assumes. But what is a choice and do we really make choices? For example, what does it mean to choose option A rather than option B? Part II is considers what it means to make a choice and whether we actually make choices. Most would agree that if A is the only thing on the table, there is nothing to choose—choice requires two or more feasible alternatives. For example, inmates do not choose to stay in on Saturday night, and people with no money and no credit cannot choose to buy a new Mercedes, or choose not to. In contrast, people with money who are not incarcerated can afford, in terms of money, many different paths of goods and services so seem to have choices. It is tempting to jump to the conclusion that the goods you buy and consume are the goods you chose to buy, and this is the conclusion most of us jump to, including most economists. But is it true? If you have $100 to
spend on groceries there are thousands of different bags of groceries that would cost $100 or less. If you walk out of Safeway with 3 pears, chocolate cookies, and a steak, a bag costing $58, maybe your brain, body, and upbringing constrained you buy 3 pears, chocolate cookies and steak. Economists typically think of constraints as external to the individual, but you are also constrained by who you are. Overweight people cannot win bike races with mountain stages, and I can’t go fast on my mountain bike because it would make too anxious—anxiety is a chemical brain state I was born with. Plus my wife won’t let me ride a motorcycle, but she will let me go heli-skiing. What is a choice cannot be assessed independent of what is a constraint? One can also think about how current choices (marriage and donuts) lead to future constraints.

Economists implicitly adopt a weak notion of free will. While free will is a common expression in philosophy, an economist might define it as the ability to freely make choices. As we will see, philosophers differ greatly in term of what is free will and whether free will is consistent with choice. Economists, if we really want to explain behavior, need to question the role of choice in behavior.

As noted above, a lot of people, including most behavioral psychologists, reject the economic assumption that people always behave in their own best interest, arguing and demonstrating that people make bad choices. But a bad choice is still a choice. As discussed in Chapters 11-13, numerous prominent physicists and neuroscientist do not believe we make choices in the street-sense of the word “choice”. If your unconscious determines you will propose to Wilma, and then, before you buy the ring, your conscious brain provides you with the experience of choosing to propose, did you choose to propose to Wilma? A substantial body of neurological evidence suggest that the final step that determines a behavior is without conscious awareness, but that before the behavior is initiated the conscious part of our brain often provides us with the perception of choosing, an illusion of choice. We will review this research and you can choose how much of it you want to believe.

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2 Some readers of earlier drafts have insisted that unconscious means “passed out”, and that I should be using the word “subconscious”. In my defense, quoting the Michael Craig Miller, M.D., Senior Editor, Mental Health Publishing, Harvard Health Publications, “As a general rule, then, in most of the professional literature where mental functioning is concerned (including not just psychoanalysis, but also psychiatry, psychology, and neuroscience, among others), writers—like Freud—tend to use the word “unconscious” rather than “subconscious.” Although the word “subconscious” continues to appear in the lay literature, it is rarely defined carefully and may or may not be synonymous with “unconscious.”
There is also the physics notion of causal determinism: what you do this moment, and the next, is completely determined by the world’s configuration of atoms and the laws of physics, including the atomic configuration of your brain. Both causal determinism and behavior determined by your unconscious brain raise the issue of whether you should be held responsible for behaving badly, or goodly.

All of the above will be investigated in terms of recent scientific research. My goal is to introduce you to the philosophy and scientific research that has helped me to better judge economics as a social science and to its ability to parse right from wrong. Of course many students of economics are already well versed in this literature. My mental reveries scratch surfaces in philosophy, ethics, psychology, neuroscience and evolutionary biology. Wandering is fun and has led me to think about choice in new and weird ways, and I hope to convey some of that weirdness. Of course zombies, the philosophical kind, will be discussed, asking whether a zombie can be an economicus.3

A few warnings are appropriate: What is new here is how the literatures are brought together and packaged, not the discussions of each research article. Since there is ignorance and disparate views on how brains works, the research findings and speculations are sometimes in conflict—it is the nature of the organ, so question the research and pursue the conflicts, starting with the references and links. The goal is to introduce this literature, not to revere it.

There will be environmental examples, in part, because I have spent my life studying environmental economics,4 but also because thinking about the environment, including its living but non-human inhabitants, highlights many of the specifics of the economic approach to morality and how it is distinct from other moral perspectives. For example, if individual animals have moral standing and people make them suffer, there are drastic implications for what is and

3 There are movie zombies, voodoo zombies, and philosophical zombies. Philosophical zombies appear in academic discussions of consciousness. Philosophical zombies are indistinguishable from you and me, but are not sentient.

4 For better or worse, I chose to become an environmental economist when, as a M.A. student, I learned that the tools of CT could be used to determine whether the Catalina Highway, the 43 km. road up Mount Lemmon (a popular recreation site near Tucson Arizona), should be closed to cars. Closing it was proposed by the Sierra Club: closing it would reduce congestion and use damages, preserving the site by banning most visitors. My decision to become an environmental economist led me to Economics at the University of British Columbia and a PhD. dissertation on recreational choice.
is not economically efficient. These implications are worth thinking about, even if you believe non-human animals should not have standing. A related belief, rejected by economics, is an ecosystem, a species, or a place (e.g. the Grand Canyon) can have value separate from the value you and others ascribe to it. I will survey non-economic notions of value.

Some examples will push the boundaries of good taste. There will be religious examples: religious doctrine is how many of us distinguish right from wrong (sin). Sexual desire, drugs, and perverse behaviors make for good examples; they push buttons. Sex has an important place in moral philosophies—is sex for fun a good thing or a sin? Does it depend on which body parts are involved or who it is with, and if so, why? The moral implications of our assumptions are often only appreciated when they take us places we did not want to go.

A final warming: would learning what you now believe is wrong make you happier?

Consider what Dr. Victor Frankenstein had to say, lamenting the creature he created,

_You seek for knowledge and wisdom, as I once did; and I ardently hope that the gratification of your wishes may not be serpent to sting you, as mine has been... Learn from me...how dangerous is the acquirement of knowledge and how much happier that man is who believes his native town to be the world, than he who aspires to become greater than his nature will allow._—Mary Shelley

Do you know what will make you happy, and, if so, will you take that path? Dr. Frankenstein did not. Could he have chosen a different path? Do any of us choose our path?

While I carefully chose the order to present the topics, nothing bad will happen if you jump around. Most chapters stand alone, or at least teeter alone. The book is divided into three parts: the first introduces and critiques a theory of choice, discussing many research experiments in psychology designed to learn about how choices are made and whether individuals typically act to pursue an overall goal such well-being or the fulfillment of desires. WB-reducing choices are discussed. Part I also introduces and summarizes welfare economics. Part II digs more deeply: asking what is a choice and do humans and other animals makes choices in the street-sense of the word. Part II draw heavily from the neurological research on the experience of conscious choosing, the physics of choice, and the philosophical literature on free will and choice. Part III adds to the discussion of welfare economics and contrasts it, and welfare consequentialism, with a few other ethical philosophies such as virtue ethics, Kantian ethics and Buddhist ethics. The end of Part III introduces the ethics of some prominent ethicists who are economists but who are not welfare economists nor even welfare consequentialists.
You learn a lot about a book by counting how many times a word or phrase appears: the abbrev. WB (for well-being) appears 684 times: 527 times by itself, 108 times with the adjective “emotional” and 49 times with the adjective “life-satisfaction”. Utility only 44 times—it is a vague and misleading word. Words that include “happ..” appear 484 times. The term WB-reducing choice 29 times, bias 52 times, and illusion-of-choice 20 times. The word “behavior” appears 246 times: I need to make a strong distinction between behaviors and chosen behaviors. Welfare 286 times, ethics 113, moral philosophy 35, utilitarian 104, and free will 84. Philosophy 97 and psychology 72. You will read dopamine 64 times, anxiety 40, depression 26, and words containing “neuro” 162. Bentham 92, J.S. Mill 46, and Peter Singer 30; Descartes 12, Hume 30, and Kant (or Kantian) 95; Amartya Sen 21, Daniel Kahneman 17, the Buddha (or Buddhism) 75, Mihály Csíkszentmihályi 5, and zombie (the philosophical kind) 19.

Footnotes are critical to the task at hand. References appear as endnotes at the end of each chapter whereas the footnotes are details and asides about things on that page. Some people love footnotes, some people hate them. Some authors compromise and put the footnotes at the end, making them endnotes—readers who like footnotes hate this. Don’t assume the footnotes mean the book is a scholarly tome—it is not. And, definitely feel free to ignore them. But if you want to dig deeper, they and the references are the place to start. Think of the book as a guide for exploring further, and as a guide the book requires good directions (footnotes and references). Have fun and if you have questions or comments email me at Edward.Morey@colorado.edu.

Thanks.

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i Sources:
2. Mary Shelley (1818) Frankenstein; or, the Modern Prometheus. At http://books.google.com/books/about/Frankenstein.html?id=5twBAAAAQAAJ
Part I: A ranking of paths, well-being, and economics: how to make you, or another animal, better off?

Chapter 1: Economicus: assumptions of an economic theory of choice, and their implications

The goal of a theory of choice is to explain the behavior of individuals, which path each will experience

In economics, there is more than one theory of behavior and choice, the same for psychology and neuroscience. Here I present a theory of choice that is fundamentally neoclassical, an extension of what is presented in principles-of-economics courses. It allows for risk and uncertainty and extends the notion of consumption, and consumption paths, to include the environment (my field), public goods and bads, aspects of the world important to economists in labor and other applied fields such as urban/regional, and demography. Importantly, it extends the notion of path to include all aspects of the world that affect your WB, such as social, sexual, and work relationships, and what others consume. It deviates from the neoclassical aversion to psychology by adding assumptions (debatable assumptions) about what might be going on, or could be going on, in the mind of economicus. As one explores possible assumptions, the scope, boundaries, and predictions wax and wane. Let’s call it A Theory of Choice, ATC, “A” rather than “The”. I use the word “choice” because economists assume you make choices. Think of choice theories as a subset of theories of behavior keeping in mind that many theories of behavior do not assume all behaviors are consciously chosen. Think of ACT as a framework for discussing behavior and asking questions about behavior; there is no presumption that this ACT would do a good job of predicting your behavior. Research will be presented on whether you, and others, behave consistent with the assumptions of ACT.

A dividing line among choice theories is whether their intent is only to predict your behavior, without judging it, or whether the theory, in addition, assumes what you do is, in some way, best from your own perspective (or not), given your constraints. If behavior is judged,

1 While economists, emphasize the word “choice” other fields use more neutral terms such as decision theory, judgement, and behavior. An alternative to standard choice theory, there is the new, and alternative, behavioral economics.

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ethics creeps in: there is something good/right or bad/wrong about your behavior. Contrast choice theory with, for example, a theory to explain the position of the moon relative to the earth (Newtonian physics). It would not cross the mind of a physicist to propose a theory that implied that there was something moral or immoral about the moon’s path.

Simply put, ATC assumes the individual does what is best for them, given their options, including what they know.\(^2\) This chapter provides details. An *economicus* is simply an animal, plant, or a specific unit of some other object that does things (e.g. Rob the Robot or a toaster).\(^3\) And, the individual’s behavior/actions adhere to the assumptions of ATC. While choice theory was postulated to explain the behavior of humans, many humans are convinced it does not apply to other humans, many psychologists doubt whether it applies to any humans. Each of the following individuals might, or might not, be an economicus; it depend on whether they follow the rules of ATC.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{images.png}
\caption{Dog, Alan Cumming, clam, robot, cactus, and chimpanzee}
\end{figure}

A theory of choice, as do all scientific theories, starts with a set of definitions and assumptions that contain no contradictions. Formal logic is then used to determine what these definitions and assumptions together imply/predict. What goes in [the assumptions] determines what comes out [the predictions]. Another name for a prediction is a hypothesis: *if such and such conditions hold then a certain outcome is predicted*. A theory might predict that if the price of gasoline rises, you will buy less, and it might predict that if you wear a red dress, the probability

\(^2\) How one conceives of and defines “best” will be a big deal.
\(^3\) The more common term is *Homo economicus* but the adjective Homo restricts one to *Homo sapiens*, the only non-extinct Homo species, and I don’t want to restrict myself to that species.

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increases that you will have a date on Saturday night. Keep in mind the distinction between what the assumptions imply and whether they are correct. Later chapters present evidence on correctness.

A warning: humans, like you and I, didn’t evolve to be logical or limit our thinking to the assumptions on the page: we tend to unconsciously add in our beliefs about the world, making it difficult for us avoid faulty logic. For example, many bright students find the following reasoning logical, but it is not logical. Living things need water; fish need water, so fish are living things. You see the reasoning is illogical if you replace fish with washing machines. Why the faulty logic? We know that fish are alive, so implicitly assume it; so “fish are living things” is, by itself, a correct statement, and miss the “so”. We mistake water being necessary for many living things with water being sufficient for living. Confusing necessary and sufficient is common. When it comes to operating in the real world whether being illogical is a flaw is an open question, being logical is the only way to determine what a set of assumptions imply.

**A Theory of Choice (ATC)**

ATC is simple a set of definitions and assumptions, and since what a theory of choice predicts depends exactly on what is, and is not, assumed, the definitions and assumptions need to be precisely expressed. I will start with what I mean by a *path*.

*A path for an individual is a conceivable life and world as it would unfold through time. It includes the goods and services they would consume through time (their consumption paths), what they would know and not know at different points in time (their knowledge), what others would consume (other’s consumption paths), what others would know, plus the individual’s relationships (social, sexual, work related), the relationships of others, and the environment (who is now and will be the future Prime Minister of England, air qualities, crime rates, etc.). Taking risks and experiencing uncertainties are part of every path.*

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4 Another term for path would be “state-of-the-world”, abbreviated “state”. I picked "path" because many different types of states will be discussed (emotional states, brain states, states of nature, etc.). I am simply taking the concept of a “consumption bundle” and broadening it to include all other things that can affect an individual. In an earlier draft, I used “bundle” instead of “path” but I found that for many of my students “a bundle” is something experienced now, rather than a path through time (a sequence of present bundles). This expansion beyond the consumption bundle is not new here; For example, John Harsanyi, the 1994 Nobel laurate in Economics, includes “health, social status, job situation family situation, etc.” I also considered “prospect” instead of “path” where a prospect is set of uncertain outcomes, each associated with some probability of occurrence. The words “prospect” and “gamble” are often used when considering choice under uncertainty.

5 In *uncertain events*, which alternative will occur is unknown aprior and probabilities cannot be associated with the occurrence of each alternative. In *risky events*, probabilities can be associated. E.g. whether it will rain tomorrow is
If you were taking an introductory microeconomics course, your path would be defined only in terms of the amounts of each market goods you would consume, and it would be called your consumption path. But most of us care about much more. Every path generates a flow of feelings, but, as I have defined it, a path, it is not those feeling. You and I might be on the same path, but experience different feeling. For example, peanut butter consumption though time (yours and everyone else’s) is part of your path and part of my path, but you might hate the stuff, while I love it.

The goal of CT is to predict which path you take now, and the sequence of paths you will experience overtime. I use the word “experience” rather than the word "choose" to distinguish between what you experience and what you choose to experience—many of the things we consume and experience we don’t choose. Republicans in the U.S. experienced Obama as their President, but they didn’t choose him. Later we will ask if you get to choose anything.

There is a conceivable path, maybe it’s named “Path $k$”, in which you would be married to Shirley, have a poodle named Fred, smoke Camels, no one would be starving, and Trump would be the U.S. President. Whereas in some other path, maybe “Path $f$”, you would be married to George, not know about global warming, have a cat, drink only zinfandel rose, many people would be starving, and Hillary would be President. Each path describes a different life. If an individual does not have perfect information, there are future risks and uncertainties. For example, going to university now translates into a higher expected income later. The number of conceivable paths is huge.

Assumption 1: At every point in time the individual can and must be on only one path

Assumption 2: At every point in time, the individual has a unique ranking/ordering of all conceivable paths—$1^{st}$, $2^{nd}$, $…$, $76^{th}$… The individual has a ranking, if for all paths $j$ and $k$, either Path $j$ is ranked higher than Path $k$, Path $k$ is ranked higher than Path $j$, or Paths $j$ and $k$ have the same rank.\(^6\)

Assumption 2 simply says that if you present an individual with any two of all the conceivable paths, the individual knows (not necessarily consciously) which path is higher in his ranking.

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\(^6\) A complete ordinal ranking is, by definition, transitive. Transitivity implies that if Path $j$ is ordered higher than Path $c$ and Path $c$ is ordered higher than Path $a$ then Path $j$ is ordered higher than Path $b$.  

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Assumption 2 does not imply all individuals have the same ranking, nor does it imply anything about the criteria an individual might use to order paths. It does imply that the ranking is the product of some criteria or process, but that process, could, for example, be random draws. Assumption 2 does not imply the ranking is based on betterment.

Your ranking can but does not have to depend on every component of the paths. For example, while who is the King of Spain is a component of every path you might not care; in which case if two paths were identical except for who is king, you would rank them equal. Your ranking of paths might depend on the how much food people in Africa are consuming in each path, while mine might depend only on what I personally eat, making my ranking independent of even what the wife, kid, and dog are eating. There are many reasons why what other people are doing and consuming might influence your ranking. These include: you care about some of these other people, or what they would be doing would directly affect you (e.g. second-hand cigarette smoke and drunk driving), or (3) you care about your position relative to others, particularly your peers.

For many, their ranking will depend on what is happening in each path both right now and into the future. A few souls’ ranking might depend on only what is happening in each path right now—an economist would say such individuals completely discount the future.

How much you know, don’t know (your knowledge and ignorance) and what you might learn is a component of every path, so are amounts of education. And this knowledge, or its absence (ignorance) could be a factor in how you order paths. For example, all else constant, I might rank higher paths where I don’t know the black spot on my toe is toe cancer, even if I can find out for free. Knowledge and ignorance are commodities, just like peanut butter. Your ranking could also depend on the freedoms, rights, and the culture that exists in each path.

Assumption 2 excludes many individuals. You’re excluded if you have multiple simultaneous rankings, so your ranking can’t depend on framing;8 it can’t depend on whether

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7 In a recent study, Ananda Ganguly and Joshua Tasoff found that 16% of the university students sampled were willing to forego a payment of $10 to avoid learning whether they had genital herpes. David Eli and Justin Rao have found that people will pay to not learn about their IQ or how attractive others find them.

8 Framing is how the path is presented; framing doesn’t affect the components of a path. For example, patients and their loved ones are more likely to adopt a directive that says “allow natural death” than one that says “do not resuscitate” even though they mean the same thing. Such people are influenced by framing so are violating Assumption 2.
you are currently mad, sad, or sexually aroused; and different parts of your brain can’t be battling over the how to order. Your ranking can’t depend on which paths are available. If it depended on these things, it wouldn’t be unique. Given the huge number of conceivable paths, a list of how you order them would be longer than all Google searches put end to end, making you wonder why economicus would have a complete ranking of all conceivable paths given that 99.99% aren’t feasible, and never will be. And you might wonder where in his brain this humongous amount of mostly useless information is stored? Why would evolution allocate it so much of the space in a skull-constrained brain to its storage?

Assumption 3: While there are many conceivable paths, the path the individual experiences must be a path that is available to them (viable/possible/affordable/feasible)

In explanation, for most of us, most conceivable paths aren’t available: many are blocked from the get go, and many fork in unexpected ways. I don’t have the physical talents to play in the NHL or dance with the New York City Ballet. I’m not intelligent enough to understand quantum mechanics. Paths that include being married to Carla Bruni are, for me, not an option. (Alternatively, there might be individuals who could date Carla but don’t because paths that include Carla don’t rank high enough.) And paths that include certainty about tomorrow’s weather are available to none of us, but paths with weather forecasts are.

Which paths are available varies across individuals. E.g., Warren Buffet can afford paths where great wines are regularly consumed, but not me. This doesn’t mean Warren will take such a path; it only means he can afford to. Paths that include being married to Taylor Swift or playing in the NHL aren’t available to Warren, even though he has tons of money. What paths are available to you depends on your resources (intelligence, abilities, age, appearance, propensity to work, education, friends and inheritance) and what is happening in the world (prices, wage rates, who is prime minister of England, pollution, public goods and whether Taylor exists and, if so, what kind of guys, or women, she likes.)

The passage of time reveals what has happened to now; this restricts which paths are feasible going forward. If, for example, I have recently gained twenty-five pounds and learned about global warming, every feasible future path must start with a bigger me who knows about global warming, even if I would like to start the future smaller and less knowledgeable. The passage of time turns probabilities into certainties: Today, Monday, there is a 70% chance it will
not rain Tuesday, so now paths without rain Tuesday are possible. But the arrival of a rainy tomorrow will make my choice today to suntan tomorrow infeasible.

A main objective of a theory of choice is to explain and predict how your behavior will change when what is feasible changes (a price or your income increases, your partner leaves). That is, the objective is to explain and predict your sequence of paths.

**Assumption 4:** At every point in time, an individual will take their highest-ranked available path. Assumption 4 is an *optimizing axiom*; it makes the path taken the solution to a simple constrained-maximization problem. Optimization mistakes aren’t allowed, and behavior is driven by a purpose

Even assuming your ranking of paths is constant, what is feasible is continuously changing because the passage of time continuously updates our knowledge about the world and its future. This causes our highest-ranked feasible path to often change.

My definition of a path along with these four assumptions is a complete theory of behavior. If someone knows your ranking of paths, and which paths are available to you, she can immediately identify which path you now take. The taken path will vary across individuals because rankings differ and because what is available differs. An economist would call it a theory of choice, but there is nothing in the four assumptions that implies that the individual makes any conscious choices or, if they do, those choices influence what the individual experiences.

Assumptions 1-4 hold for many computer programs, working refrigerators, rocks, and probably worms; whether they hold for dogs and humans is another matter. Consider a computer program that imposes Assumptions 1-4 such that when a ranking of paths is imputed, along with a list of which paths are available, the program spits out the name of highest-ranked path. Life, feelings and consciousness aren’t required. If Assumptions 1-4 apply to humans, they also apply to philosophical zombies, creatures that have no conscious experiences. Assumptions 1-4 seem to apply to worms, but few would argue worms *choose*: worms have limited options and evolution has programed their instincts to crawl, dig and eat to maximize gene transmission. Rocks rank all paths the same, a *degenerate ranking*. And, since rocks have no influence over their destiny whatever happens to them is their highest-ranked path given where they started off.
and what has happened to them. Does that apply to you as well? Maybe? This is discussed in Part II.

A weakness, or strength, of Assumption 1-4 as a theory is that it assumes nothing about the ranking criteria or even whether your criteria is different from or the same as mine. This makes the theory more general. It also allows economists to avoid psychological and cultural influences, and commitments.\(^9\) The down side, and upside, is your ranking “is what it is”. The theory also does not imply that your chosen path is, in any sense, better for you than any of the other paths you could have taken. So, economists typically expand ACT, adds an additional assumption:

**Assumption 5a:** Experiencing a higher-ranked path is better for the individual, from their perspective, than experiencing a lower-ranked path.

Or

**Assumption 5b:** The individual desires/wants a higher-ranked path more than a lower-ranked path.

And

*If 5a and b are both assumed the two rankings must be the same.*

Looking ahead: the distinction between 5a and 5b, and the importance of the distinction, comes up many times in this book: it is the distinction between getting what you desire/want and experiencing what you will like. The distinction between B1 and B2 is the distinction between getting what you want and experiencing what you will like. The blue area in Figure 1 represents paths you want more than you will like, the yellow area paths you like more than you want. The overlap is bundles you will like to the same degree you want. The degree of overlap is an empirical question. While most economists assert a large degree of overlap, the ancient philosophy of Buddhism asserts that most wanted paths will not be liked (at least not for long) implying little overlap.\(^10\) A goal of the book is to assess the degree of overlap.

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\(^9\) In the first half of the 20th Century economists worked hard to purge choice theory of psychology.

\(^10\) Buddhists talk about “craving” rather than wanting and desiring, a synonym with a negative edge, used to draw their critical distinction between wanting and liking (see, for example, *Stephen Batchelor* 2015).
Having two different rankings: one based on betterment and a different one based on desires violates Assumption 2: you would not have a unique ranking. Assumption 5a specifies that the ranking of paths is based on betterment. With 5a comes the added prediction that the path you take is the best experience you can have, given your constraints, including the world you live in—if the theory applies to you, you make no WB-reducing choices. Assumption 5a implies there is something right about your behavior, at least from your own perspective—this is the ethical creep I mentioned at the beginning of the chapter. (An important question for later is whether humans and other animals make WB-reducing choices and, if so, are WB-reducing choices random or systematic. A second important question is whether making individuals better off is morally right for either the individual or society.)

Assumptions 2 and 5a together imply that all the ways one can be better (or worse) off are commensurable—every path can be compared on the same betterment scale, an assumption many philosophers reject. While betterment is the correct term for what we want to get at, what it means in practice is typically ignored. One view is that it does not matter what it means; it, like porn, is in the eyes of the beholder. I reject this view. Without loss of generality, I will define betterment as more WB.¹¹ I will avoid the quasi-synonym utility. Given its history, the word utility tends to mislead, and while some surveyors ask people about their level of WB, no one asks you about your utility level.

Assumption 5a brings the added prediction that expanding the set of viable paths can’t make you worse off (having additional options never hurts—even a million colors of house

¹¹ Note that 5a does not assume WB to be of a particular sort. E.g. more WB is not restricted to mean happier. One could restrictively replace 5a with either 5a1: higher-ranked paths are associated with higher levels of emotional WB or 5a2: higher-ranked paths are associated with higher levels of life-satisfaction WB.
paint. Assumption 5a implies one concept of value, economic value, in that from the individual's perspective higher-ranked paths have greater value. Since rankings depend only the betterment of individuals, objects do not have objective/inherent values, only extrinsic value. Without 5a, there would be no such thing as economic value.\textsuperscript{12}

Without Assumption 5a, there is no presumption that experiencing a higher-ranked path makes an individual better off. For example, without Assumption 5a my ranking does not have to be based on betterment. It could, for example, be a ranking imposed on me by genetics, God, or my parents. You might wonder why someone would choose a ranking that is not based on betterment. A simple answer is you do not choose your ranking. ACT assumes it is given and most economists don’t care where it came from, but should. Quoting Franz Dietrich and Christian List, and then Samuel Bowles:

Preferences are exogenously given in that the standard theory cannot explain how they are formed. An agent's preferences are simply taken to be an essential but inexplicable feature of the agent's personal identity.

The axiom of exogenous preferences is as old as liberal political philosophy itself... Reflecting this canon, most economists have not asked how we come to want and value the things we do.

(1) If there is no theory of how the ranking is created, any ranking is possible and my betterment might mean my sticking pins in my eyes and drinking antifreeze. If I am an economicus, eyeball pin-sticker, it is either because my ranking is bizarre or I have terrible options. (2) If economists could explain the creation of a ranking and its evolution, they would be able to better predict behavior. It would seem that your ranking is determined by some combination of genetics and learning, but both words are absent from most economic theories of choice.\textsuperscript{13}

\textsuperscript{12} So, for you, eating an apple, worshipping god, and the existence of a pristine ecosystem only have value if including them in a path would increase the WB you would get from the path. It depends only on your ranking, so commodities only have value if society's members value them; value, or lack of, is not an objective characteristic of a commodity, rather it’s determined by the feelings and thoughts it invokes.

\textsuperscript{13} There is a small literature on the formation of your ranking of paths, most of it not by economists. In one strain (going back to Kelvin Lancaster (1966)), a ranking in terms of goods and services is derivative of a more basic ranking in terms of the characteristics of those goods and services, but this line of research says nothing about where the ranking in terms of characteristics came from or how and why that ranking might change over time. In the ranking-formation literature a distinction is often made between worlds of complete and incomplete information. In a world of incomplete information, experiencing different commodities and activities provides information (experiencing what Vegemite really tastes like) might cause you to modify your ranking of paths. A world of incomplete information, belief formation, and the evolution of beliefs affects your rankings. In a recent article, Dietrich and List model your ranking in terms of the motivational salient properties of the different paths (some but
Assumptions 1-5a do not require that betterment has cardinal meaning (it also does not exclude the possibility). If betterment is not cardinal, one can say that Path m is better than Path k but how much better has no meaning. You can comprehend you are better off experiencing m than k but are unable to comprehend the degree to which you are better off. Choice theorists used to assume that betterment had cardinal meaning, but long ago dropped the requirement because ordinal betterment predicts the same behavior as cardinal betterment. (If the choice is marry Shirley and have five kids or marry Fred and adopt two, you go with the better option, no matter whether that option is a little better, or lot better, or you do not comprehend degrees of betterment.)

Whether betterment has cardinal meaning is an empirical question. Most of us imagine (would like to think) that we can comprehend and assess different degrees of our own betterment, but that does not make it so. Since cardinal betterment is not required for choice, raising the question of why we would evolve to experience cardinality if it has no influence on our behavior.

In contrast, Assumptions 2 and 5b specify that the ranking of paths is based on your desires (higher-ranked paths are more desired). A ranking based on betterment and a ranking based on desires amount to the same thing if you desire only what will make you better, and what will make you better is always more desired; in which case the two rankings are the same. Choice economists either assume this is the case or assume your ranking is based only on your desires (more to less desired). In the latter case, they often only want to explain behavior and do not care about betterment. A considerable amount of evidence indicates that desires and betterment often do not line up. Assumptions 2 and 5b imply desire is unidimensional and, like betterment, does not necessarily have cardinal meaning. A ranking based on desire is more reasonably called a preference ordering than is an ordering based on betterment because if your

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not all of the properties, the ones you pay attention to). In which case, your ranking will change over time as certain properties gain or lose salience. “For example, after having suffered from gallstones, an agent may form his or her preferences over various kinds of food on the basis of whether they are healthy, and may no longer be interested in whether their taste is rich (something he or she cared about before the illness).” While giving examples like this, they do not model why salience differs across individuals at a point in time, or over time for a given individual. In this literature, a ranking is often modeled using words like, personality, psychology, priorities, and goals. In the 1998 Journal of Economic Literature, Samuel Bowles reviews how economic institutions (markets, families) influence your ranking. See the references to preference formation in Dietrich and List, including the articles authored by Fenrong Liu and the book, Preference Change: Approaches from Philosophy, Economics and Psychology. Philosophers discuss the logic (or illogic) of changing one’s ranking.

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choices are based on your desires rather than your betterment, what you choose is determined by what you desire and not what makes you better off. Economists often refer to the ranking as a preference ordering even if the ranking is based on betterment rather than desires.

Choice theories based on 5b, and explicitly not on 5a, are ethically different than those that assume 5a, because they do not assume you always maximize your WB, so open the door to paternalistic intervention to make you better off.

If you are wondering, CT as taught in introductory microeconomic courses and expected-utility theory are special cases of Assumption 1-5. In introductory courses, paths are only defined in terms of the amount of each good and service you personally consume now—your consumption bundle: implicitly there is no future (a one-period world), there is no uncertainty, and you have full knowledge of how your WB will be affected by each consumption bundle. Other aspects of your life that might affect your WB (your relationships with others, what is happening to others, etc.) are ignored. And, which consumption bundles are feasible is only restricted by prices and your income, your budget constraint.

Expected-utility theory predicts you will experience the feasible bundle with the highest expected utility/WB—it was developed noting that most choices include risks. John von Neumann (1903-1957) and Oscar Morgenstern (1902-1977), its developers, restricted ACT by assuming a probability can be associated with each set of uncertain alternatives in each path (risk is allowed but not uncertainty), and added two assumptions: a continuity assumption and an independence assumption, both restrictions on probabilities. A major criticism of expected-utility theory is that many choice experiments subjects violate the independence assumption.

Consider first the continuity assumption expressed in terms of an example. In the summer of 2016 the upcoming U.S. Presidential election was part of every path for every individual. Imagine you rank Donald higher than Bernie, and Bernie higher than Hillary, all else the same. The continuity assumption says that there must be a specific probability, $p_d$, such that you would be indifferent between a path where Bernie wins for sure, and a path where Donald wins with probability $p_d$ and Hillary wins with probability $(1-p_d)$. This assumption is not terribly burdensome. More restrictively, the independence assumption says, all else constant, that if you rank Donald higher than Bernie, you must rank—for every $p_w$—a race between Donald with probability $p_w$ and Hillary with probability $(1-p_w)$, higher than a race between Bernie with probability $p_w$ and Hillary with probability $(1-p_w)$. Put simply, the independence assumption says adding Hillary to a race that was initially between Dan and Bernie cannot influence your ranking between Donald and Bernie. Von Neumann and Morgenstern proved that their continuity and independence assumptions, along with Assumptions 1, 2 and 5, imply your ranking is based on the expected utility/WB you associate with each path, and that it can be represented by a mathematical function (a utility function) unique up to a linear transformation (more on linear transformations in a bit).

For examples, see Levin (2006) and Kahneman and Tversky (1979). The most famous example is from 1953 by the French economist Maurice Allais. Put simply subjects are presented with two different gambles and asked to
Presuppositions are things you take for granted (pre suppose), assuming others do as well. Economists feel no need to write theirs down. Since they are tacit, economists don’t think about them so, unless we explicitly ask each other, there is no way of knowing exactly what is presupposed. Which, if any, of the following additional assumptions (6-9) should be included in ACT? Assumptions 6 and 7 narrow what it means to be an individual.

Assumption 6: The individual has senses that cause what is happening to produce sensations and feelings. The individual feels and what it feels varies depending on what is happening.

At a minimum, some things cause pain, a sensation that feels bad. Pleasurable sensations feel good. If you add Assumption 6, ACT no longer applies to the current generation of robots. No one doubts that higher-order mammals experience pain, but what about plants and trout? Many humans believe that plants feel nothing, and some of my fly-fishing friends assert that trout feel neither pain nor pleasure—when hooked they sure act upset.\(^{16}\) (The ability to experience pain and pleasure requires neither self-awareness nor a mental map of what is happening.)

You might be tempted to say Assumption 6 is necessary for Assumption 5a (higher ranked is better); but hesitate. If better is based only on the feelings generated by consuming different paths, then someone who can’t experience feelings can’t rank on the basis of betterment. In this case, Assumption 6 is necessary for Assumption 5a. But what if a path being better than another isn’t based on what the individual feels? In such cases, Assumption 6 isn’t a necessary condition for Assumption 5a. For example, if a person is, in his own eyes, better off the more his path fulfills his duty to God— independent of how it feels—then betterment is duty-based rather than feeling-based.\(^{17}\) So, an individual doesn’t have to have feelings to rank based on betterment. Note that Assumption 6 doesn’t require that betterment is based solely on feelings.
and sensations, but it allows for the possibility. For example, the Pope’s ranking depends on both
duty to God and how well different foods agree with his stomach.

**Assumption 7: The individual is self-aware**

Self-awareness is the “ability to take oneself as the object of one’s own attention and thoughts”,
the ability to recognize yourself as a physical object, separate from the rest of the world, and
recognize that what you feel are your feelings. Arguably, there are degrees of self-awareness: it
consists of five separate cognitive abilities, and only humans seem to have the ability to think of
themselves abstractly and symbolically. 18 Many other species have one or two of these abilities
and a few have four of the five.

Neither Assumption 6 nor 7 imply the other: many non-human individuals experience
feelings but that does not imply they are fully self-aware. Whacking a duck with a stick will
cause it to experience pain, but the duck has neither the ability to reflect on the pain nor the
ability to abstractly think about his aches and pains—something humans can and do, making it
difficult for us to imagine duckness. 19 Self-recognition is often used as an indicator for self-
awareness, but they are not the same thing.

Assumption 7 limits whose behaviors ACT explains—it likely excludes my dog who fails
the common test for one component of self-awareness: he has been known to bark at himself in
the mirror, even after I draw a blue dot on his forehead while he is sleeping. [Researchers draw a
blue dot on the animal’s forehead while it is asleep. They then place a mirror in the room and
wait behind the one-way glass to see what it will do when it wakes up. If when seeing itself in
the mirror, the animal touches its forehead, it self-recognizes, so is assumed self-aware.
Professor Gordon Gallup came up with this test when he cut himself shaving, seeing, in the
mirror, blood. Chimps tend to touch the blue dot.] Only a few species (the higher primates,

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18 This is just one definition of many; you are free to replace it with another. In philosophy, self-awareness is one
type of consciousness. The five abilities are awareness of yourself in relationship to your immediate physical
environment, awareness of interactions with other members of your species, the ability to reflect on yourself over
time, the ability to reflect on your feelings, and the ability to think about yourself symbolically and abstractly (Leary
and Buttermore 2003).
19 Some humans feel no physical pain. The disorder is genetic and often associated with the SCN9A gene. Ashlyn
Blocker, a self-aware teenager with this disorder, was recently profiled in the New York Times Sunday Magazine.
Ashlyn feels pressure, but not physical pain. She does experience emotional pain. Someone in a deep coma neither
feels nor is self-aware.
elephants, dolphins, magpies, and possibly pigs) have passed the mirror test, but not everyone is convinced it is a test of self-awareness—e.g., self-awareness does not require visual self-recognition. Assumption 7 excludes most animals, robots and cactus, plus some humans I know, and babies.

Assumptions 6 and 7, make it is possible to consider what betterment (increased WB) might mean. Every individual subjectively experiences some level of WB but the criteria you use to assess your WB might differ from my criteria, and opinions differ as to what is the appropriate measure for social policy. My inclusive definition is WB has two components: emotional WB and life-satisfaction WB. Kahneman and Deaton (2010) define emotional WB as “the emotional quality of an individual’s everyday experiences—the frequency and intensity of experiences of joy, stress, sadness, anger and affection that makes one’s life pleasant or unpleasant.” So, for example, happy is a positive state of emotional WB, and pleasure contributes to emotional WB. In contrast, life-satisfaction WB is your cognitive assessment of how well your life is going. The latter is a thought, the former are feelings. Humans experience both components of WB, animals mostly only emotional WB. Questions about emotional WB include: “Did you experience a lot of stress (enjoyment, happiness, anger, sadness, stress, worry) yesterday? Another is “How happy are you these days?” where your level of happiness (unhappiness) is assumed a catchall for all the components of emotional WB. In contrast, “Rate your life on a ladder scale of 0 to 10 where ‘0 is the worst possible life for you’, and ’10 is the best possible life for you’” is a life-satisfaction question. Another is “How satisfied are you with your life these days?” Some researchers ask emotional WB questions, others ask life-satisfaction questions, and a few ask both.

Until recently, those studying WB have either not thought enough about the distinction between emotional WB and life-satisfaction WB, or have assumed the distinction unimportant because they incorrectly believed the two were influenced by the same factors in the same ways. But this is not the case, so the distinction is important. For example, and looking ahead to Chapter 5, if your income exceeds some moderate level, more income would increase your life-

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20 For a video on self-recognition by an elephant go to [http://www.pnas.org/content/suppl/2006/10/26/0608062103.DC1](http://www.pnas.org/content/suppl/2006/10/26/0608062103.DC1)

21 Emotional WB is sometimes defined as the ability to manage one’s emotions. That is not how I am defining it here.

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satisfaction WB but not your emotional WB (you won’t be happier but you will be more satisfied).

**Assumption 8:** *Before a path is taken the individual has the experience of consciously choosing some of the components of that path, and that perception of choosing is what caused them to take a path with those components.*

Assumption 8 is a *choosing axiom.* [Of course you can’t choose every component of your path. For example, global warming and Mexico being south of the U.S. are part of the path I am on (same for you), but I chose neither global warming nor the location of the U.S. And, while what you consume and do is a component of my path, typically I don’t get to choose what you consume or do.] Assumption 8 is critical to the economic sense of choice and to the ethics of economics, and critical to moral philosophies that assume more freedom is better than less.

Assumption 8 actually embeds two assumptions:

**Assumption 8a:** *Before a path is taken the individual has the experience of consciously choosing at least some of the components of that path.*

**And Assumption 8b:** *That perception of choosing is what caused them to take a path with those components.*

While 8b requires 8a, 8a doesn’t imply 8b. If you experience choosing (8a) but that experience does not, in fact, influence what you experience (8b), you suffer from the *illusion of choice.* Most people, including most economists, accept Assumption 8b as gospel. Some eminent neurologists reject 8b. Their reasons are presented in Part II of the book.

Assumption 8 implies you consciously know your ranking, and you could, if so inclined, tell a researcher which alternative, in any set of alternatives, you would choose.  

You can be self-aware without being aware of your ranking of paths. If an individual is consciously aware of her ranking and her constraints, she knows whether he is doing the best she can. Alternatively, if an individual doesn’t consciously know his ranking, she has no conscious awareness that she is doing the best she can. In which case, her incentive to keep doing the same thing, if she has such an incentive, must be unconscious.

More significantly, Assumption 8 implies you experience your best viable path only because you went through a conscious process—choosing. If Assumption 8 is violated, the
predictions of choice theory wouldn’t change but the consumed path wouldn’t be consciously chosen, making me, and probably you, hesitant to say "The individual made a conscious choice".  

Note that I have yet to define “individual” only limited who can be an individual. There is nothing in the eight assumptions that explicitly require the individual to be human; they don’t limit ACT to humans, but do limit it to self-aware animals. Most economists limit ACT to humans:

**Assumption 9: Individuals are living members of the species Homo-sapiens.**

With Assumption 9, we need a different model of behavior and WB for non-humans, important if you adopt a moral philosophy that gives moral standing to other animals, or you assert that humans have a duty to animal WB. Looking ahead, you might argue choice theory wasn’t designed to explain the behavior of clams, but I worry that if it can’t explain the behavior of a bivalve, how could it possibly explain the behavior of more complex organisms. One reason to assume ACT does not apply to other animals is that people want to believe that humans make choices, but believe most other animals do not, so if ACT applies to animals it becomes more difficult to call it a theory of “choice”.

Jeremy Bentham (1748-1832), a founder of utilitarianism, and Peter Singer (1946), the most famous living utilitarian, both advocate equal moral standing for everything capable of experiencing pain. Many modern Kantians argue that humans have a duty to consider animal welfare. The Christian Bible is specific on how animals should be treated.

If you assume all living humans are both sentient and self-aware then Assumption 9 implies Assumptions 6 and 7, making them redundant. If Assumption 8 (the choosing axiom) is true, but only for humans, then Assumption 8 is what separates man from other beasts, and Assumption 8 implies Assumption 9. Chapters 7-9 will parse Assumption 8, summarizing the psychological and neurobiological evidence.

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23 If the individual doesn’t have conscious awareness of her ranking, the path she experiences isn’t determined by any conscious thought process—even if she experiences choosing. And, if she thinks she can correctly describe why she does what she does, she is wrong.
Does Assumption 5a (higher ranked is better) necessarily mean that ACT no longer applies to dogs, worms, and plants? It depends on what is meant by betterment—economists are vague on what better means. I suspect dogs, worms and plants rank paths on the basis of betterment (dogs really like to eat poop), and, subject to their shortrun time horizon, and information, choose their best path.\(^{24}\)

At this point you are likely wondering about my obsession with things that aren’t human and why an economist would want to build a theory to explain their behaviors. The goal is to force myself, and you, to think about the assumptions of choice theories—both the explicit and implicit—who they apply to, and what they predict. Which assumptions you accept has critical implications for moral philosophy, including the ethics of economics. Based on the evidence that will be presented, I doubt that Assumptions 2 (you have a ranking), 4 (you experience your highest ranked feasible ranking), and 5a (higher ranked is better) apply to all, or even some, humans and doubt whether they apply to chimps, dolphins and elephants. Assumptions 1 and 3 are on solid footing: at every point in time you can only live one life, and you cannot do the infeasible.

If you subscribe to a moral philosophy that assumes that making society better off requires the betterment of some of its members, then whether Assumption 5a (higher ranked is better) holds is critical. Welfare economics is such an ethic; anything that an individual perceives as better for them, is better for society, as long as no one else is made worse off. So, if you want to produce as much WB as possible in a Robinson-Crusoe world, Assumptions 1-5a imply you give Robin unlimited freedom; he can do no wrong, so restricting Robin’s freedom is bad/unethical; doing so would reduce the welfare of society. If Assumption 5a is incorrect (even if 5b is correct), Robin will not act in his own self-interest, and advocating liberty and freedom in the pursuit of self-betterment is misguided.

A few additional thoughts on humans and what the assumptions do and don't imply about humans

While most people believe humans have conscious thoughts and consciously choose, Assumptions 1-5 don’t imply this: basic choice theory doesn’t require consciousness.

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\(^{24}\) Dogs have simply rankings—they are driven by instinct, doing what is best for them. Except for his limited self-awareness, my dog seems to be an economicus. Plants do amazing things to stay alive.

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Assumption 7 (self-awareness) implies consciousness, but not conscious choosing. Assumption 8 (the choosing axiom) adds it; it makes you consciously in charge—you choose and this determines the path you take—so you are responsible for your behavior. The conscious perception of choosing adds to our sense of self (who we are) and the sense that other individuals are responsible for their behaviors. [We commonly ask if a person should be held morally responsible if their behavior wasn’t chosen. Pinocchio should be excused for not listening to his father: Geppetto forget to carve him ears. We often find children, the insane, and animals not morally responsible, but there are exceptions: in 1386 the French hanged a pig for murdering a child—it flopped down suffocating the kid.]

Assumptions 1-5a imply the individual will consume the best available path independent of how long the experience of choosing lasts—the same path is experienced whether you pondered for a year or a second. Even though Daniel Kahneman, a Noble Laureate in Economics, wrote “Thinking fast and slow”, it doesn’t matter whether economicus is a fast or slow thinker—there isn’t even necessarily thinking. For economicus there is neither decision anxiety nor decision regret, feelings I suffer from all the time.

Assumptions 2 and 3 imply that in the period for which choice is being predicted, the ranking of paths cannot change and which paths are feasible cannot change. But what paths are feasible changes almost continuously as the passage of time turns risks and uncertainties into certainty, causing us to start down a new best-feasible path. In addition, ACT assumes nothing about how quickly your ranking can change, but one might expect experiences to change your rankings, e.g. by repeated tasting you discover that coconut ice-cream is great 95% of the time, not 25% of the time.

ACT doesn’t explicitly mention duties (self-imposed constraints), commitments, or responsibilities. They play no explicit role in determining behavior, but my sense is that much of what you and I do is determined by responsibilities and commitments.

ACT doesn’t require much in the way of thinking, or logic, or rationality. Assumptions 1-6 require nothing that I would describe as thinking or reasoning, or even the need for a memory (except for remembering your ranking). Assumptions 7 and 8 suggest a bit of cogitating.

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25 When economists actually estimate how much of different goods an individual will consume, they must specify the time period—e.g. “the number of oranges consumed per week”.

Morey: Choice, Happiness, and Ethics
Assumption 2 requires only that the individual has a complete ranking of paths (so it is reflexive and transitive), so the ranking is rational but in only a weak sense of that word. Economicus has to be rational if one only means by rational that she experiences her highest-ranked feasible path.

**Assumptions 1-5 disconnect the ranking of paths from feelings and sensations**

They don’t even require that you have feeling and sensations. However, if I rank Path $b$ higher than Path $a$, I suspect most economists think this means each paths generates feeling and thoughts and I would be better off with those associated with Path $b$. Assumption 6 adds feeling and sensations, but economists don't explicitly talk about feeling and sensations. This is intentional and unfortunate; feelings and sensations make animals feel alive. For humans, and other self-aware creatures (Assumption 7), there is a self—a me—who experiences the world in terms of feeling and sensations from a personal me perspective. There is a me embodied in Edward who experiences feelings and sensations as his sensations. Assumptions 6 and 7 together imply feelings and sensations are happening to me.

Physiology and experiments indicate that there is more similarity in feelings and sensations within a species than across species; for example, the sensation of seeing is more similar across humans than between humans and frogs—and all humans have the same sorts of feelings, and these feelings might be different from what frogs experience. When I experience pain you have a sense that what I am experiencing feels similar to what you feel when you identify what you feel as pain. However, the same stimulus doesn’t cause everyone to experience the same feeling.

**ACT isn’t clear on how the myriad of feeling and sensations, along with their varying intensities, maps into a ranking of paths based on feeling-based betterment**

The individual's ranking (Assumption 2) ranks/orders all conceivable paths (first, second, third,…), and Assumption 5a adds betterment, but together they imply nothing about how much better the 12th ranked path feels compared the 13th, only that it is better. There isn’t even the suggestion that you can sense different degrees of betterment. (As an analogy, imagine a

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26 The Harvard psychologist Wegner has an insightful definition of the self: "The sense we have that we are agents who do things and experience things, and who in some regard are the same from one time to another. This sense of identity is inherent in the aspect of the self that William James (1890) called the 'knower,' the self that is the seat of experience, the self that is doing all our thinking and living. Another way of conceptualizing identity is to speak of the self as the object one can think about, the aspect of the self that James called 'known.'"
competition where you can tell who won and who came in second but where the magnitude of the victory is a meaningless concept; e.g. a game of pure chance.)

Summarizing, modern theories of choice assume only an ordering of paths, not necessarily cardinal (the amount of better is measurable). Some history: Nineteenth-Century choice theory assumed you could comprehend different degrees of betterment and that betterment, and mine, could each be measured on a numerical scale; you were assumed capable of experiencing Path \( j \) as feeling twice as good as Path \( d \); that is, your ranking was cardinal. The numerical scale of feeling was called utility and if the utility number associated with Path \( m \) was 25% larger than the number associated with Path \( f \), then Path \( m \) isn’t just ranked higher than Path \( f \); it felt 25% better. Most modern theories of choice have discarded this assumption because only a ranking is needed to predict what you will do; assuming you have more than a ranking adds nothing to predicting what path you experience. If going bowling is the best option, it doesn’t matter whether the feeling is three-times better than the next-best alternative or a smidgen better; either way, you go bowling. But, discarding the notion of intensity weakens the link between your feelings and your ranking of paths. The feelings and sensations I experience seem to have intensity ("The chocolate ice-cream tastes a little bit better than the vanilla, but the tutti-frutti tastes way better."), but in modern choice theories do not require intensity.

Finally, most economists, in fact most behavioral scientists, assume the way people think and perceive the world, along with their sense of self, is universal. As the University of British Columbia professors Joseph Henrich, Steven Heine and Ara Norenzayan explain, the assumption [not what they believe] is that

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27 Numbers are cardinal: the number 10, for example, is larger than 5 (an ordinal property) but 10 is twice 5 (a cardinal property). Cardinal implies ordinal, but ordinal doesn’t imply cardinal. Expected utility theory is an exception, it assumes a weak form of cardinality (the utility function is unique only up to linear transformations).

28 For more on cardinality, ordinality, and rankings see Morey.

29 If generalizing a theory’s assumptions doesn’t change what it predicts, you should generalize. At least William of Ockham (1287-1347) thought so: if after the assumptions are relaxed, a theory predicts the exact same things, it applies in more situations. Use Ockham’s razor to shave away the unnecessary restrictions. Replacing a ranking with cardinal properties (which is a ranking of paths with intensity added) with only a ranking is such a generalization/relaxation. Assuming only ordinality doesn’t does not mean your ranking cannot have cardinal properties.

Dropping the assumption that preferences are cardinal was first proposed by the German economist and mathematician Andreas Voigt in 1893, but Voigt has been largely forgotten, with much of the credit going to Pareto. The switch from cardinal to ordinal preferences was solidified by R.G.D. Allen and John Hicks in 1934, who said there was no need for cardinal preferences in CT.

Morey: Choice, Happiness, and Ethics
we all have the same hardwiring so we must all make choices in the same way... The fund analyst in NYC operates with the same axioms as the subsistence farmer in Peru.

Even if the assumptions of a particular theory of choice hold for some humans—doubtful—it is even more difficult to imagine they hold for all humans. Most social-science experiments are done on undergraduates at American universities and the results are then assumed to hold universally. Paraphrasing Henrich et al. (2005 and 2010): starting in the 1960s with the observation of fundamental differences in visual perception across cultures, this universality assumption has been under assault. People’s sense of fairness, how they decide, their sense of self, their moral reasoning, and even their brain scans vary significantly by culture and WEIRD people (Western, Educated, Industrialized, Rich, and Democratic) are typically the statistical outliers. The point is how individual humans behave varies by populations and cultures. When it comes to choice modelling, most of the estimated models of choice have been estimated for an atypical population (WEIRDS)—statistical human outliers. Concern is warranted.

**Economicus is a Western sort of guy**

Economicus can’t have an inconsistent ranking of paths and his behavior is directed, without error, to the highest-ranked feasible path. In addition, all types of betterment are comparable. In my mind, this makes him a Western ideal. Formal logic was first studied in Ancient Greece, infusing how we in the West view thinking, decision-making, and choice. Asian thinking tends to be more intuitive, holistic, and accepting of what Westerners would view as contradictions. In Ancient China there was nothing comparable to the Ancient Greek system of formal logic; rather a dialectic (method of reasoning and deciding) was developed that allows for contradictions, and this approach has infused Asia. Of course, we all do some of both types, and thinking patterns vary widely within a culture, but how people tend to think and how people value different ways of thinking varies across cultures.

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30 To clarify the distinction, quoting Henrich et al.: *Holistic thought involves an orientation to the context or field as a whole, including attention to relationships between a focal object and the field, and a preference for explaining and predicting events on the basis of such relationships. Analytic thought involves a detachment of objects from contexts, a tendency to focus on objects’ attributes, and a preference for using categorical rules to explain and predict behavior. This distinction between habits of thought rests on a theoretical partition between two reasoning systems. One system is associative, and its computations reflect similarity and contiguity (i.e., whether two stimuli share perceptual resemblances and co-occur in time); the other system relies on abstract, symbolic representational systems, and its computations reflect a rule-based structure.*

31 Learning about logic, marginal analysis, and benefit-cost analysis might cause you to reason more analytically causing economists to believe man behaves logically.
Research by the psychologists Emma Buchtel and Ara Norenzayan demonstrates that Asians think more intuitively, judging intuitive reasoning as more important and reasonable than analytic reasoning. Their article starts with a quote on analytical versus intuitive thinking from a Chinese scholar in 1939. Expressing the Chinese view:

. . . We see an opposition of ‘logic’ versus common sense, which takes the place of inductive and deductive reasoning in China. Common sense is often saner because the analytic reasoning looks at truth by cutting it up into various aspects, thus throwing them out of their natural bearings, while common sense seizes the situation as a living whole . . . Logic without such common sense is dangerous . . . (Dr. Yutang Lin)

Different ways of thinking aren’t just an East/West thing. Southern Italians, for example, think more holistically than Northern Italians, and working-class Southern Italians think more holistically than middle-class Southern Italians. Richard Nisbett, a social psychologist, has been a pioneer in finding both cross-cultural differences in cognition and evidence supporting the hypothesis (the Social Orientation Hypothesis) that these difference are due to culture rather than genetic or linguistic differences.

So what to say about ACT and economicus, the guy who follows its rules?

Assumptions 2 and 5 are not realistic; they don’t describe any human you, or I, know. For example, who never makes WB-reducing choices? That said, no model’s assumptions realistically describe all of the situations where the model is applied. For example, the apple that fell on Newton’s head was not falling in a vacuum. Models are not rejected because they assume stuff that is unrealistic. Milton Friedman’s view, at one extreme, was that realism of the assumptions is immaterial and all that matters is whether predictions of the model do a good/adequate job of predicting behavior. A more nuanced view is a model adequately predicts behavior because its assumptions, while not realistic, approximate reality. Of course, adequately predicting is a matter of degree: different applications of ACT often explain fairly well how people react, in general, to changes in their constraints (estimated aggregate-demand curves slope down and shift out when incomes increase), but are not great in predicting the behavior of specific individuals. ACT has been applied to estimate the demands for thousands of different goods and services, plus public goods, environmental quality, fishing sites—you name it—and the results used to inform policy by estimating how much demand will change if for example a price changes, or estimating what someone will pay for a quality change. For example, economists have used ACT to estimate how much the demand for cigarettes by teenagers will drop if the tax on cigarettes increases, and estimate willing-to-pay for improvement in
environmental quality. I have personally estimated many models of the demand for recreational sites under different environmental conditions and these have informed damages estimates in numerous NRDAs (Natural Resource Damage Assessments). So, different versions of ACT are widely used in research and to inform policy.

ACT is an idealized caricature of how people make choices, its creation motivated in part by the mathematization of economics that started in the 19th Century. Caricatures of the real world intentionally distort, for emphasis, some of its aspects. ACT is also a story about behavior, a story of mistake-free choice that is self-appealing. It is also a simple story. That said, my economicus is quite different from economic man as conceived by Alfred Marshall (1842-1924), and his is different from Adam Smith’s conception. Economicus continues to evolve, hopefully he will evolve into a more complicated and flawed creature who behaves but who does not always choose his behavior—behavioral man—the subject of the emerging field of Behavioral Economics. What is unfortunate is that the current economicus is the only character that many students of economics encounter, but this is starting to change.

Before continuing our discussion of behavior and choice, Chapter 2 jumps to welfare economics: how some economic ethicists parse moral acts from immoral acts. In Chapter 3 we return to behavior and choice, absent normative considerations. In Chapter 14 we will come back to ethics and moral philosophy, briefly surveying other moral philosophies.

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i Sources:

ii Sources:

Morey: Choice, Happiness, and Ethics

iii Sources:

iv Sources:

v Sources:
4. Morey ibid

vi Sources:


Sources:


Chapter 2: Welfare (well-faring) economics as a theory of what is morally right and wrong: my take

This chapter introducing welfare economics is a detour from hypothesizing about behavior and choice. The Chapter is here, rather than later, because most students of economics have some familiarity with welfare economics, and because ACT with Assumption 5a implies each individual maximizes their own WB, and welfare economics assume the moral object is to maximize social WB—both are about WB and maximization. In Chapter 14 other ethical systems (moral philosophies) will be reviewed and contrasted with welfare economics.

Welfare economics is an economic ethic that tries to answer the question of whether an action is moral or immoral.

The action could be the action of an individual (her behavior) such as her eating a chocolate bar, smoking in a crowded room, or driving drunk. Or the action could be a government policy such as going to war or using taxation to redistribute income from the rich to the poor, or the poor to the rich. Since economists think on the margin the welfare-economic question is typically not whether the action is moral or immoral but what is the right amount (how much chocolate should I eat, and how many cigars should I smoke). For example, economists, typically don’t talk about whether we should or should not pollute, but rather what is the right amount of pollution.

My first inclination was to use the words “good” and “bad” actions, but will instead use “right” or “moral” and “wrong” or “immoral” as in “morally right” and “morally wrong”. The words “good” and “bad” are used in many ways, so easy to misinterpret. Sound good? Morally right sounds pretentious but is clearer. Morally wrong means it should not happen for moral reasons.

The economics of right and wrong is normative: what should happen vs. what does happen. Many economist ethicists, but not all, are welfare economists. Welfare economists is a moral philosophy (an ethical system). In the words of John Stuart Mill, a moral philosophy is simply "a method to test right from wrong," Your first inclination might be to say that welfare economics is not, and was never intended to be, a method for determining what is moral and
immoral but, rather, its intent is to tell us what policies, projects, and restrictions to adopt, and at what levels. But that comes to the same thing: to answer, one needs criteria for parsing right from wrong actions.¹ Besides, many people judge many policies and actions right or wrong based on their personal ethics, so even if welfare economists wrongly insist they are not morally judging a policy, most others explicitly are. Consider, for example, the ethics that motivate different view on species preservation and global warming.

Welfare economics can, in theory, judge, using its criteria, whether any action is right or wrong, but often cannot in practice. This is true of many moral philosophies. In practice, policy makers are lucky when a moral philosophy gives us an indication of whether a action is right or wrong. Looking ahead, some readers will disagree with my characterization of welfare economics, citing examples of individuals who self-identify as welfare economists but who would disagree with my characterization of it. This is OK: the objective is not for you to agree or disagree with what I think welfare economists agree on, the objective is for you to think about the assumptions welfare economists make, and to think about whether utilitarian is the best word to characterize the ethics of welfare economics.

The important thing to remember about welfare economics is that most moral philosophers reject it as a criterion to parse right from wrong, most normal people do as well. More on this after we list some of the commonalities of welfare economics.

Like choice theories there is no one set of assumptions that all welfare economists agree to, but welfare economists are consequentialists in that whether an action is right or wrong depends only on its actual consequences, the intent of the actor is immaterial, so is what we thought the consequences might be.² For example, killing someone for fun might be moral if that person would have gone on to cause great suffering, so might breaking a promise or abandoning an obligation. For a welfare consequentialist, the same action can be right in some circumstances and wrong in others: it is determined by the consequences of the act, not the act itself.

¹ The economic, moral philosopher Daniel Hausman, asks “Do normative economics [economic ethics] in fact require any moral commitments.” Like me, he concludes yes, going on to say, “Rather than pretending to avoid moral commitments orthodox normative economists have more typically attempted to keep them [their moral commitments] mild and plausible” (Hausman 2010). For example, the assumption that Pareto improvements are morally preferred is both mild and plausible, at least to many welfare economists.

² At the other extreme are processists who judge the process that caused the act (e.g. a majority vote), not the consequences of the act.

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Most people are not consequentialists; most people care about consequences, but not just about consequences; people also care about why and how it happened (the process), so care about intentions, virtues, duties, commitments, and rights. There are famous economist ethicists who have articulated theories of right and wrong who are not welfare consequentialists (e.g. John Rawls (1921-2002) and Amartya Sen); they are not welfare economists as I am using the term.3

Since welfare economists care only about well-being (WB), the only consequences that concern them is how the act affects the WB of those individuals that matter—the only consequences that matter are the welfare consequences—so welfare economists are welfare consequentialists. But what is WB? Consider Assumption 5a: Experiencing a higher-ranked path is better for the individual, from their perspective, than experiencing a lower-ranked path. The critical word here is “better”, a better path is associated with more betterment/WB, where WB is simply a unit of account to compare better and worse, much like temperature is a unit of account that we use to distinguish between different levels of hotness (coldness). Levels of an individual’s WB could be represented with numbers on a numerical scale, the higher your WB number the better off you are.4

[Before proceeding it is important to distinguish between a ranking of paths based on betterment and a ranking based on wants/desires. Consider Assumption 5b: The individual desires/wants a higher-ranked path more than a lower-ranked path. That is, higher ranked paths are preferred. I will use the word preferred as an abbreviation for more desired/wanted. Assumption 5a and b generate the same ranking only when (1) paths that are more desired are associated with more WB, and (2) paths associated with more WB are more desired. Whether these two assumptions hold is an empirical question, but welfare economists (at least most of them) assume them, often implicitly. I point out the distinction here for two reasons: (1) If the assumptions hold, and you always choose your highest ranked feasible path, you maximize your WB. And (2), Because some ethicists, including some economic ethicists, specify fulfilling wants and desires as the moral objective, rather than increasing WB. For clarity, I will exclude

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3 It is common to lump together all economists who ask what is the right policy and call the welfare economists, but this is incorrect.

4 As noted, economists typically use the word utility rather than WB, but it has so many connotations, so I will try to avoid the word.
these economic ethicists from the roles of welfare economists. I will call them instead *preference-fulfillment consequentialists.*

Table 1. makes the distinction clearer:

<table>
<thead>
<tr>
<th>Preferences fulfillment plays no role in determining</th>
<th>Welfare consequentialist: WB effects are the only determinant</th>
<th>WB matters, but WB effects are not the sole determinant</th>
<th>WB effects play no role in determining</th>
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<tbody>
<tr>
<td>I:</td>
<td></td>
<td>II:</td>
<td>III:</td>
</tr>
<tr>
<td>Preference matter, but preferences fulfilled are not the sole determinant</td>
<td>IV: Empty (if WB effects are the only determinant, preferences can’t be a determinant)</td>
<td>V:</td>
<td>VI:</td>
</tr>
<tr>
<td>Preference-fulfillment consequentialist: preference fulfillment is the only determinant</td>
<td>VII: preferences ↔ WB</td>
<td>VIII: Empty (if preferences are the only determinant, WB can’t be a determinant)</td>
<td>IX:</td>
</tr>
</tbody>
</table>

Table 1: Different ethical systems as a function of whether preference fulfillment or WB are determinants of right from wrong

Welfare consequentialists are in either I or VII (yellow and green), preference consequentialists in either VII or IX (blue and green). In VII, preferences ↔ WB (yellow and blue make green). Welfare economists are a subset of I and VII. Ethical systems in III (e.g. Kantian ethics, will of God) are alien to welfare economics, so hard for economists to get their heads around. People who care about both process and WB effects are in either II or V depending on whether preferences also matter.

Welfare economists typically assume (without thinking much about it) that only humans count, but do not have a criterion for determining which individual humans matter/count. They don’t justify or explain why only humans count. This contrasts with other welfare-based moral philosophies which morally assert and defend criteria such as *all individual who can feel pain should count,* or *all sentient individuals should count.* Many welfare economists are willing to exclude humans that are not members of their own group. Not surprisingly, what is morally right
or wrong in terms of aggregate WB often comes down to who counts. A big issue is whether future humans count and, if so, how much relative to us. The issue of future humans is further complicated because current humans influence the number of future humans. Within welfare consequentialism, welfare economics is the most restrictive in terms of who counts.

Welfare economists agree that the only important consequence of an act is how it affects the WB of society, which is a function of, and only a function of, the WB of each member of society. Let’s call the WB of society *social WB*. Actions that increase social WB are right and those that decrease it are wrong, and actions that increase social WB more are morally preferred. Welfare economists assume actions that increase the WB of some members of society and decrease the WB of no other members are right (economists call these Pareto Improvements), and actions that decrease the WB of some members without increasing the WB of any other members are wrong (Pareto Deteriorations).\(^5\)

Think what this means in terms of a voluntary trade: if you assume the WB of the seller and buyer are both increased by the trade, and if the production and consumption of what is traded decreases no other individuals’ WB, the trade is, by assumption, necessarily moral. This trade could even be moral if it makes third-parties worse off if they are not made too worse off.

At this point it is important to stop and make a distinction between social WB and *aggregate WB* where aggregate WB is the simple sum of each individual’s WB, summed over all living individuals who can feel pain, sentient individuals, humans you care about.\(^5\)

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\(^5\) *Vilfredo Pareto* (1848-1923) was a famous Swiss economist who in his later years, frustrated with how mathematical economics theories failed in the real world, turned to sociology. He came to believe that men act non-logically "but they make believe they are acting logically."
members of society. Some welfare consequentialists define social WB as aggregate WB, but many welfare economists do not.

Welfare economists agree that the WB of every member of society should play a role in social WB in that if the WB of any individual increases, without the WB of any other individual decreasing, social WB has increased, but this does not imply that everyone’s WB should count equally. So, all welfare economists agree that the moral objective is to maximize social WB, but this does not mean they all want to maximize aggregate WB. For better, or worse, this makes welfare economics less prescriptive, and harder to explain. It would be easier to understand if welfare economists all agreed that everyone’s WB should contribute equally to social WB. The problem is that many welfare economists believe that economists have no expertise in determining what is a fair in terms of the distribution of WB amongst societies members.

A problem for welfare economics, and all other moral philosophies where WB matters, is most actions increase the WB of some individuals while decreasing the WB of others, so are neither Pareto Improvements nor Pareto Deteriorations. So, to determine how an action affects either social WB or aggregate WB requires that you determine how the action affects every individual’s WB, and, in addition, you have a method for comparing WB losses and gains across members.

With respect to the first requirement, welfare economists assume you can always compare the value of all things—all values/betterments you experience are commensurable from your perspective—many people do not believe that everyone can do this, arguing that some things in some quantities cannot be compared. Commensurable means the rate at which an individual

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6 As an aside, many welfare consequentialists argue that the most cost-effective way to increase aggregate WB is to decrease suffering. Describing the goal as minimizing net-suffering puts a different, and appealing, perspective on welfare consequentialism.

7 Consider whether you would choose the maximization of aggregate WB as the moral criteria under two different conditions: (1) you are an impartial spectator choosing whether a group should adopt this objective, or (2) you know you will be part of the group (so are not an impartial spectator) but do not know your specific position in the group. The second is referred to as choosing behind a veil of ignorance). David Hume (1711-1776) and Adam Smith (1723-1790) considered the impartial spectator: John Rawls and Harsanyi the veil. Harsanyi argues that an individual whose objective is to maximize his expected WB would, behind the veil, choose maximizing average WB (maximizing aggregate WB hold the number of members constant). Rawls, making difference assumptions, reaches a different conclusion. So, an impartial spectator might choose maximizing aggregate WB.

8 The conflict is between economics as a science and welfare economics as an ethic. Economics, the science, is a science of behavior, and sciences do not parse right from wrong, whereas the objective of welfare economics is to parse right from wrong.
would substitute one thing for another is always specifiable. Said another way, everything can be expressed in in terms of the same measure of value: value only has one dimension. Examples of commensurability include: I would give up my friendship with George for two apples, my friendship with Phil for five apples, and for no finite number of apples would I give up Wanda. And, I would give up my right to free speech for the freedom to do whatever else I please, but I would not give up free speech for one ice-cream cone. Having a ranking of paths means you know the rate at which you would trade anything for anything else, be it friends, liberty, or cheeseburgers; it is implied by the choice-theory assumption that the individual can rank all paths.

If you believe that value is a multidimensional concept, and betterment on a dimension cannot always be compared to betterment on another dimension, you believe there are incommensurables, which is what Aristotle believed, what many modern philosophers (e.g. Martha Nussbaum (2012), a professor of Law and Ethics at the University of Chicago) believe, and what are lot of normal people believe (Morey 2017). For example,

Two betterments might be incommensurable if comparing them is incompatible with experiencing one or both of those betterments. An example is companionship (Raz 1986). Raz argues—in my words not his—that you cannot have a MRS [marginal rate of substitution] between companionship and money, because being in a meaningful relationship with someone requires that neither you nor your partner has a MRS between your relationship and money. Of course, some people do have a MRS between companionship and money, but they are then not in a meaningful relationship, or so the argument goes. Another example, consider the Grace-of-God. God is unlikely to shed his graces on you if you have a MRS between the Grace-of-God and money—at least I wouldn’t if I were God.”

Above I mentioned rights (as in the right to free speech, or the right to vote). Many people believe in inalienable rights, and if you have the right to do something, it is morally wrong (according to Rights Theory) for me to interfere with your ability to exercise that right (your right is a constraint on me). Welfare economists, being consequentialists, do not recognize inalienable rights; they might, for example, talk about the right amount of free speech, in the same way they talk about the right amount of pollution. Welfare economists who advocate for

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9 Sunstein (1994) provides an amusing example: “Suppose that [Adam?] Smith has arranged to have lunch with a friend today, but that he has become very busy and perhaps would like to cancel. Suppose Smith thinks in this way: if he cancels, his friend will be disappointed, because he would like Smith’s company, and also a bit insulted, because it is cavalier and disrespectful to cancel lunch at the last minute. Maybe Smith should make it up to him, or provide compensation, by offering a nontrivial cash payment…[but] A cash payment would be inconsistent with the way that someone values a friend. Even if the friend would prefer $1, or $10, or $100, or $100 to lunch with Smith—the offer of cash would be perceived as an insult rather than a compensation. In this context, the difference in kinds of valuation [betterments] means that a financial exchange would be inappropriate.”

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property rights do so only because they believe that having and enforcing property rights will increase social WB.

Quite importantly for policy, honest welfare economists agree that increasing efficiency is neither necessary nor sufficient for an increase in either aggregate WB or social WB—an action is efficiency increasing if the gain to the gainers is, in money terms, large enough so that the gainers could compensate any losers for their loss, and still be gainers. (The compensation does not have to occur for the action to be efficiency increasing.) Said another way, an increase in net real wealth (in $) does not imply an increase in either aggregate or social WB: money income is not an accurate measure of either individual WB, or aggregate WB, or social WB. For measurement sake—but not for any good reason—this is unfortunate since money is easy to count. An example demonstrates that an efficiency increase can decrease aggregate WB. Donald, a really-rich guy, would be willing to pay you $1000 for a ring you inherited from your mother. You treasure the ring but, since you are poor, would sell it for $200, so selling it to him for more than $200 but less than $1000 would make both of your better off. And, if no one else was affected by the transfer, aggregate WB and efficiency would both increase. However, Donald steals it, saving himself $200. The stealing is efficiency increasing but does not necessarily increase aggregate WB. For Donald, it is an additional trinket, for you a treasure was lost (your WB likely went down more than his increased, causing aggregate WB to decline, if that comparison has meaning). While welfare economists agree on all this, for better or worse—and mostly for trying to be relevant—it is common for talking heads (sometimes those same welfare economists) to misleadingly suggest that an action increases either aggregate WB or social WB if it is efficiency increasing. To be clear, some ethicists argue that increased wealth (increased efficiency), not increased WB (aggregate or social), should be the criteria to parse right from wrong—the Federal judge and legal scholar Richard Posner seems to be in this camp—but these ethicists are not welfare consequentialists, they are wealth consequentialists. Most academic economists concerned with normative economics are not wealth consequentialists.

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10 Note to correctly measure a society’s aggregate wealth one must include many things besides the present value of its GDP stream. For example, increase in pollution or a decrease in a county’s natural resource stock both affect its wealth but neither is included in GDP.

11 Posner (1983) argues that, while wealth and welfare are not the same thing, they are related, and that the goal of increased wealth, as compared to increased welfare, provides an ethical argument for honesty, commitment, etc., because these characteristics decrease the cost of market transactions. (A welfare consequentialist would advocate dishonesty if it would increase welfare.)
So much for what welfare economists agree on

Welfare economists do not all agree on what WB means or how it should be measured (see Chapter 4). Some welfare economists assume WB is simply emotional WB/happiness, some that WB is life-satisfaction WB, some a combination of the two. Some add more components.

In addition, welfare economists differ in terms of whether WB is cardinally meaningful (e.g. for you, level 4 WB is twice as much WB as level 2 WB) or only ordinally meaningful (for you, level 4 is better than 2, but you do not comprehend degrees of betterment).\(^{12}\)

Welfare economists also disagree about whether your WB is comparable to mine (measureable on the same scale). Incomparable across individuals is a common assumption among modern welfare economists. Consider four camps of welfare consequentialists: ordinal/comparable, ordinal/incomparable, cardinal/comparable, and cardinal/incomparable.

<table>
<thead>
<tr>
<th>WB is comparable across individuals</th>
<th>WB is not comparable across individuals.</th>
</tr>
</thead>
<tbody>
<tr>
<td>For an individual, different levels of WB are cardinally meaningful</td>
<td>Cardinal/comparable</td>
</tr>
<tr>
<td>Not cardinally meaningful</td>
<td>Ordinal/comparable</td>
</tr>
</tbody>
</table>

Table 2: Cardinal, ordinal, comparable, incomparable

Wow. It is hard to get your head around ordinal/comparable (I try below), easiest for cardinal/comparable. If everyone’s WB is a number on the same cardinal scale (cardinal/comparable), and one assumes all members of society count equally, social WB is simply the sum of all the individual levels of WB; it is aggregate WB.

Whether betterment has cardinal meaning is an empirical question that is mostly unanswered. Most of us imagine (would like to think) that we can comprehend and assess different degrees of our own betterment, but that does not make it so. Cardinal betterment is not required for choice, raising the question of why we would experience betterment cardinally if it has no influence on our behavior. Whether it is possible to compare WB levels across individuals is also, arguably, an empirical question. Most of us assert such comparisons (“I am not as happy as George but am happier than Glen, who is always depressed.” Or, “Donald stealing my mother’s ring increased his happiness less than it decreased mine.”). While, at the same time,

\(^{12}\) Complicating further, there are different degrees of cardinality. See Morey (1984).
admitting that we can’t be sure about such comparisons. There are two issues: whether it is meaningful to compare your WB to mine, and, if so, how to do it.

If WB is ordinal/non-comparable, adding WB numbers across individuals makes no sense, but welfare consequentialists can still ask whether a rule could exist that would take your, mine, and everyone else’s ranking of paths and spit out a ranking of paths based on social betterment. Ideally, the welfare consequentialist would want a rule that worked for all possible sets of individual rankings. And, they would probably also want to impose some ethics restrictions on the rule. A common restriction is that if for everyone path X is better than path Y, the rule has to rank X higher in terms of social betterment. Kenneth Arrow (1951/63) proved that if you imposed this and a couple of other reasonable restriction on the rule, no rule exists that would work for all possible sets of individual rankings (this is Arrow’s (in)famous impossibility theorem). Put simply, if each of us only has an ordinal ranking of paths, and your ranking is incomparable to mine, for many sets of rankings it will be impossible to convert them into a ranking of paths in terms of social betterment—at least if you want the results to be at all reasonable.

I was surprised to learn that a rule can exist for ordinal/comparable. For example, the following rule from Rawls (1971): Bundle X is socially better than Bundle Y if, and only if, the individual with the least amount of WB given Bundle X has more WB than the individual with the least amount of WB given Bundle Y. (They don’t have to be the same individual.) That is, X is morally preferred to Y, if the worst off is better off with X. The rule is inconsistent with one individual’s ranking being the sole determinant of the social ranking, arguably a good thing. It also has the desirable property that how it ranks X vs. Y does not depend on what other bundles are feasible (the independence of irrelevant alternatives restriction). In spite of these desirable properties, Donald Trump, and many others, would not like this rule.

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13 Getting technical, with ordinal/comparable WB, WB has no cardinal meaning from the individual perspective. One can achieve comparability across individuals with imposing cardinality by assuming the WB function can only vary across individuals up to the same increasing monotonic transformation. [WB_i^\star is an increasing monotonic transformation of WB_i if WB_i^\star = \phi_i(WB_i) such that the derivative of \phi_i(WB_i) is positive. Comparability is imposed by the requirement that \phi_i = \phi (that it’s the same function for everyone).]

Morey: Choice, Happiness, and Ethics
Welfare consequentialism, including welfare economics, scares many moral philosophers because anything goes if it increases WB

Most people, including most moral philosophers, reject the premise that the morally of an act is determined exclusively by its WB consequences. In welfare consequentialism, no acts or behaviors are inherently right or wrong. Lying, for example, is not inherently wrong; in fact, it is right to lie (the moral thing) if the lie increases WB. The same hold for breaking promises and dereliction of duties. There is no right to free speech or equal treatment under the law. No proscription on racial, cultural, or sexual discrimination. There is no right to liberty, so no restrictions on the amount the government can interfere in your life. For example, since speaking freely increases the WB of those speaking but often decreases the WB of those who must hear it, morality requires some restrictions on speech. In summary, most moral philosophers, and most people, are not welfare consequentialists. Most think WB impacts should play some role in determining whether an action is right or wrong, but that WB should not be the only determinant of morality.

Consider the implications of assuming the sources of an individual’s WB are irrelevant for determining right from wrong. Many, but not all, welfare consequentialists make this assumption, including welfare economists. In which case, the pleasure the neighbor kid gets from his mother’s love is worth no more, nor less, than the pleasure he gets from torturing cats. My decrease in WB from knowing poor people are starving in Africa counts for no more or less than the decrease in WB I experience from having to live next to people who are different from me. (To be dramatic I am mis-representing my tastes. I actually get WB from living next to people different from me as long as they are not too different.) Abhorrent to many is that the WB I get from causing others to suffer, or from the misfortune of others, counts as much as the WB I get from helping a friend or loved one.

If the sources of an individual’s WB are irrelevant for determining right from wrong—no matter how yucky or irreverent the source, the WB still counts. Looking ahead to an example in a research study discussed later, the pleasure George gets from having sex with a dead chicken he bought at the supermarket, then roasted and enjoyed for dinner, counts. Of course, welfare consequentialism must take account that the WB of others might decrease if they were to know what George was up to.
If the welfare consequentialist assumes that the sources of an individual’s WB are irrelevant and, in addition, assume the moral objective is to maximize aggregate WB, any action that that increases aggregate WB is right (morally preferred) not matter how the WB was generated. Start with a simple example thanks to Sen (1970), an economic ethicist and Nobel laureate, but not a welfare consequentialist or welfare economist. Consider a society of two individuals, Lewd and Prude, where Prude gets WB from denying Lewd a pleasure, and Lewd gets WB from making Prude do something he does not want to do.

*Society has to rank three states: (A) no one reads Lady Chatterley’s Lover, (B) only Prude reads it, or (C) only Lewd reads it. Prude, being a prude, does not want to read it but prefers he read it rather than Lewd: Prude hates the idea of Lewd enjoying the book. Best for Prude is no one reads the book. Lewd, on the other hand, would enjoy the book, but loves the idea of Prude being forced to read it. No one reading the book is Lewd’s worst outcome.*

To the discern of many, Prude being forced to read the book might increase aggregate WB: both Prude and Lewd are better off if Prude, rather than Lewd, reads it, and while Prude would have more WB if no one read it, this may be more than offset by the great pleasure Lewd gets from Prude being forced to read it. Many people, including many moral philosophers, would object and argue that forcing Prude to read a book he dislikes cannot be the moral high ground. In addition, they would object to having to include both the pleasure Lewd would get from Prude being disgusted, and the pleasure Prude would get from Lewd not having the pleasure of reading the book. Shifting examples, the pleasure George gets from living in a neighborhood with only straight, white people might mean keeping others out is morally preferred to an integrated neighborhood.

If the welfare consequentialist assumes that the source of an individual’s WB is irrelevant and, in addition, assume the moral objective is to maximize aggregate WB, WB generated by ignorance counts or much as WB generated by learning. In moral consequentialism, there is nothing inherently wrong with fake news: it increases the WB of some. There is also nothing inherently right about real news: it decreases the WB of some. The pleasure I get from believing global warming is not real and the pleasure I get from believing my wife is faithful (I am wrong) counts on the aggregate WB scale the same as the bump in WB you would get from a great day of skiing or from pulling a drowning kid from a pool.
If one takes welfare consequentialism to the extreme, one can create examples that would make most people scream “NO” to awful acts that could, in theory, be justified by welfare consequentialism. These include torture, racial discrimination, sadistic acts, dictatorial rule, and killing humans or other animals for fun and sport. 14 Anything can be morally justified by welfare consequentialism simply by arguing that doing it would increase social or aggregate WB. Of course, you and I could reject the assumption that the sources of WB are irrelevant, but then we would not be welfare economists. Welfare economists include the negative WB impacts of my actions on others, but would never deem certain sources of my WB as immoral per se. John Harsanyi (1920-2000), the 1994 winner of the Nobel in Economics would; he argued that society should, on ethical grounds, exclude from WB pleasures and pains caused by lack of information, misinformation, and morally objectionable rankings (based on racism, sexism, sadism, maliciousness)—rankings that lead people to trample on the dignity and equality of others (Harsanyi 1977 and 1983). 15 He was not a welfare economist. As a Hungarian Jew, in 1944 he worked in a forced-labor unit, escaping from the train at the Budapest station as his unit was being sent to an Austrian concentration camp (Harsanyi 1995).

Consider the implications of adding to welfare consequentialism the welfare economic assumption that everyone maximizes their WB subject to their constraints (people do not make WB-reducing choices). This makes, for many, welfare economics even more objectionable. More objectionable because the assumption implies it is always wrong to interfere in acts that affect no one other than the actor. You and the government have a moral imperative to not intervene when I beat my head against the wall, or drink 12 shots of tequila, or try to commit suicide—unless someone, beside me, would be negatively affected—a lot. In contrast, a welfare consequentialist who recognizes a WB-reducing choice would be morally compelled to intervene, even if choice would not decrease anyone else’s WB. Many regular people would also be compelled.

14 Welfare consequentialists tend to argue that while despicable acts could in theory increase WB, this is unlikely in practice when one takes account of those who suffer from despicable acts.

15 An important question is who determines what rankings are immoral. And if, for example, society decides a ranking based on hate is immoral, there is the further issue of whether a specific ranking is, or is not, hate based. In addition, if hate is deemed immoral, how does one determine what a hate-filled person’s WB would be if he were hatred free?
And finally, many object to the tendency of welfare economists to not consider the WB impacts on individuals who are not members of their group/tribe.

**Do welfare economists belong to a subset of welfare consequentialists called utilitarians?**

*The Dictionary of Bad Definitions*

Utilitarian, *n.*

Etymology < post-classical Latin *utilitarius*>

A person who studies, worships, or is otherwise obsessed with the word utility.

*Economists must be utilitarians because they are always talking about utility.* (Shakespeare’s brother Bob, 1604, in *My letters to Will*)

I ask this question because economists are led to believe that welfare economics is grounded in the moral philosophy called utilitarianism. So, what is utilitarianism and how does it relate to welfare economics as I have just described it? The first problem with answering this question is not many modern moral philosophers are welfare consequentialists and those that are often do not self-identify as utilitarians—utilitarianism seems to have a bad name in large parts of moral philosophy.

So, I start with a simpler question: do welfare economists adhere to the classic utilitarianism of Jeremy Bentham, the father of utilitarianism? 16 17 Most do not. For one, Benthamite utilitarianism is welfare consequentialism that assumes WB is only emotional WB, where emotional WB is simply pleasure minus pain. Most welfare consequentialists, including most welfare economists, take a broader view of WB. Pain might cover all the things that would

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16 Utilitarianism was developed and popularized by Bentham’s *Introduction to the Principles of Morals and Legislation*. Put simply, humans and other animals experience only pleasure and pain which can be netted and then added across individuals (Bentham's *felicity calculus*). An action is moral if it increases aggregate net happiness. The first sentence of Bentham’s book says most of it, *Nature has placed mankind under the governance of two sovereign masters: pain and pleasure. It is for them alone to determine what we ought to do, as well as to determine what we shall do.*

17 Initially Bentham did not call it utilitarianism. John Stuart Mill adopted the term after seeing it used in a novel, unaware that Bentham had earlier used the word in a letter (Reeves 2007). Mill suggests that Plato was the first utilitarian (Mill 1879). "To each his due" suggests actions should be assessed on the basis of how they affect welfare. The expression "the greatest happiness of the greatest number", while popularized by Bentham, can be traced back to the philosopher Francis Hutchesion, a founding father of the Scottish Enlightenment (Reeves 2007). One of the roots of utilitarianism is Epicurus. Bentham claimed inspiration from David Hume. When Bentham came across Hume’s discussion of morality he felt as though "scales had fallen from his eyes" (quoted by Gottlieb 2016) “It appears there was never any quality recommend as a virtue, or moral excellence, but on account of it being useful or agreeable to a man himself, or to others,” (Hume 1758). Hume differed from Bentham in that Hume was noting how people judge, not on how they should judge, and Hume did not think WB quantifiable (Gottlieb 2016)
cause a spider’s WB to suffer, but many things that decrease the WB of my dog and I are not physical pain (the firings of specific types of muscular nerve cells), and pain does not always cause a decrease in our WB. Chewing on sticks to dislodge one’s baby teeth hurts, but my puppy persists. On the way to the dentist I play with my loose tooth trying to find the amount of pushing that hurts just right. After a competitive bike ride, the leg pain tells me I worked hard, my goal, and I know the pain will be gone in the morning. But, pain you do not control, that won’t go away, and is a symptom of illness causes a decrease in WB. The word pleasure is also too narrow for humans. Like pain, pleasure is a sensation. Many pleasures (the taste of good chocolate, orgasm) are specific to certain body parts. A pleasure can cause enjoyment, but it can also cause suffering—I am upset with myself for eating those tasty onion rings. Like pain, whether a pleasurable sensation increases WB often depends on the circumstances in which it occurs. Bentham was a pain and pleasure guy; welfare economists are not.

In addition, in Benthamite utilitarianism your net pleasure has cardinal meaning, and is measured on the same cardinal scale as mine. In addition, the moral objective of Benthamite utilitarianism is to increase aggregate net pleasure, defined as the sum of aggregate pleasures minus aggregate pains.

And, for Bentham this includes the pleasure and pains of all individuals that can experience pleasure and pain, independent of species, so the pleasures and pains of ducks count as much as yours and mine, and all pleasures and pains count equally, including spider pain.18

The day may come when the rest of the animal creation may acquire those rights which never could have been withheld from them but by the hand of tyranny. The French have already discovered that the blackness of the skin is no reason a human being should be abandoned without redress to the caprice of a tormentor. It may one day come to be recognized that the number of the legs, the villosity of the skin, or the termination of the os sacrum [whether one has a tail] are reasons equally insufficient for abandoning a sensitive being to the same fate. What else is it that should trace the insuperable line? Is it the faculty of reason or perhaps the faculty of discourse? But a full-grown horse or dog is beyond comparison a more rational, as well as a more conversable animal, than an infant of a day or a week or even a month, old. But suppose the case were otherwise, what would it avail? The question is not, Can they reason? nor Can they talk? But, Can they suffer? (Bentham)19

18 And one does not even need a backbone to experience pain. After using pain-inducing chemicals on spiders, Thomas Eisner (2003, p253), the recently deceased “father of chemical ecology” concluded, “I have no doubt they did [experience pain]...we came to the conclusion that invertebrates perceive pain, and that their sensory basis for doing so may not be much different from our own.”

19 Bentham was particularly fond of animals, having a pig for a friend and a cat who ate at the table. Mill suggested that Bentham lacked human experience (Mill 1987).
Holding all else constant, imagine two new worlds: in the first, you get 10 additional units of net pleasure and Wilbur, a pig, gets -5, and in the other the numbers are switched. The Benthamite utilitarian is indifferent/impartial: who gains and who loses is immaterial if the net gain is unchanged. This impartiality is a critical component of Benthamite utilitarianism, but not welfare economics. Most welfare economists would include only the pains and pleasures experienced by member of their society, which, in practice, means only the pleasures and pains of humans who are members of the welfare economist’s group. And, welfare economists do not assume that every member’s WB should get equal weight. That is, the objective of Benthamite utilitarianism is to maximize aggregate emotional WB but welfare economists do not assume social WB is aggregate WB. These are critical differences between welfare economics and Benthamite utilitarianism.

Welfare economics, like Benthamite utilitarianism, assumes that for you all values are commensurable, an assumption that is not widely held by others, so a significant commonality between the two ethics.

Benthamite utilitarianism would judge your behavior as moral or immoral in terms of whether it increases or decreases aggregate WB, and a larger increase in aggregate WB is preferred to a lesser increase. For example, Bentham would judge George smoking another cigarette wrong if it increases his WB less than it decreases the WB of others. Welfare economists, in contrast, would ask whether the act increases social WB. Neither would assume your act is moral simply because it increases your WB. An interesting aside is that since economicus is constrained to maximize his own WB, he is constrained to act Bentham immorally if his act increases his personal WB but decreases aggregate WB. That is, economicus is what is commonly referred to as a psychological egoist, or egoist. Whether Bentham was an egoist is a matter of debate: some argue that Bentham left open the possibility that humans can choose to act contrary to their own WB; if so, Benthamite George might simply choose to not lite up. To make Economicus George’s behavior moral someone would have to interfere.

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20 Bentham is contradictory on this issue: sometimes saying we are egoists, but sometimes giving us the option of acting contrary to our self-interest. In The Book of Fallacies, Bentham says, “In every human breast, rare and short-lived ebullitions, the result of some extraordinary strong stimulus or incitement excepted, self-regarding interest is predominant over social interest: each person’s own individual interest, over the interests of all other person taken together” (Bentham 1824 :392-3). Except for the insert, “rare and short-lived ebullitions, the result of some extraordinary strong stimulus or incitement excepted,” (which is often omitted replaced with “…”). This sounds like
In terms of Table 2, Benthamite utilitarianism is necessarily some subset of I and VII, and a strict subset of VII if you interpret Bentham as requiring everyone to maximize their own WB. If you don’t interpret Bentham this way, then Benthamite utilitarianism is a strict subset of I. If you interpret Bentham such that Benthamite utilitarianism is a strict subset of VII, it is a different subset of VII than is the welfare economics subset, with no or minimal overlap.21

The first place to look past Benthamite utilitarianism, is the utilitarianism of John Stuart Mill, but the ethics of Mill is too complicated for this Chapter (see Chapter 14).22 I will also jump over the influential utilitarian Henry Sidgwick (1838-1900) to the 20th century.23 Simply put, there is no one modern utilitarian ethic, but rather several over-lapping ethics. There is, for example, act utilitarianism, rule utilitarianism and preference utilitarian. And there are some modern welfare consequentialists who would not label themselves utilitarians, but arguably are. Act utilitarianism, like Benthamite utilitarianism defines the objective as maximizing aggregate WB—act by act; whereas the objective of rule utilitarianism is to identify rules—rules that apply to everyone—that will, overall, lead to the maximization of aggregate WB.24 The different varieties, for the most part, agree that WB is not simply pleasures minus pain.

For our purposes, the most interesting is preference utilitarianism. Peter Singer states, “my ethical position is a form of preference-utilitarianism:” “I approach each issue by seeking an endorsement of egoism. The insert leaves the door open a bit. But in contrast, in An Introduction to Principles of Morals and Legislation he says, “There is no case in which a private man ought not [emphasis added] to aim to produce his own happiness and of that of his fellow-creatures; … Every act that promises to be beneficial on the whole to the community (himself included) each individual ought to perform of himself; … Every act that promises to be pernicious on the whole to the community (himself included) each individual ought to abstain from;…” (Bentham Chap 17, paragraph 8). There are differing interpretations as to what Bentham meant (see, e.g. Driver (2009:9-10), Dinwiddy (2004: 137-8) and Lyons (1991)

21 To get overlap, at some welfare economists would have to assume that only emotional WB matters, that the emotional WB of all animals matters equally, and that WB is cardinally meaningful.

22 In partial explanation: Mill complicated the simplicity of Benthamite utilitarianism by arguing that some pleasures would count more some other pleasures. And, over his life Mill argued as both a utilitarian (Mill 1867) and a liberalist (Mill 1859), but neither view requires the other.

23 Sidgwick wrote the influential The Method of Ethics (1874) which was both a defense and explanation of utilitarianism (Driver (2014)). He critically pointed out the problem of total emotional WB versus average emotional WB: suggesting that the goal should be to maximize the product of average emotional WB and population size.

24 One argument for rule over act utilitarianism is that act utilitarianism provides no justification for moral rights or obligations—anything goes as long as it increases aggregate WB (Harsanyi Sec. 9). Whereas the general rules produced by rule utilitarianism provides guidelines (rights and obligations) for behavior. So, for example, rule utilitarianism might warrant the banning of slavery, while in act utilitarianism whether enslaving someone is moral or immoral is determined case by case. The other difference is that an individual undertakes an act taking as given the behavior of others, whereas a chosen rule applies to everyone, so effects the behavior of others.
the solution that has the best consequences for all affected. By ‘best consequences’, I understand
that which satisfies the most preferences, weighted in accordance with the strength of the
preferences” (Singer 1997). A noted difference between Singer and Benthamite utilitarianism is
that for Singer the objective is to fulfill an individual’s interests, and this is achieved by giving
people what they prefer, even if it involves less pleasure and more pain, or even less emotional
WB. Singer defines preferences as “wants, needs, and desires” (Singer 2011) Singer does not
advocate for the maximization of aggregate WB, so while he is consequentialist, he is a
preference-fulfillment consequentialist rather than a welfare consequentialist. He notes that if one
only prefers that which increases one’s WB, and one always prefers that which increases one’s
WB, there is no difference between preference-fulfillment consequentialism and welfare
consequentialism. See the earlier bracketed insert on page X. A motivation for fulfilling
preference rather than increasing WB is that preferences are, in his view, easier to observe and
measure. Singer counts equally the preferences of all species capable of having preferences, so
gives equal standing to all or most animals.25 Singer defines basic equality as when each
individual’s interests get equal consideration (impartiality), and argues that equal consideration
of interests is morally preferred over unequal consideration of interests. Singer (2010) describes
his preference utilitarianism as an extension of the utilitarian views of his Oxford professor R.M.
Hare (1919-2002).

In 1977 Harsanyi proposed preference utilitarianism. He pointed out (as many
psychological studies discussed in Chapter x-y confirm) that individuals do not always
maximize, subject to their constraints, their WB: he argued they make WB-reducing choices
based on misbeliefs, emotions, etc. So, he distinguishes between true preferences and the
preferences implied by observed behavior (manifest preferences), and argues that the moral
objective is to maximize preference fulfillment based on true preferences.26 Harsanyi’s true
preferences appear to align with WB.

The preference utilitarianisms of Singer, Hare, and Harsanyi all have a rules component
in that they argue that most of the time (day to day) the individual should determine what is
morally right based on rules that if followed would, most of the time, lead to the satisfaction of

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25 Singer is considered the father of the animal-rights movement based on his famous book, Animal Liberation.
26 A question arises: how does one identify true preferences when behavior is based on manifest preferences. And is
the WB caused, for example, by hate simply subtracted from the individual’s overall WB to get their moral level of
WB? Or is it more complicated than that?

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more preferences. But, in some complicated cases, the rules will not suffice and critical thinking will be required. They also all agree that preferences based on illogical or bad information should not count. While Harsanyi excludes the fulfillment of immoral preferences (hate, sadism, etc.) I have not been able to find anything by Singer or Hare that indicates they agree. Singer emphasizes that the equal consideration of each individual’s interests, and in his textbook, Practical Ethics, says nothing about inappropriate interests.

Contrasting with preference utilitarianism, welfare economists are concerned with welfare/WB, not preference-fulfillment. And, many welfare economists reject the notion that preferences and WB have intensities that can be compared across individuals. And most welfare economists would not sweat not fulfilling the preferences of non-humans, nor those of humans not members of their group. Another difference is that that like Benthamite utilitarianism, preference utilitarianism gives everyone’s preferences equal weight, while welfare economics does not require this.

Welfare economics does not draw a distinction between true and manifest preferences. It assumes your self-assessed WB is always your WB. Preference utilitarianism explicitly admits the possibility that you do not know what is best for you. You can be a preference utilitarian without assuming each individual experiences their highest-ranked feasible path, whereas choice theory and welfare economics assumes you always experience your highest-ranked path. Preference utilitarians admit WB-reducing choices, and if they believe you are making one, they would advocate for paternalism (limiting and directing your behavior against your wishes). Imagine that your teenage daughter is inclined to cut herself (not uncommon). Welfare economics says let her cut, unless the cutting negatively affects others; a preference utilitarian would advocate for sending her to therapy and throwing away all the knives in the house, even if her cutting affects only her. Or imagine that I, when given the opportunity, poke pins in my eyes and fail to save for retirement. A preference utilitarian might stop the poking and force some saving, but, if it does not affect others, the welfare economist has no grounds for interfering. (In determining whether to restrict my behavior, a preference utilitarian would, of course, account for the fact that forcing me to save for retirement conflicts with my preference for freedom.)

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27 Self-assessed WB is often referred to as subjective WB in that it is from the perspective of the subject/individual.
Some economic ethicists agree with Singer that the moral objective is increasing preference fulfillment rather than increasing WB. Personally, as I said earlier, I think it misleading to call these economic ethicists welfare consequentialists or welfare economists. As I do Singer, I characterize them as preference-fulfillment consequentialists. In terms of Table 1: preference-fulfillment consequentialists are restricted to VII and IX. If they admit, WB-reducing choices, as most do, they are restricted to IX. The ethicist Daniel Hausman (2010) critiques the divide between welfare consequentialism and preference-fulfillment consequentialism.

I end this comparison of utilitarianism and welfare economics with a short discussion of what each implies about distributing wealth. A moral imperative of the preference utilitarianism of Peter Singer is that once the basic needs of you and your loved ones have been met, morally you should allocate your remaining time and income to reduce the suffering of those individuals who are suffering the most, irrespective of their species, their relationship to you. This conclusion follows from his assuming (1) preferences have intensity, (2) preferences can be compared across individuals, (3) a dollar spent serving your interests (assuming you are not in desperate straits) will increase aggregate preference-fulfillment less than if it is spent to serve the interests of an individual in desperate straits, (4) you can choose to not pursue only your own interests, and (5) the moral objective is to increase aggregate preference-fulfillment. Singer in his textbook Practical Ethics admits he is asking a lot of you. In his discussion, his examples deal with our moral imperative to help desperately poor people, but his assumption that the interests of all individuals, independent of species, should count equally implies that the well-off should also allocate their time and income to reduce the suffering of animals. (Reliably reducing the suffering of domestic animals is likely cheaper than serving the interests of desperately poor people). Most welfare economists would not advocate Singer’s moral imperative because they would not, as we have discussed, accept all his assumptions. For one, they would reject (4): economicus cannot do this; he must maximize his personal WB (or desires) subject to his constraints. So, for the welfare economist, making you more moral is something that must be imposed on you by the State.

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28 This assumption is akin to what economists call “diminishing marginal utility” and something we teach as a “law” to students in principles of microeconomics.
It is the case that if a welfare consequentialist, or welfare economist, adopts assumption (3) and assumes the moral objective is to maximize aggregate WB, they would conclude that it is right (moral) that the State redistribute from the well-off to the worst off.\textsuperscript{29} Of course neither all welfare consequentialists, nor all welfare economists, would assume (3), or the objective of maximizing aggregate WB.\textsuperscript{30}

Given all these differences, welfare economists are not preference utilitarians. Welfare economists are also not rule utilitarians: they typically think about whether a specific act or policy would increase aggregate or social WB rather than suggesting moral rules that if followed would, on average, increase aggregate or social WB.\textsuperscript{31}

\textbf{Besides not being utilitarians (Benthamite, rule, or preference), welfare economists also differ from most modern welfare consequentialists.}

Some modern welfare consequentialists reject the notion that an individual can rank all possible paths in terms of betterment, arguing there are different ways things can be better, and these ways are not all comparable. For example, maybe I can compare the pleasure I get from chocolate ice cream with the pleasure I get from vanilla, but not the pleasure from chocolate with the joy of a friendship. This view is at odds with choice theory and welfare economics—commensurability is the foundation of choice theory and welfare economics.

Many welfare consequentialists who accept that all paths can be ranked in terms of WB reject the additional assumption that you always maximize your personal WB (choose the feasible path with the most WB for you). Not maximizing either because you make mistakes or because you choose to do best for a larger group than yourself.

Some modern welfare consequentialists argue that WB is not just about what you feel (your emotional WB) and your level of satisfaction (life-satisfaction WB) but WB also increases

\textsuperscript{29} Everyone of course would account for the fact that progressive tax rates might influence your incentive to work.

\textsuperscript{30} While the above discussion is in terms of Singer’s conclusions on redistribution, Bentham also advocated the redistribution of wealth from the best off to the worst off. While Bentham did not articulate diminishing marginal utility in the full sense of the current term, he did feel that an additional dollar spent by someone well off would increase emotional WB less than if were spent by a worst off, and Bentham’s goal was to maximize aggregate emotional WB. Quoting Bentham, “the more remote from equality are the shares [of wealth] possessed by the individuals in question, in the mass of the instruments of felicity, --the less is the sum of the felicity produced by the sum of those same shares” (Bentham 1839: 271).

\textsuperscript{31} One might argue that the aim of \textit{social-choice theory} (List (2013)) is to identify rules (functions) to identify what is morally preferred based on its welfare consequences. For example, there is the well-researched question of how different voting schemes (rules for decision making) succeed and fail in terms of distinguishing between right and wrong policies.
with, for example, knowledge, or the extent to which you are fulfilling your capabilities, or even having more capabilities—even if these do not increase your emotional or life-satisfaction WB. According to this view of WB, you can be better off even if you don’t feel it or realize it. And you could be better off even though you feel worse off if, for example, newly acquired knowledge makes you anxious and depressed.

You can, of course, be an economic ethicist that adopts a moral philosophy where the WB of society’s members is important, but where WB is not the only thing of importance (II or V in Table 1). But then you are neither a welfare economist nor a welfare consequentialist. This is OK: there is no rule that says economists who care about parsing right from wrong actions can only care about WB. What you are called if you care about WB but not only WB depends on how much you think WB should matter relative to other things, other things like being virtuous or fulfilling your duties. Consider NotOnlyWB ethics.

The moral judgements of regular people: normal do not ascribe to the ethics of welfare economics

Regular people do not determine whether an act is moral or immoral solely on its effect on WB: most regular people are not welfare consequentialists. In fact, for many people it is not clear that WB effects play a large role. Research in moral psychology indicates that typical Western research subjects judge morality (of an action or a person) using two criteria: (1): justice/fairness (treating others in proportion to their actions—they should get their just deserts), and (2): caring for others and protecting them from harm. Harming others is wrong; caring for others is right, those who harm should be punished, and those who care and reduce harm should be rewarded.

Recent research indicates that non-Western adults and Western religious conservatives add two additional criteria: (3) loyalty to your community/group, including a respect for its authority, including fulfilling your obligations to the group, and (4): an ethic of holiness (humans are God’s creations and are morally obligated to not degrade that holiness). Describing this perspective:

People are bearers of something holy or god-like, and have moral obligations to not act in ways that are degrading to or incommensurate with that holiness. The ethic of divinity requires that people treat their bodies as temples, not

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32 One could even be economic ethicist who believes that how an act influences WB is irrelevant to determining whether the action was moral or immoral. For example, the moral imperative could be fulfilling the will of God.

33 Most people also do not judge on the basis of efficiency/cost-benefit analysis.
as playgrounds, and so personal choices that seem to harm nobody else (e.g., about food, sex, and hygiene) are sometimes moralized (for a further elaboration of moral foundations, see Haidt & Graham 2007). In sum, the high-socioeconomic status (SES), secular Western populations that have been the primary target of study thus far, appear unusual in a global context, based on their peculiarly narrow reliance, relative to the rest of humanity, on a single foundation for moral reasoning (based on justice, individual rights, and the avoidance of harm to others; cf. Haidt & Graham 2007). (Henrich, Heinz, and Norenzayan 2010)

Of these four criteria, 2): caring for others and protecting from harm is the only one with that has an obvious link to WB. Linking the others to WB, one might argue that observing or experiencing injustice, disloyalty, and disrespect/desecration decrease WB, particularly for conservatives and non-Western adults.

One way to observe and measure moral diversity is to present people with descriptions of different behaviors and ask how they judge these different behaviors (right or wrong?). Judgement often varies with the respondent’s socio-economic status, political orientation (liberal vs. conservative) and religious affiliation. Researchers also ask what criteria the respondent considered when judging an act right or wrong to determine whether the criteria varies across individuals. Jonathan Haidt, his co-authors, and others have tested respondents’ reactions to harmless acts (acts which cause no physical or psychological damage, except possible offense—acts that often occur in private). Three examples (Haidt, Koller, and Dias 2003):

A woman is cleaning out her closet, and she finds her old [American or Brazilian] flag. She doesn’t want the flag anymore, so she cuts it up into pieces and uses the rags to clean her bathroom.

A man goes to the supermarket once a week and buys a dead chicken. But before cooking the chicken, he has sexual intercourse with it. Then he cooks it and eats it.

A brother and sister like to kiss each other on the mouth. When nobody is around, they find a secret hiding place and kiss each other on the mouth passionately.

The authors asked about such activities in three cities (two in Brazil, plus Philadelphia) finding that high socioeconomic Americans tend to view such acts as causing no harm, so not immoral—just activities that might go against social convention. In contrast, poor people and religious people, particularly in Brazil, often find these acts immoral simply because they invoke disgust or demonstrate disrespect. Western democracies typically legislate to reduce harm, not to eliminate harmless acts, but there are exceptions such as laws against homosexual acts between consenting adults. In contrast, religious states such as Iran and the Vatican ban many, so-called, harmless acts.

In 2009 Jesse Graham, Jonathan Haidt and Brian Nosek identified five different moral intuitions: harm/care, fairness/reciprocity, in-group/loyalty, authority/respect, and purity/sanctity.

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Across four different experiments, conservatives tend to give equal weight to each of these criteria for determining right from wrong, whereas liberals tended to use only the first two. For example, in their Study 4 respondents were asked what they would have to be paid to voluntarily do different sorts of distasteful things. The following are examples from each of the five criteria:

(Harm) Kick a dog in the head, hard

(Fairness) Say no to a friend’s request for help him move into a new apartment, after he helped you move the month before.

(In-group) Burn your country’s flag, in private (nobody else sees you)

(Authority) Make a disrespectful hand gesture to your boss, teacher or professor.

(Purity) Get a blood transfusion of 1 pint of disease-free blood…from a convicted child molester.

Their Figure 24 shows the results. (Each number on the vertical scale corresponds to much larger dollar amounts than does the previous number.)

![Figure 2: Graham, Haidt and Nosek (2009)](image)

Everyone needed the most money to be unfair and the amount needed does not vary by political orientation (the top solid line); but the more conservative you are the less money you need to do harm. And, when it came to violating your group, authority, or purity, the more conservative the more money you need.
It is difficult to reconcile how these ethical criteria are together consistent with welfare consequentialism, particularly if they each get equal weight. Trying—it would be a form of welfare consequentialism where WB obtained by being disloyal or disrespectful does not count (many welfare economists would shudder at this suggestion). And, in addition, disloyal acts and unholy acts greatly decreases the WB of the group. And, in addition, since such acts or often not observed by others, the simple knowledge that society does not forbid chicken-date night, and brother/sister kissing decreases, a lot, peoples’ WB.

Additional evidence that regular people are not welfare consequentialists: trolley problems:

Philosophers like thought experiments and a favorite is the *Trolley Problem*; the results indicate the people often behave inconsistent with welfare consequentialism. The hypothetical-trolley scenario has numerous variations but at issue is whether is it right or wrong for you (or someone else) to kill (or let die) one person to save five. The brake-less trolley is barreling down the tracks soon to derail on a curve killing all five onboard. You’re standing on a footbridge with a fat guy. If you trip, or push, him, he falls on the track and his large body stops the train. [Your body is too small to stop the train.] Or, an empty trolley is barreling down the tracks and will run over five people crossing the tracks(or tied to) unless you throw a switch which will divert the trolley onto another track where it will only run over one person. Assuming everyone at risk is a productive member of society, welfare consequentialists and welfare economists would always throw the guy or the switch. If presented with the switch story, many people say they would throw the switch, but if presented with the fat-guy version few people are willing to trip or push
the fat guy, even though switching and pushing both lead to the same number of people saved. Since welfare consequentialists care only about consequences, they would willingly switch or push.

Now consider a third version: you are standing by the track next to a switch. The fat guy is on the footbridge. If you throw the switch rather than diverting the trolley onto the other track, it trips the trap door the fat guy is standing on and he drops to his death on the track. When you were both on the bridge you might not have pushed because you were afraid you would get in a life-or-death struggle with someone bigger than you, but fear is eliminated with the trap door. Few people are willing to trip the trap door, but a welfare consequentialist always would. If you would not throw the switch you are neither a welfare economist nor a welfare consequentialist.

The British philosopher and radio host David Edmund’s explanation (Would You Kill the Fat Man?) goes to your intent. To stop the trolley with the fat guy, your intent has to be to kill him—he needs to die for the trolley to stop—his death could not be construed as collateral damage. In contrast, when you switch the trolley to the other track you are not intending to kill anyone, and once the trolley is on the other track the five are saved even if no one is on the other track. The poor guy crossing the other track is simply collateral damage. You’re not responsible for killing him. In summary, people judge acts both on consequence and process. Tweaks to the scenario can be determining. For example whether it is you or someone else deciding.

Conclusions and qualifications:
Questions addressed: What is the ethic of welfare economics? What is utilitarianism? And what are the ethical distinctions between welfare economics and utilitarianism. This chapter argues that the ethics of welfare economics is a particular type of welfare consequentialism, and quite

34 It turns out if you enhance your serotonin levels by taking the commonly prescribed SSRI citalopram you are even less likely to push the fat guy, particularly if you tend to be an empathetic person (the neuroscientist Molly Crockett and co-authors). [SSRI stands for Selective Serotonin Reuptake Inhibitor.] A decision to kill one to save five can be made using the executive-functioning part of your brain, thinking through the consequences, and then choosing the best outcome, which is kill one to save five. Or, it can be driven by your moral empathic-inclination to not harm an innocent person—“I cannot kill someone.” How much your choice is based on moral inclination versus consequence depends on the type of person you are, the amount of time you have to decide, your emotional state, and the emotional salience of the situation. The more emotionally salient the situation (pushing the fat guy is more personal and emotional than flicking a switch), the more likely your decision is based on the moral imperative to not harm, decreasing the probability you will kill the one to save the five. Serotonin is thought to strengthen your natural aversion to doing harm.
different from utilitarianism, the latter comparison complicated by there being different forms of utilitarianism, and by a hesitancy amongst moral philosophers to self-identify as utilitarians—for them it is a dirty word. Who is what, and why, depends, of course, on how welfare economists and utilitarians are defined and identified, also on how welfare consequentialism is defined. There is no book of official definitions and some readers will surely object to components of my definitions. This is OK, but I do hope the reader comes away with an aversion to suggesting that economists, and welfare economists in particular, are utilitarians. It is easier and more precise to argue that welfare economists are a type of welfare consequentialist that is different from a utilitarian: if you only care about consequences and if you have “welfare” in your title it follows that you are a welfare consequentialist. But keep in mind that welfare economists are a quirky sort of welfare consequentialist, a sort that most other welfare consequentialists shun.

But then again: maybe utilitarian really means someone who talks a lot about utility.

Chapter 14 will continue the discussion of moral philosophies but until then I return to the topics of behavior and choice, starting with the question of whether economicus could be the product of evolution.

Sources:
3. Edward Morey (2017) Economic Betterment (Value): Are all betterments commensurable? Can you compare your relief from less global warming with more anxiety at work? the loss of a friend? or, even, the stress of a longer commute?
4. David Hume (1758) *Essays and treatises on various topics*, London, A Millar in the Strand. [https://books.google.com/books/about/Essays_and_Treatises_on_Several_Subjects.html?id=EHQRAAAAIAAJ](https://books.google.com/books/about/Essays_and_Treatises_on_Several_Subjects.html?id=EHQRAAAAIAAJ)

Since, in the olden days, all, or most, welfare consequentialists were Benthamite utilitarians, _utilitarian_ was the default descriptor for welfare consequentialists. But now, while there are living welfare consequentialists, most are not Benthamite utilitarians, most Benthamite utilitarians are dead.

Morey: Choice, Happiness, and Ethics

Sources:

iii Sources:
Chapter 3: Could economicus be the product of evolution rather than the creation of God? Unlikely
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Evolution is driven only by the survival of genes/traits; its objective is not to produce gene containers that are happy and error free.

Evolution has two components: (1) genes generate traits in their containers (us and other living things) that increase or decrease the probability the container will pass its genes along to the next generation, causing the stock of the gene(s) for certain traits to increase, others to decrease. And (2) when genes are transmitted, transcription errors occur; these are often disastrous for survival, but sometimes fortuitous.

Evolution takes place at gene-level rather than at the level of the organism—living things are simply the copying machine. As the eminent evolutionary biologist, Richard Dawkins, explains in “The Selfish Gene,”

They are in you and me; they created us, body and mind; and their preservation is the ultimate rationale for our existence. They have come a long way, those replicators. Now they go by the name of genes, and we are their survival machines.

Evolution doesn’t require happy gene-containers, and doesn’t require that animals evolve to become happier over time. Consider lust, the great contributor to sexual angst in teenage boys; this evolutionary trait increases reproduction but rather than being happy, the container is, in the words of Elvis, "All shook up". The goal of evolution isn’t to maximize our WB: always happy and satisfied isn’t an appropriate mindset for surviving in a world of hungry, brutish, beasts—not for the beast and not for the prey.

Of course animals (and plants) that are suffering or die because they lack the resources to survive are less likely to reproduce and nurture their children, causing there to be a positive link between passing along genes and the survival of the container, and with the container having enough resources to feed the kids—but a lot of WB isn’t required. If things are too good pre-kids, you won’t have any, which wouldn’t serve your genes.

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1 In 2006, the thirtieth anniversary of the book was celebrated with a conference at the London School of Economics.
A caution: a strand of genes typically influences a set of traits, but that doesn’t mean each of these traits, by itself, makes it more likely the container will successfully reproduce; some inherited traits are simply side-effects. Some of these side-effects won’t influence reproduction and others, taken alone, will reduce the probability of successful reproduction. For example, sickle-cell anemia (red blood cells are sickle-shaped rather than round), a bad trait, is inherited and common in people of sub-Saharan ancestry. But in areas where malaria is or was common, having sickle cells increases the overall probability of surviving: the malaria parasite needs healthy red-blood cells. Another example more germane to our topic is that many people strive for to acquire more, even when they already have sufficient resources to successfully reproduce. A strand of genes that conveys the desire to have enough to survive and reproduce would increase the probability those genes will survive. But this desire becomes a side effect if it does not turn off when one has enough to survive and reproduce—and for gene transmission there is no advantage to turning the desire off.

Evolution, since it’s often incremental, is more likely to gravitate towards a local best than to the bestest best (the global best)

Evolution wouldn’t produce the perfection of economicus; it only proceeds in small steps from its current state. Recipients of drastically mutated genes (a big step) typically don’t survive. Consider, for example, a species’ current system for “seeing”. If better seeing will increase survival and reproduction, and if better seeing is only a tweak away, then evolution can produce marginally improved seeing. But if there is a better system that is completely different than the current system, evolution is unlikely to take us there. This holds for our brain system as well as our vision system. N.Y.U. psychologist Gary Marcus describes our brain, a product of evolution, as a “kluge”: n. Slang, “A clumsy or inelegant solution to a problem”, in his amusing and informative book Kluge: The Haphazard evolution of the human mind. Our brain, while it serves us well in many ways, isn’t a first-best mechanism; evolution isn’t about perfection, but about what the economics Nobel laureate Herbert Simon calls satisficing, doing good enough.

Humans suffer the limitations of evolution. One limitation is that humans mix beliefs with logic and inference. Marcus conjectures that formal logic, to the extent we practice it, isn’t a product of evolution, but something we learn in school and sometimes find useful. For example, in the 1930’s the Russian psychologist Alexander Luria (1902-1977) went to villages in the mountains of Central Asia and interviewed indigenous, uneducated villagers. He told them that

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all of the bears in a certain Siberian town are white, then told them that their neighbor visited that town and saw a bear. Finally he asked, “What color was the bear?” A common answer was, “Ask my neighbor”, but logic implies white. The psychologists Amos Tversky (1937-96) and Kahneman describe Linda:

Linda is 31 years old, single, outspoken, and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination and social justice, and also participated in anti-nuclear demonstrations. Which is more probable? 1. Linda is a bank teller. 2. Linda is a bank teller and is active in the feminist movement. Many modern literate respondents illogically choose 2, but the probability of two events occurring simultaneously can never be greater than the probability of only one of them occurring. We get it wrong because Linda sounds like someone who might be a feminist. In a 2017 book, The enigma of reason, Hugo Mercier and Dan Sperber, argue that humans did not evolve to be logical, rather they evolved to reason (create and give reasons/justifications) so others would accept their ideas and plans (to be convincing—not necessarily logical), and evolved to be convinced by the reasons of others only when it is in their interest. In this view, reasoning evolved to increase cooperation, not to increase logical thinking.

CT emerged and developed in 19th and early 20th century Britain, a Christian creationist world where man was unique and in the image of God.iii

In 19th Century England only Christians could be college professors. Developers of CT include William Stanley Jevons (1835-1882), Francis Edgeworth (1845-1926), Marshall, and the Nobel Laureate John Hicks (1904-1989). Jevon’s diary and correspondence demonstrates that the originator of marginal utility believed in God and, interestingly, found no conflict between his Christian faith and science (SEP on Jevons). Edgeworth (the creator of indifference curves) was a good friend of Jevons. Marshall is the father of consumer’s surplus; his father was “a devout Evangelical”. Robert Frantz in his 2005 book Two Minds: Intuition and Analysis in the History of Economic Thought, notes that Marshall,

...integrated his economics into his ideas about religion, character, duty, and intuition... Marshall also considered the joy brought about from religion as the ’highest joys of which men are capable.

Hicks, an advocate for ordinal utility and modern CT, was raised a Baptist. These gentleman were aware of Darwin’s theory, but they were also seeped in creationist Christianity, so it shouldn’t surprise that they assumed a theory of behavior where man is perfection—in God’s
image. We don’t know the depth of their Christian faith, but CT makes assumptions consistent with Christianity, assumptions evolution doesn’t imply. Of course we don’t know if they consciously had in mind man in God’s image.

Creationism and CT are symbiotic bedfellows

The late 19th Century drive towards mathematical formalism and logic in CT, led by Jevons, Marshall and the Austrian, Carl Menger, melded easily with the notion that you are an optimizer—a goal was to make economics more science-like. Human behavior is difficult to model mathematically if humans are the result of the awkward process of evolution; behavior is easier to model if man was created by God, and man maximizes subject to his constraints.

The next chapter is devoted to happiness: defining it and asking where it came from, and why. Whether more emotional WB/happiness is better is left for Part III.

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1 Sources:

2 If humans are both logical and created in God’s image, then God must be logical, so not a holistic Yin-Yang kind-of-guy.

Morey: Choice, Happiness, and Ethics
Chapter 4: Wanting versus liking, and happiness: an electrical chemical stew

A brief history of happiness and WB

In Chapter 1, a distinction was made between WB and it two components: emotional WB and life-satisfaction WB—in the literature the word “happiness” is often used as a catchall for emotional WB. Emotional WB and life-satisfaction WB is modern terminology, so for my brief history, I will simply talk about the history of happiness noting how what it meant has changed over time. In the section on the neuroscience of happiness I will revert and use it as a catchall for emotional WB. Neuroscientists don’t much study life-satisfaction WB: it is difficult to assess a rat’s life-satisfaction WB.

Thomas Jefferson inscribed an American right to the pursuit of happiness. In 1843, the cranky, contrarian essayist, Thomas Carlyle, pointed out

Every pitifuliest whipster [whippersnapper, wannabe hipster] that walks within a skin has his head filled with the notion that he is, shall be, or by all human and divine laws ought to be, 'happy.' His wishes, the pitifuliest whipster's, are to be fulfilled for him; his days, the pitifuliest whipster's, are to flow on in an ever-gentle current of enjoyment, impossible even for the gods.

Why is happiness a societal goal? —it hasn’t always been. This chapter reviews how the conception of happiness has evolved over time. The modern view is that happiness is a chemical state of mind. Whether more happiness is always a good thing is left for later.

Jim Holt (American philosopher and essayist) imagines the history of happiness in terms of bumper stickers:

Happiness= Luck (Homeric), Happiness=Virtue (classical), Happiness=Heaven (medieval), Happiness=Pleasure (Enlightenment) and Happiness=A Warm Puppy (contemporary).

If the “betterment” of Assumption 5a is defined as happier—it doesn’t need to be—we need to consider what happier means.

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1 Phillip Lemmons and Max Lupo graciously provided comments and guidance.
2 Carlyle coined economics the “dismal science”.

Morey: Choice, Happiness, and Ethics
The pre-Enlightenment Western view of happiness

An ancient view of happiness

Aristotle (384–322 BC) viewed happiness as a way-of-life (pursuing certain activities), rather than a sensation or feeling—you were a happy camper if you died having lived a meaningful life. Meaningful is eudaimonia (human flourishing). Your life had to be virtuous (arête which is also translated as excellent), and this required that you pursued reason. Why reason? Because humans have the unique ability to reason; it is part of our nature.

For Aristotle pleasure and happiness were related but different concepts: different activities produce different physical and mental sensations, and it is difficult to separate the sensation from the activity that produced it. Pleasurable sensations are the ones that feel good. The activities that promote happiness might, or might not, produce pleasure.

Aristotle outlined two incompatible paths to happiness: the practical social/political life, and the intellectual life. For the first, you need to possess the practical virtues—the appropriate amounts (not too much, not too little) of courage, temperance, generosity, honor, friendliness and wit, to name a few. In contrast, the intellectual virtues include commitment to the study of philosophy or science, and a commitment to educating the young to pursue truth and reason.

At the same time, Aristotle makes it clear that in order to be happy one must possess others goods as well—such goods as friends, wealth, and power. And one's happiness is endangered if one is severely lacking in certain advantages—if, for example, one is extremely ugly, or has lost children or good friends through death. But why so?...Aristotle's reply is that one's virtuous activity will be to some extent diminished or defective, if one lacks an adequate supply of other goods. Someone who is friendless, childless, powerless, weak, and ugly will simply not be able to find many opportunities for virtuous activity (Shields)

So, Aristotelian happiness requires luck, position and resources, so is only a possibility for the elite. Animals can’t have it (they can’t reason), and you have to be old—kids have not lived long enough. Sex, drugs and rock’n’roll won’t do it, no matter how much you like the feelings produced; feelings are not what cause a life to be happy or unhappy. For Aristotle, your living a virtuous life was good for you and for society making Aristotle an early advocate for Virtue ethics (you are good if you are virtuous).

Not all ancient Greeks assumed happiness was unrelated to how you felt. Epicurus (341–270 BC) equated happiness with a persistent absence of pain and stress—a tranquil life. Like Aristotle, he was all for a virtuous life, but, unlike Aristotle, he thought people should be virtuous because doing so would make encounters with other more pleasant (cheating and lying...
might get you beat up, or worse). There are similarities with Buddhism: trying to fulfill certain desires and pleasures causes stress, and tranquil is as good as it gets. Epicurean happiness is a root of Benthamite utilitarianism

*The Medieval (Middle Ages) view of happiness: happiness=heaven*

Paraphrasing Lotario dei Segni (Lotario of the Signs), before he became Pope Innocent III in 1198,

\[ \text{Men and women are simply vile. Conceived in the stench of lust and formed of the filthiest sperm, we spend our earthly days in misery, toil and degradation. (Quoted by McMahon)} \]

Worldly happiness was not something expected; a good life was a devout, religious life.

Happiness was being blessed by God in the afterlife.

\[ \text{Suffer for virtue's sake, medieval Christians were told, and you will be rewarded with an eternity of heavenly bliss. (Holt)} \]

Medieval Christian happiness is a sensation, so not Aristotelian—but a sensation mostly available to dead people, a sensation achieved by serving King, Church and tradition, and Stayin’ Alive—life was “nasty, brutish and short”, with an occasional drunken feast. Thomas Aquinas (1225-1274), a Dominican monk and Aristotelian scholar, allowed for a bit of worldly happiness, distinguishing between perfect happiness *(beatitudo)*—only available in heaven—and an imperfect happiness on earth *(felicitas or beatitudo imperfecta)*. If you have sufficient resources and abilities, and play your cards right, you get *duplex felicitas* (both kinds of happiness)

**Why do we care whether you are happy? The Enlightenment and the reaction to it**

The *Enlightenment* (late 17th to late 18th Century) was a revolution in thinking, an intellectual movement that proposed reason, logic, and evidence as the tools for decision-making.

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making—“The Age of Reason”—a reaction to things being done on the basis of tradition, the Church, and the monarchy; it followed in the footsteps of the scientific revolution of the 16th and 17th centuries. The word “enlightenment” should be interpreted as wanting to shine the light of reason on questions, and not interpreted as the period where we were necessarily enlightened by the truth.

The Enlightenment advocated for the individual, for thinking for oneself, for self-determination, in summary, for autonomy.

Tzvetan Todorov, a modern French/Bulgarian essayist

Tzvetan observes that while these ideas go back to ancient Greece, the Enlightenment combined the old ideas in new ways and applied them to the common man. The American and French Revolutions were motivated by the Enlightenment and are expressions of it. St. Augustine in the 4th century divided actions into two kinds: those that are means to an end, and those we directly enjoy; he thought the only action we should enjoy is worshiping God; the Enlightenment opened the door to enjoying other things.

Big Enlightenment names include Francis Bacon (1561–1626), Baruch Spinoza (1632–1677), John Locke (1632–1704), Denis Diderot (1713–1784), Voltaire (1694–1778), Hume, Immanuel Kant (1724–1804) and Isaac Newton (1642–1726). We in the West are children of the Enlightenment and can thank it, for better or worse, for the fact that we, as individuals, are important and our individual welfare counts for something. Without this revolution in thinking and importance, there would not be welfare consequentialism nor welfare economics.

Note that while Enlightenment thinkers advocated for scientific thinking, the argument that individual autonomy is important and good is an ethical position not a scientific discovery. The advocacy of individual autonomy was not based on research in psychology, sociology, or neuroscience; there was none. The advocacy was a negative reaction to the medieval ethic that the suffering of normal people is unimportant.

The start of 19th Century saw a partial pullback from Enlightenment thought. The reaction, the Romantic Age, added back emotions, feelings, and mystery (particularly of
nature)—think of English poets such as Lord Byron, Percy Shelley and Samuel Coleridge, and painting by artists such Eugene Delacroix, Casper David Friedrich, and J.M.W. Turner.

Figure 4: Rousseau

The works of Jean-Jacque Rousseau (1712-1778), the Swiss/French moral philosopher, bridge from the Enlightenment to Romanticism. Thank him for equating your welfare with your happiness, the feeling.

...the love of happiness is the sole principle of all human actions

Note the distinction between (1) giving importance to the individual and his betterment, and (2) defining his betterment in terms of happiness, a feeling. The Enlightenment caused the first, Romanticism solidified pleasurable feelings as the goal—the Romantic Age was the age of effect (feelings).

There are dark sides to individualism and the right to happiness, two possibilities are boredom and frustration. As the Norwegian philosopher Lars Svendsen notes, before the Enlightenment life was largely determined by the constraints of tradition, religion and staying alive. Now, instead, those of us in the developed West must choose a lifestyle (Buddhist, or bass fisherman, or Buddhist bass fisherman?), a style we hope and expect to make us happy, so we experience frustration and disappointment when it doesn’t, so try another. There are potential costs to having the right and resources to worry about happiness, including boredom, indecision, frustration, and anxiety. With the exception of monks and nobility, boredom seems to be a modern emotion. According to Svendsen, “A ‘privilege’ of modern man.”

An Eastern view

There is an important Eastern Western happiness distinction. Buddhism, for example, teaches that the pursuit of happiness is destined to fail and that all pleasures are fleeting, a belief

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3Svendsen defines a lifestyle as “essentially a set of practices maintained for a period of time.”
consistent with recent research (see Chapter 5). Good process, rather than the consumption of
goods, is the path to Buddhist enlightenment, making the Buddhist practice of a good life closer
to the ancient Western practice than to the modern Western notion. Buddhism as a moral
philosophy will be discussed in Part III, Chapter 15. Buddhist practice as a path to happiness is
discussed in Chapter 5.

The late nineteenth century view(s) of happiness

![Figure 5: Jeremy Bentham: preserved](image)

Figure 5: Jeremy Bentham: preserved

![Figure 6: John Stuart Mill](image)

Figure 6: John Stuart Mill

Bentham and John Stuart Mill (1806-1873) defined happiness as Epicurus did, as
Rousseau did, and as we do today, a feeling—your level of happiness is your positive feelings
minus your negative feelings, where these sensations have both duration and intensity.⁴

Epicurus and Bentham, and maybe Mill, are what philosophers call *pleasure hedonists*—guys

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⁴Mill, but not Bentham, argued that while two activities might be equally pleasurable, pleasure produced by high-
brow activities generates more social good than pleasure produced by low-brow activities. While they mostly agreed
on the definition of happiness, Mill argued the social worth of a pleasure depends on how the pleasure was
produced—Rousseau’s pleasure from reading Shakespeare was somehow better than his pleasure from picking his
nose, and Rousseau’s pleasure from scratching his butt was better than his pig’s pleasure from Rousseau scratching
the pig’s butt—simply because his pig was just a pig. There is more on this ethical distinction in Chapter 11. Some
might disagree with my assessment and argue Mill simply thought high-brow activities produce more pleasure. But
if you interpret Mill in that way, there is no need to judge social good on the basis of anything other than pleasure.
who equate good with pleasure. Bentham and Mill are typically viewed as founders of utilitarianism; whether Mill really was depends on what of his you read, and how much you read between the lines.

*Applying the terms WB, emotional WB and life-satisfaction WB historically:* Aristotle’s happiness in not rooted in WB, rather happiness is a synonym for a virtuous life. Epicurus and Bentham equated happiness with emotional WB. Mill’s view of happiness and WB is complicated: Mill, for example, considered freedom to choose a component of WB, independent of whether it increases happiness. A relevant question is whether the pleasure you get from an activity depends on the process or circumstances that made the activity possible. For example, would forcing you to eat the piece of cake you wished to eat, diminish the pleasure of eating it?

Perceptions become important in some assessments of life-satisfaction; for example, was the enjoyment you experienced the result of a misperception—“I foolishly believed Wanda loved me and now realize my time with her was a sham.” Other concerns include recollection errors, false projections, expectations, self-delusion, and discounting past and future sensations. Betterment is complicated: some members of the species economicus might rank only on emotional WB, others on only life-satisfaction WB. Some researchers ask happiness questions thinking it the best measure of WB while others ask life-satisfaction questions. Imagine policies that increase one but not the other. For example, some research suggests that a permanent increase in income causes a long-run increase in life-satisfaction WB, while a lot of research indicates it causes only a short-term happiness bump.

Often it’s not clear what a writer or speaker means when they use the words happiness or WB—often they have not settled on what they themselves mean.

Independent of how you define individual betterment (emotional WB, life-satisfaction WB or some combinations of the two), a critical ethical question is whether betterment is the criteria that should be used to determine whether an act or policy is good—a question for Part III.

**Modern happiness/emotional WB: a chemical state of mind**

**Happiness is a brain state**

Some things make our brains feel good; some things make us feel bad. For example, being cold or having a cold is unpleasant, and eating toast feels good. (Robert Frank, Cornell economist and New York Times columnist)
The modern scientific view—a view some of my students hate—is happiness is simply a brain state, a mixture of chemical and electrical activity in the brain that causes you to feel good. [I like to exercise till exhaustion because afterwards endorphins dance through my brain, the "endorphin rush", almost—I’ve heard—as effective as cocaine.] Happiness is a feeling, or class of feelings.

**Dualists and Materialists**

Materialists, also called Physicalists, believe the mind and brain are one and same—everything has a physical explanation, including our thoughts, feelings and consciousness—the mind is not something ethereal. In contrast, Dualists distinguish between the brain, a physical thing, and the mind, an immaterial spirit, believing that while much is explained by physics and chemistry, the human mind, transcend the physical. Put simply, for dualists, your mind does things that are incapable of ever being explained with physics or chemistry—so magical.

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5 For a modern questioning of materialism, see Thomas Nagel’s 1974 essay, *What is it like to be a bat?*—a fun read. Nagel, a philosophy professor at NYU, argues while one can’t reject the argument that the experience of mind is completely the result of a chemical stew, it’s hard to argue it’s only that, at least not without a theory of how the stew generates our sense of self and the feeling we are experiencing. But no such theory [now] exists. He further questions whether it’s even possible to have a theory that equates every mental state with a specific and physical brain-state, at least within the confines of modern physics.

6 Dualists are not required to believe that the magic extends beyond the minds of men; they are also not required to believe in God, and one could arguably believe in God and not be a dualist. Conversely, you can believe some magic exists without believing it affects your mind.

7 During the enlightenment, most philosophers went to great lengths (David Hume being a great example) to not be labeled a heretic, atheist, or unbeliever. They mostly criticized church and religion in code. Hume was not surprised when [because Rousseau’s book *Emile* contradicted the notion of original sin] the city of Paris issued an arrest warrant for Rousseau. Writing to Rousseau’s host, Hume noted that Rousseau ‘had not the precaution to throw any veil over his sentiments; …he could not wonder that all the zealots were in arms against him.’ Concern was warranted; it was only in 1697 that Britain hung its last person, Thomas Aikenhead, for blasphemy.
for many things, he is hesitant to believe who we are and what we feel are the results of just a chemical/electrical stew. I think of one student in particular, an army officer from the South who protested strongly if I suggested he was only a “material boy”, baffled I would even imagine such a thing.

Most of us, including Descartes, are willing to accept physicality for everything non-human.8 Unwilling to accept mind over matter, I am a material boy living in a material world made of physical matter with lots of chemical and electrical connections, so are you, making us both moist sophisticated robots (machines/automata); in the 1874 words of the famous British biologist and materialist T.H. Huxley, I am a “conscious automata”. You might be as well; alternatively, you might be a zombie (neither conscious nor sentient). I have no way of telling; I hope my wife isn’t one. Zombies raise a problem for materialism: the existence of zombies is inconsistent with materialism, and proof of a zombie would confirm dualism.9 Zombies can’t be happy; they can’t feel.

Science hasn’t proven all our thoughts and actions are embodied in our brain, but the alternative requires you accept processes and agents (spirits) that do not adhere to the laws of physics and chemistry. Most people believe in things that are inconsistent with the laws of physics, including most of my friends, economic colleagues, and students; most physicists do not. For example, most of us are at least a bit superstitious. Dualism for humans is difficult for humans to abandon—many religions and cultures teach dualism—imagining your mind transcends your brain is comforting—imagining that you mind transcends your body makes people feel superior to animals, and, besides, we don’t know how the brain does what it does—it is even hard to imagine knowing how it works—making it easy to believe there is some magic.

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8 “Descartes held that non-human animals are automata” (Kirk): they have no conscious experiences, and their behavior is completely determined by physical mechanisms. Descartes considered, but rejected, the idea of a machine which looked and behaved like a human being, a zombie.

9 The argument: If zombies and humans are physically identical but humans have conscious experiences and zombies don’t, then conscious experience can’t be the result of body parts. Therefore, if zombies exist, human consciousness arises from the mind, not the physical brain.
Happiness: a brain state

Happiness is associated with a whole class of brain states, many overlapping, each producing a pleasant feeling, but different pleasant feelings. In theory, science could identify a set of brain states and define happy as being in one or more of those states.

So, what is a brain on happiness? Your brain in a nutshell

If happiness is a feeling, the feeling, like all feelings, is the expression of neural activity in your brain; increased happiness is simply more of some sorts of neural activity and less of other sorts. You eat an ice-cream cone, pet a dog, and play chess because you hope doing these things will change the synapses in your brain in ways you will experience as nice—happier is simply a matter of modifying your brain state. This section is about how that works. While my interest in the brain started with the psychology of choice, and then progressed directly to neuroscience, there is a new field in economics call neuroeconomics, and a few economics departments offer courses. While I initially did not encounter the neuroscience of WB and choice through the lens of neuroeconomics, this chapter draws, in part, from the textbook, Neuroeconomics 2nd edition edited by the neuroeconomists Paul Glimcher at NYU and Ernst Fehr at the University of Zurich. Each chapter is written by noted experts. The other textbooks that I draw on are Neuroscience: exploring the brain 3rd edition by Mark Bear, director of the BEAR Lab at MIT, Barry Connors, Professor of Medical Science at Brown, and Michael Paradiso, the Director of the Center for Vision Research at Brown. I also draw on Cognitive neuroscience: the biology of the mind (4th ed.) by Michael Gazziniga, Richard Ivry, and George Mangun.

Your brain contains approximately 86 billion neurons. Collectively, neurons generate sensations and feelings, and, in addition, embody your knowledge (your dog’s name and your skateboarding skills), your memories, your tastes, and your goals. They generate your behavior. The body of a neuron, its cell body, houses its nucleus and power source. Neurons communicate with one another; each neuron has a transmission tower called an axon, and one or more

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10 For a short introduction to the brain see “Perception Lecture note: the brain (David Heeger 2014). The notes include great pictures and diagrams.
11 Everyone used to say 100 billion but Suzana Herculano-Houzel counted 86 billion by turning five brains into soup and counting the number of nuclei in the soup.
12 The burning of a muscle is an unpleasant sensation (a physical sensation), your interpretation of that sensation is a feeling which you might, or might, find pleasing. Sensations produce feelings and feeling often produce sensations.
antennas (receiving towers), called *dendrites*. Axons vary drastically in length; one axon, your sciatic nerve, runs the length of your leg; many axons traverse from one part of your brain to another—these are long-distance transmission lines. Most axons are much shorter.

Figure 8: Some neurons

The end of the axon, the *axon terminal*, is stocked with chemicals called neurotransmitters (e.g. serotonin and dopamine). Each axon terminal (the end of the transmission tower) almost touches one or more antennas (the receptors on other neuron’s dendrites). The gaps, called *synapses*, are about 20 billionths of a meter wide. Neurons communicate across these gaps: an axon terminal releases a packet of its neurotransmitter; these cross the gaps and bond with the receptors on other neurons’ dendrites.

Figure 9: Neurotransmitters released across a synapse
Some axons branch (divide), so synapse with many receptors; sometimes these receptors are all on the same recipient neuron; sometimes they are on different neurons. You have sixty trillion synapses, give or take. Many neurons synapse with axons from many different neurons (see Figure 10),

![Figure 10: A dendrite that synapses with a bunch of axon terminals](image)

When an electrical impulse is transmitted down a neuron’s axon, its terminal releases neurotransmitters. The technical term for this electrical impulse is an action potential. A neuron’s axon fires (experiences an action potential) after its dendrites are the recipients of a lot of neurotransmitters emitted by other neurons.

There are many types of neurons and neurotransmitters. Besides the well-known serotonin and dopamine, others that explain pleasure and reward-seeking are GABA (gamma-aminobutyric acid), norepinephrine, encephalin, and anandamide.

Who you are, what you do, and how you feel are all embodied in your neurons. How does that work? All of the details are not known but many are. Genetics, experiences, and what you ingest affect your neurons; specifically, they affect the number and efficacy of the synapses. “Neurons that fire together wire together.” And, “Neurons that fire out of sync lose their link.” Wiring together means the number of synapses they share increases and the effectiveness (efficacy) of each synapse increases. A neuron firing alone will not strengthen the link between

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13 Most neurons connect with other neurons but some connect with muscles, glands, and other tissues. The firings of neuromuscular cells cause you heart to beat and your feet to move as you walk down the street. Nerve cells in your skin transmit touch to your brain, and neurons in your eyes start the process of seeing.
itself and a post-synaptic neuron; in fact, the link will weaken, but if a bunch of other neurons are simultaneously shooting neurotransmitters at the same neuron, all the links will get stronger.

Consider all the things that can change the efficacy of a synapse: the amounts of neurotransmitter stored in the axon terminal; the amount of its neurotransmitters it releases, and for how long; and how receptive are the dendrites of the recipient neuron. These are influenced by what you have experienced: the road trip to Yellowstone when you were twelve, the toast you had for breakfast, and that you're reading this book. Some modifications are temporary (short-term memories); others last a lifetime. Learning is simply modifying neural connections, and learning and pleasures work many of the same neural pathways: like rats pushing bars for pellets, we learn behaviors that are reinforced, and pleasure is one type of reward. Your ranking of paths—if you have one—is embedded in your neurons.

Mice are afraid of cats unless you modify their neural connections so they are not—it has been done. You recognize some objects as cats because your brain contains a neural synaptic imprint of a cat (an engram, a memory trace), and you recognize an object as a cat if when you see an object enough of the neurons in your cat-imprint fire. My old dog was white and if I see, out of the corner of my eye, a white pillow on the floor, I register Sofie. That we like sweets and that most adolescent males pursue girls rather than knowledge of Latin is all determined by neural connections, and some hormones.

Choosing/seeking, pleasure, and the mesolimbic dopamine system (the MDS)

Economists use the word “choose”, neuroscientists often use the word “seek”. While we often like what we sought/chose, and seek/choose what we will like, you can choose what you will not like, and like what you did not pursue. Choosing/seeking is behavior; liking, by itself, is not a behavior; it’s a feeling. (When I throw the ball, Giacomo (my new dog) seeks it (chooses to pursue it); at academic cocktail parties, many of us seek the wine rather the soda—what we seek is a choice.) The path you choose is the result of seeking, not necessarily liking.

14The part of your brain called the hippocampus plays an important role in how you store episodic memories (what you got for your birthday). Recent research using electrodes implanted in epilepsy patients indicates that each such memory is encoded in about 2% of the neurons in your hippocampus (millions of neurons), so “each neuron contributes to the representation of only a few memories” (Wixted et al.) See also Quenqua. The good news is if you lose a few thousand neurons, you will still remember your wedding.

Morey: Choice, Happiness, and Ethics
Most of us believe we seek/pursue a commodity or an experience because realizing it will bring betterment (we will like it). This assumption, Assumption 5a in Chapter 1, is a foundation of welfare economics: CT assumes the path pursued is the affordable path that we will like the best, and the path we will experience. [Some economists might say it does not matter whether we end up liking what we wanted: what matters for behavior is desires (Assumption 5b), not likes. This is discussed below.] But is Assumptions 5a true? While we often like what we sought, and seek what we will like, you can seek what you will not like, and like what you did not pursue. The mesolimbic dopamine system is a critical player.

“Meso” is Greek for middle, the brain’s approximate center. “Limbic” refers to the part of the brain that includes the under chamber (the hypothalamus), the seahorse (the hippocampus), and the almond (amygdala).

You have clumps of neuron cell bodies in the VTA (ventral tegmental area) of your brain (Fig. 11). [“Ventral tegmental,” from Greek, means “belly-covering”; it’s the area of the brain that sits on be floor of the midbrain, covering its belly.] These neurons have long axons that project into your prefrontal cortex and nucleus accumbens. Since they all emit dopamine, the clumps and their axons are the mesolimbic dopamine system, the MDS.
When firing, their axons (the black line starting in the VTA that branches out (in purple) when it enters the frontal cortex) release dopamine in the frontal cortex. If a rat pushes a reward-less bar, while the researcher electrically stimulates the rat’s mesolimbic dopamine axons using electrodes implanted in those axons, dopamine will be released in the frontal cortex, causing the rat to quickly learn to keep pushing the bar, sometimes repeating it until it falls over in exhaustion—the rat will continue to push the bar even if causes a painful electrical shock. However, if, in addition, the rat is given a drug that blocks the effect of the researcher-released dopamine, the rat never learns to push the bar, even though he likes the reward.

In a 2006 study published in the journal *Nature*, human subjects had to quickly and repeatedly choose between two symbols on a computer screen. After each choice, the individual was shown whether they had won £1. The probability of winning was always higher for one of the symbols (e.g. one was 60% and the other 40%), so the object of the experiment was to see how quickly the subject figured this out. Subjects who had taken a dopamine-enhancing drug were the quickest to learn, subjects who took an inhibitor were the slowest, and those on a placebo were in between.

We, and rats, are motivated to seek alternatives that cause dopamine to synapse with receptive neurons in our frontal cortex. This is good from an evolutionary perspective if the actions that produce a dopamine rush are actions that increase reproduction. The pursuit of sex releases dopamine. Cocaine, nicotine, and methamphetamines are fast ways to cause the dopamine to flow, causing many of us to pursue these drugs—including lab rats. But snorting coke does not typically confer an evolutionary advantage. [Keith Richards, an affluent father of many, being an exception to this rule.] Cravings for sugar can be as strong as the cravings for cocaine, and seeking sweet and high-calorie foods used to convey an evolutionary advantage. [Note that foods with high concentrations of sugar easily ferment into alcohol.]

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15 A drug that blocks the receptors on a neuron’s dendrites from accepting (bonding with) the released neurotransmitter.

16 Here, “flow” is the firing rate of dopamine neurons (a typical way to measure flow). Dopamine’s effectiveness is enhanced by how long it remains in the synapses (before reuptake) and the receptiveness of the recipient neurons.
When and how much dopamine is released when get the reward? How much when an expected reward does not occur? How much when you observe a cue that makes a reward more, or less likely?³xiv

Initial evidence came from an experiment with monkeys in the 90’s: if when a light starts flashing the monkey pushes the left bar he gets some juice. While learning the task, the dopamine only flows when the monkey gets the juice. However, after he has learned to associate the light (a cue)¹⁷ with the juice, the dopamine flows not when he gets the juice but when the light flashes—when the monkey knows he will get the juice if he pushes the bar; fMRI (functional magnetic resonance imaging) indicates it’s the same for us: after learning, dopamine isn’t released by the reward itself (biting into and tasting a great burger) but prior when you know it will happen, when you realize a desire/want will be fulfilled, not when it’s fulfilled.

If, after the monkey learns to associate the light with the juice, the expected juice does not appear when he pushes the bar, there is a burst of dopamine when the light flashes but then the dopamine level drops below baseline right after the juice should have arrived—reducing his motivation to push the bar again. Alternatively, if more than the expected amount of juice is delivered, its arrival causes a second burst of dopamine—increasing his motivation to push the bar again. Dopamine release motivates behavior: one interpretation is if the reward is better than expected, more dopamine flows, if the reward is less than expected, less flows.

Summarizing to here: when the cue for a positive outcome occurs, there is a burst of dopamine and after, when the outcome occurs, there is either a positive burst, a negative burst, or no burst. And, one theory (the error-prediction hypothesis) assumes that the magnitude and direction of the burst depends on whether the outcome was better than expected, worse than expected, or as expected.

One additional wrinkle is important to mention. Imagine an experiment where there is more than one cue, and each is associated with a different probability of the monkey getting the juice (e.g. 0%, 25%, 50%, 75%, and 100%). When cued, the amount of dopamine that flows

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¹⁷ A cue for a specific outcome is a stimulus you associate with that outcome. Palov trained many dogs to associate an initially neutral stimulus (e.g. a light coming on, or a sound) with either a positive or adverse outcome, changing the stimulus into what is now called a Palovian cue, a learned cue. Put simply, a cue is a potentially-influential observation that occurs right before you make a choice. Many cues are consciously observed (you hear the phone ring), but some cues you only record subliminally. For a thirsty you, a cue could be you seeing someone enjoying a Pepsi rather than a Coke.

Morey: Choice, Happiness, and Ethics
depends on which cue is presented: the higher the probability associated with the cue, the more dopamine, indicating, maybe, that the dopamine that flows at cue time signals how much information is in the cue. See Figure 12 from an experiment by Fiorillo, Tobler, and Schultz (2003) where, for example, the second graph shows the dopamine spike when the cue appears for a 25% chance of getting the juice, and the dopamine spike when the juice then appears. The five figures are for a single neuron in Monkey “A”.

When the monkey sees the cue that signals the reward will arrive with certainty, there is a big spike when that cue appears, but no spike when the certain reward arrives (the 4th graph). Alternatively, the lower the probability that the cue means a reward, the smaller the spike for that cue, but the larger the spike when the reward appears.
In a 2008 economics paper, Andrew Caplin and Mark Dean suggest dopamine “update[s] the ‘value’ humans and animals attach to different actions and stimuli, causing a change the probability of choosing each action. That is, the sequence of dopamine release associated with an outcome is a measure of the value of the outcome relative to its expected value. A caution: here don’t interpret “value” to necessarily mean providing pleasure; a better word would be “reinforcing”, as in choices that result in the release of dopamine are likely to be repeated; the choice might, or might not, produce pleasure. We now turn to that issue.

Wanting versus liking:

It has been known for over sixty years that releasing dopamine causes wanting/seeking, and this led to the reasonable conjecture that dopamine release causes both wanting and pleasure (liking). If the conjecture is correct, it would mean dopamine neurons are both wanting and liking neurons. This conjecture was accepted as true.

However, findings over the last few decades by the neuroscientist Kent Berridge, and others, contradict the conjecture. Based on their findings, the neural pathways for liking are separate from the neural pathways for wanting, and choice is driven by wanting rather than liking. That is, choice is based on Assumption 5b (based in desire/wanting, not necessarily betterment (5a))

The Berridge lab separated liking a food from wanting a food by measuring liking in terms of facial and mouth expressions (lip smacking and Yuk face). [The idea of using expressions to measure emotions goes back to Darwin’s 1873 book, The Expression of the Emotions in Man and Animals.] If you block or destroy the relevant dopamine axons, a rat will not seek food: it will starve rather than walk across the cage for food. But, the rat will eat with relish a sweet food placed on its tongue, expressing all the gestures a hungry carnivore exhibits when enjoying a cheeseburger—the food is liked but not wanted. In rats whose dopamine axons have not been severed, stimulating these axons causes more dopamine to be released, which causes the craving for food to increase, but not the liking (no additional the lip smacking).

Research on humans and animals suggests that liking and wanting [seeking] are mediated by separate circuits in the brain. Berridge and his colleagues have, for example, shown that how much you like a sweet is independent of how much dopamine is flowing. Drugs like antipsychotics that inhibit dopamine activity reduce people's desire for pleasure, but don't make that pleasure less intense (Bear et al.)
Consider the distinction between the sex drive and the pleasure of sex. As people age, their sex drive (their seeking) diminishes, but when sex occurs it’s enjoyed, maybe more than when they were eighteen. Alternatively, consider being an aroused adolescent desperately wanting sex who is taking an antidepressant that blocks the ability to orgasm—an awful, un-liked state.

Researchers occasionally get to cut or stimulate neural pathways in humans, typically to reduce extreme seizures. If allowed to choose where and how often to self-stimulate, these patients with implants often stimulate sites that produce an experience they describe as a potential for pleasure that never comes. Sites that produce a pleasurable sensation are stimulated less often.

My friend Bob recently paid a thousand dollars for a power meter for his bicycle (don’t even ask). He had to have it but, as he would readily admit, having a power meter was not going to increase his WB. There is a famous, and made-up, philosophical example of the extent to which desiring and liking can differ. Imagine a highly-addicting drug that when taken causes neither pain nor pleasure, but, once addicted, every morning you wake up desiring it, a feeling which is neither pleasurable nor painful. Once addicted, if you don’t take the drug with an hour of waking, you experience pain. So, if you take the drug every morning the addiction and the drug cause neither pleasure nor pain. If the drug was free and if your ranking was determined by desiring rather than liking, you would choose to become addicted: why? —because you would fulfill a lot of desires for free. The example is from the philosophers’ philosopher Derek Parfit. You want your seeking and liking systems in sync. You don’t want be like Marcel Proust’s famous fictional self, Charles Swann, in Swann’s Way (1913), who spent his life desiring a women he knew he would not like.
Keep in mind why the distinction between wanting and liking is important: if wanting and liking do not line up, and choice is based on wanting rather than liking, what you choose will not always make you better off; it could even make you worse off. Neuroscientists agree that wanting is driven by the mesolimbic dopamine system but disagree, somewhat, on how dopamine affects wanting. And, the disagreement is critical to CT, ethics, and the pursuit of happiness.

How much you want alternative A verses B could depend on your recollection of how each previously affected your emotional WB, could depend on how much you expect each would affect your emotional WB, or could depend on desires/wants that you’re experiencing that are unattached to the rewards you expect each alternative would produce. Advocates of choice theories that rank paths based on betterment (experienced WB) should hope that your wants/desires are in sync with your WB expectations, and should hope you experience the WB you expected to experience.

The wanting/liking disagreement, put simply: the incentive-salience hypothesis vs. the reward prediction-error hypothesis

One hypothesis (the incentive-salience hypothesis) is dopamine influences choice by directly influencing wanting. The other hypothesis (the reward prediction-error hypothesis) is dopamine indirectly influences choice by influencing expected emotional-WB, and wanting is determined by expected emotional-WB. There is data both in support and in conflict with each hypothesis. A bunch of the data is consistent with both hypotheses. A critical distinction is whether dopamine directly drives learning: the reward-prediction hypothesis says yes, incentive-salience says no. “Chapter 18: From Experienced Utility to Decision Utility” in the textbook Neuroeconomics critiques, compares, and debates the two hypotheses. Interestingly, the chapter

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18 Neuroeconomists, and interestingly non-economic neuroscientists, use the word utility: separating decision utility (the measure (of value) you use to decide which all alternative to choose from experienced utility which is how emotional WB is affected by the alternative chosen. Experienced utility is what I have defined as emotional WB. So, in terms of terminology, they separate what you will like from what you choose. They then separate decision utility into its possible components: remembered utility (how it felt last time it happened), predicted/expected utility, and wanting (incentive salience).
is jointly written by Kent Berridge and John O’Doherty. O’Doherty, the director of the Caltech Brain Imaging Center, advocates for the reward prediction-error hypothesis and Berridge for the incentive-salience hypothesis.

The incentive-salience hypothesis

This hypothesis is most associated with Kent Berridge and his lab. Incentive salience is a fancy term for serious wanting (a strong urge—conscious, or not) as compared to run-of-the-mill wanting. The hypothesis is that your incentive is to choose that which is most salient (striking, attention grabbing). An initial motivator for the hypothesis was the Berridge finding that rats could be manipulated, by removing or blocking dopamine, to not want what they would like, and manipulated, with dopamine, to want what they will not like, implying that wants are not always based on expected emotional WB. So, because they discovered that wanting is separable from liking, and wanting is driven by dopamine, the lab was directed toward identifying what part of the brain produces liking? Two emotional/pleasure hotspots have been identified.

The sensation of pleasure

So, if dopamine isn’t the pleasure neurotransmitter, and if the mesolimbic dopamine system, MDS, isn’t the pleasure pathway, what causes the sensation of pleasure? Recent research by Berridge and others has identified two hedonic hotspots (the red spots in Fig. 14): “One of these lies in a subregion of the nucleus accumbens called the medial shell”, which is a small part of the MDS (see Fig. 11). “A second is found within the ventral pallidum, the VP, a deep-seated structure near the base of the forebrain that receives most of its signals from the nucleus accumbens” (Kringelbach and Berridge 2012). The ventral pallidum is between the nucleus accumbens and the amygdala.
Axons connect the ventral pallidum and the nucleus accumbens to each other, and both have axons projecting to the orbitofrontal cortex.

So, why are these two regions identified as hedonic hotspots? In brains, at least in rodent brains, bathing the neurons in these areas with the neurotransmitter enkephalin makes a sweet taste sweeter, so does bathing them in the neurotransmitter anandamide, “the brain’s version of the active ingredient in marijuana.” [Ananda is Sanskrit for bliss.] The release of enkephalin causes anandamides to flow, which can feedback on the axon terminal causing more enkephalin
to flow (a positive feedback loop). Destroying a rat’s ventral pallidum makes a sweet taste yucky. [Many rats get parts of their brains destroyed in the interests of neuroscience.19] Stimulating the ventral pallidum can make something yucky produce pleasure, and the VP and medial shell light up when people experience pleasure. Enkephalin and anandamide are opiates: pleasure is all about bathing the right neurons in the right drugs.

The axons projecting from the VP and the medial shell terminate in the *orbitofrontal cortex* where the experience of conscious pleasure is produced (the *pleasure gloss*). The orbitofrontal cortex “adjusts this feeling based on inputs from other brain regions” (Kringelbach and Berridge 2012). Neural activity in the orbitofrontal cortex (observed by neuroimaging), is highly correlated with the sensation of pleasure, and there is some evidence that stimulating this region can cause you to feel deep pleasure—where do I sign up?

Supporting these finding, some people experience more pleasure than others because they consume more stuff that makes the enkephalin and anandamide flow. Some, because of genetics and prior experiences, have more and better enkephalin/anandamide synapses. A lucky 20% of Americans have a FAAH gene mutation that increases the flow of anandamide.20 The gene encodes for the production of an enzyme called *fatty acid amide hydrolase* (FAAH). This enzyme breaks down anandamide. The mutation causes less FAAH to be produced, so less anandamide is broken down, so more of it flows. People and mice with this mutation tend to be less anxious, and recover from bad experiences more quickly.21 So to experience pleasure, you want parents that were good at experiencing pleasure, and you want experiences that strengthen the pleasure synapses you were born with.

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19 The pleasure parts of your brain and the pleasure of a rat’s brain are quite similar. Of course, unlike a rat, you have a large cortex, giving you the ability to ruminate about what you feel. But a rat doesn’t need these higher brain regions to experience pleasure, and neither do you. In the 1940’s and 50’s thousands of people got frontal lobotomies (a procedure that intentionally destroys cortex) and while many of them then suffered from bad decision making, they didn’t experience a decrease in their ability to experience pleasures—they still liked food and sex.

20 The probability of inheriting this gene mutation varies by ethnic group; while it’s 21% for Americans of European descent it’s 14% for Han Chinese living in China and 45% for Yoruban Nigerians (Friedman, referring to data from the HapMaP project).

21 Researchers (Dincheva et al.) recently inserted the mutated gene into mice to see how their behavior would be affected. Compared to normal mice they were more adventurous, and had better connections between their amygdala (a fear-processing center) and their prefrontal cortex. In addition, after all the mice were conditioned to be afraid of a neutral tone achieved by pairing it with an electric shock, they were later all repeatedly exposed to the same tone but without the shock. The mutated mice more quickly learned to not be afraid of the tone. The researchers got the same results when they compared humans with and without the gene mutation.
The incentive-salience hypothesis assumes dopamine directly affects wanting, not learning. Most neuroscientists agree that wanting is typically determined by remembered WB and expected WB. Quoting from the text *Neuroeconomics*:

That is, we ordinarily desire an outcome to exactly the same degree that we predict the outcome will be liked, and most predictions about future experienced utility [WB] are based on how liked the outcome was in the past.

There is a 2012 economic study that tends to support this conclusion. The study asks hypothetical choice questions; for example, “Would you choose a job that pays $80K/yr. and you only have time to sleep 7.5 hrs./night, or a job that pays $140K with only 6 hours of sleep?” After you answer, the researcher asks which scenario would make you happier. The study estimates that in 83% of the questions asked, the subject chose the alternative that they expected would generate the most happiness. If we make the leap and assumes the subjects always chose their most-desired alternative, the study implies that 83% of the time the alternative the subject desired the most was the alternative they expected to like to most.

But sometimes, according to the incentive-salience hypothesis, your level of desiring/wanting for one of the alternatives is further enhanced because a cue for that alternative occurs when you are in a physiological state (hungry, aroused, tired, etc.) that increases your receptiveness to the cue. For example, you are thirty and see someone enjoying a Pepsi, rather than a Coke. When a cue occurs and you are receptive, the dopamine spike is compounded causing you to want the alternative associated with that cue above and beyond what would be warranted by its expected effect on your emotional WB. You choose Pepsi over Coke even though you have enjoyed the Coke more. [Remember that dopamine is released when a cue for the outcome occurs, which is before the outcome is experienced.] The clock striking six is a cue for Giacomo that dinner will soon arrive and a cue for me that wine will soon arrive. A second cue for Giacomo is the smell of his burger cooking. These cues trigger the release of dopamine, directly and excessively increasing our desire for the alternative associated with these cues, making me overly inclined to drink, and Giacomo overly inclined to stand near his bowl.

Experiments lead by Cindy Wyvell in the Berridge lab have measured the joint effect of a cue and physiological receptiveness. “Rats were first trained to press one of two levers to obtain sucrose pellets. They were separately conditioned to associate a Pavlovian cue (30 sec. light) with free sucrose pellets” (Wyvell and Berridge 2000). On test day, the rats had different amounts of amphetamines injected into their nucleus accumbens, “putting the rat’s brain in an elevated state of dopamine activation.” The rats were then set free to press, or not press, one or
both levers. No sucrose pellets were rewarded or given, but the cue was presented at intervals. All rats pressed both levers but more the lever previously associated with the sucrose pellets. When the light went on (the cue), they all pressed the sucrose lever even more (but not the other lever more), and the number of additional sucrose-lever presses increased with the amount of amphetamines the rat had received. In the time between cues, the amphetamines had no effect on the number of presses, so the amphetamines only influenced cue-specific behavior. Based on a separate test, the amphetamines did not increase liking, so lever pushing was not increased by liking, only by wanting. Summarizing, the cue increased sucrose-lever pushing more, the more the rat’s physiological state was amped up—the cue became more salient the more the rat was amped up.

You might imagine that incentive salience is expected WB multiplied by some constant k, so when k equals 1 you only want what you expect to like, but if k is more or less than 1, wanting will deviate from liking. And, cues can affect k depending on your physiological state. The implication for ACT is that what you choose will not always make you better off, and this is more likely to occur when you experience cues and are in a receptive physiological state. You often make bad choices when you are tired, aroused, intoxicated, etc., and a cue for the bad alternative appears.

Consider again the 83% estimate noted above, keeping in mind that in that study the choices were hypothetical, there was no cueing (no pictures of comfortable beds were flashed on the screen), and there is a presumption that the subjects were not off their physiological baseline (e.g. tired), making one imagine that in the real world (where people are tired and cues are numerous) wanting and expected liking line up significantly less than 83% of the time. Whether getting it wrong, at least 17% of time is a big deal, or not, is a matter of interpretation. Some choices (like Coke or Pepsi) probably don’t have much of an effect on long-term WB, but some choices (e.g. having a child) do.

In a recent paper, Dietrich Franz and Christian List proposed a choice model where choice is based in the salience of each alternative (more salient alternatives are ranked higher), so it is a model consistent with the incentive-salience hypothesis. They formulated the model as a way to explain why you have the ranking you have, and, maybe more importantly, why your ranking changes over time (the salience of an alternative can vary over time even as its effect on
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your WB remains constant). There is not much literature in economics on the creation of your ranking.

The reward prediction-error hypothesis:

This hypothesis, proposed by Wolfram Schultz at Cambridge, is that dopamine flows when your expectation of future rewards needs correcting. That, is dopamine flows whenever new information arrives that indicates your current expectations are wrong. New information comes in two forms: the magnitude of your last reward, and sometimes a cue before its time for the next reward to appear. A temporary increase in firing rate (a positive spike) indicates that what you expect in terms of future rewards has been in error and can be improved by expecting more; a negative spike indicates that what you expect in terms of future rewards was in error and can be improved by expecting less, and no spike indicates no prediction error. The dopamine spike that occurs when a cue appears sends the message that you should expect more, and the magnitude of that spike is larger the more the cue is associated with the reward (see Figure 12). In the absence of the cue, there is no pre-reward spike because there is no basis for correcting your expectations. A positive dopamine spike when the reward arrives signals that the reward was better than expected so you should expect even more going forward. A negative dopamine spike signals the opposite. The hypothesis is that the deviation in the dopamine flow causes recipient neurons in other part of your brain to start the process of bringing expected WB more in line with the WB you will experience. [Recollect that the axons of these dopamine neurons project widely.] Discussions of this hypothesis typically use the word learning: you learn, through reinforcement, better what to expect. When the prediction error is large, there is more to learn.

The primary evidence for the hypothesis that dopamine flow is a gauge of prediction error are the observations, discussed above, that the dopamine spike when a cue is presented is larger the more the cue predicts the reward. And, the observation that the dopamine spike when the reward occurs (up, down, or not at all) depends on how much the reward deviates from the expected reward. These two observations are evidence for the hypothesis in they are what the hypothesis predicts. They are not proof because they are consistent with other hypotheses as well.
A problem with testing the reward prediction-error hypothesis is that while neuron firing rates can be directly observed (what Fiorillo did), prediction errors cannot, so are estimated based on assumptions, assumptions that not everyone accepts. Many studies show that firing rates are correlated with estimates of prediction errors, but no current studies prove that firing rates are correlated with actual prediction errors. Berridge, for example, points out that if the incentive-salience hypothesis is correct, and if the lab subjects’ psychological states are all the same and constant through all cue/reward trials (e.g., all the rats are equally thirty), the data produced will be consistent with the reward prediction-error hypothesis and the researcher will mislabel the level of wanting for the level of the prediction error. In practice, in most learning experiments the psychological state is held constant. So, according to Berridge, a distinction between level of wanting and level of prediction error will only appear if there is variation in physiological states, and most studies have not included such variation.

A finding in conflict with the reward prediction-error hypothesis is that you can learn in the absence of dopamine (e.g. rats are “able to learn a new dislike for a sweet taste that was originally liked” (Berridge and O’Doherty 2013) even after most of their dopamine neurons are destroyed). 22

All said, many neuroscientists support the reward prediction-error hypothesis.

An implication of the reward prediction-error hypothesis is that dopamine does not directly drive wanting, but indirectly influences wanting by updating expected emotional WB. With respect to Assumption 5a (paths are ranked in terms of betterment) and Assumption 5b (paths are ranked in terms of how much they are desired/wanted), the reward prediction-error hypothesis, and its supporting data, is consistent with paths being ranked on the basis of desiring/wanting (5b), and consistent with desiring based on expected WB. In addition, the hypothesis assumes a neurological mechanism that is continuously using new information to error-prediction hypothesis is correct, your ranking of paths is based on expected betterment, but WB-reducing choices will still occur because expected betterment includes errors. You

22 But it seems that some types of learning do require dopamine (Berridge and O’Doherty 2013).
expected the beautiful house with the beautiful wife would make you happy, so you got both, but you might have been better off living elsewhere—a point made by the Talking Heads.

**Summarizing:**

Both hypotheses hypothesize that choice is driven by wanting/desiring, and that wanting is often driven by the level of expected WB associated with each alternative. The link between wanting and expected WB is weak if the incentive-salience hypothesis is correct, particularly when cues proceed the choice and the chooser is in a physiological state that make her hyper-receptive to the cues. In such cases, the incentive-salience hypothesis predicts you will often choose something other than what you would have liked the most. In the reward-prediction hypothesis dopamine drives learning (changing expected values when new information arrives). In incentive-salience, dopamine drives wanting, not learning.

The neurological data supports the conjecture that choices are based, at the decision point, on wants rather than likes (Assumption 5b, not 5a). I am no expert in judging between the two hypotheses, but find the incentive-salience hypothesis appealing and intriguing, more appealing because it is more in line with models and data from psychology that indicate we do often act against our self-interest (see Chapters 6-8). It is also in line with literature on addiction that suggests how much you want something does not necessarily reflect how much you will like something. For example, in one interesting study (Leyton et al., 2005),

> cocaine users were given a drug that lowered their dopamine levels. In the lowered dopamine state, cues indicating the availability of the drug were rated as less desirable. When given the drug, however, the users’ feelings of euphoria and the rate of self-administration were unaffected. That is, with reduced dopamine, study participants still liked the drug in the same way (reinforcement was unchanged), even though they didn’t particularly want it. (Gazzaniga, Ivry, and Mangun 2014).

Or the reverse, the recovering addict encounters a positive cue while in an elevated physiological state, which makes them temporally want the drug more than they will like the drug. So, they take the drug even though they know that their past use was a mistake, and know that taking it now is a mistake (Bernheim and Rangel 2004)

As a choice modeler, and as a welfare economist, I find the incentive-salience hypothesis both more intriguing and more troublesome because, if it’s correct, you and I often do not maximize our WB. (The reward prediction-error hypothesis is more in line with us each maximizing our WB, so I guess that I should hope the incentive-salience hypothesis, but not the
reward prediction-error hypothesis, is eventually rejected. That said, seeing apple carts upset spikes my emotional WB when I do not have too many apples in the game.)

What about economists and ethicists who do not care about WB. If you are an economist who models choices, and if you only want to predict behavior, not caring how an individual’s choices affect them, assume 5b, it is consistent with both hypotheses, and the neurological data.

If you are an ethicist (economic or otherwise) for which want/desire fulfillment is the ethical objective (rather than maximizing WB) go with 5b: it is consistent with both hypotheses (both assume 5b), and it implies that individuals pursue your ethical objective (want fulfillment), at least from their own perspective.

Of course, findings in neuroscience are coming fast and furious, and new research could negate or confirm the findings reported above. One possibility is that maybe dopamine plays two roles: in some parts of your brain it might be a gauge of prediction error and in other parts a gauge of salience. Gazzaniga, Ivry, and Mangun (2014) describing a study by Matsumoto and Hikosaka (2014) that recorded firing rates for dopamine neurons in the brain stem:

One subset of dopamine neurons responded in terms of valence. These cells increase their firing rate to stimuli that are predictive of reward and decrease their firing rate to aversive stimuli (Figure 12.19a). A greater number of dopamine neurons, however, were excited by the increased likelihood of any reinforcement, independent of whether it was a reward or a punishment, and especially when it was unpredictable (Figure 12.19b). The first response class is similar to what would be expected of neurons coding prediction errors, the second to what would be expected of neurons coding salience or signaling things that require attention.

In closing, I leave it to the reader to decide when, and if, it would be better for CT to be explicit, or not, about what they assume your ranking of bundles is based on. My preference would be for specifying whether preference is based on wants or likes, and the neurological evidence says wants.

A more macro view: pleasures, emotions, temperaments, and happiness

Consider four sorts of happiness: (1) a pleasurable sensation (the taste of good chocolate, coming in from the cold), (2) a positive emotion, (3) being in a good mood, and (4) having a good temperament. Happiness is one of the affects experienced by humans and some other animals. Affect is the general term for emotions, feelings, and moods. An emotion is a conscious experience that is simultaneously expressed physically, biologically, and in terms of a subjective mental state. The subjective mental-state component is the feeling. Feelings are subjective in that I can’t know how what I am feeling differs from what you are feeling or what a bat, or other animal, is feeling. Giacomo is happy (or appears happy) when playing in the snow, catching
things, and pouncing on stuffed animals. Most of us imagine slugs incapable of happiness, but we don’t know for sure.

Emotions and moods are of limited duration, and the duration of an emotion is typically shorter than a mood, but also more intense. Being scared is an emotion, whereas being anxious for long periods, with no good reason, is a mood, a mood-disorder. A semi-permanent mood is a temperament, a component of your personality.

Excited, sad, angry, bored, jealous, surprised, lonely, depressed, and aroused are emotions. Current thinking is that there is not a one-stop emotion-center in your brain—not surprising given all the different kinds of emotions and that many brain regions serve multiple roles—but the amygdala and hypothalamus play a significant role for many emotions.

Two primary theories of emotion are the James-Lang Theory and the contrasting Cannon-Bard Theory. Put simply, The James-Lang theory hypothesizes that experiences first cause physiological changes (e.g. sweating, increased heart rate, etc.) and the conscious sensations we experience are a reaction to these physiological changes, so the unpleasant sensations I experienced when I arrived at the home of my high-school prom date were caused by my body’s sweating and shaking, and my inability to swallow. [William James is considered the father of psychology and a noted philosopher. He suffered from depression; he also couldn’t sleep. His brother was the novelist Henry James.] The contrasting theory is the Cannon-Bard Theory (Walter Cannon and Phillip Bard); it hypothesizes that the conscious sensations come first, and they cause the physiological changes (being consciously nervous caused the sweating). There is evidence for, and against, both theories.

Your brain in a mood

A necessary condition for feeling happy is the absence of a negative mood such as anxious and depressed. Most of the research on moods is on mood disorders, specifically anxiety disorders and depression.

Anxious

For many, anxiety is a barrier to emotional WB. In addition to precluding happiness, anxiety affects our behavior: we avoid situations that provoke it; we do things to reduce it, and we don’t do things we would have done if we weren’t anxious. When I called Patricia to ask her to the prom, I was so anxious I had a flow chart of what to say in response to everything I wanted to say.
thought she might say. When she quickly said yes, the flow chart became useless and I hung up in a panic. Our prom was a disaster.

When you perceive danger, the flight-or-fight response (our response to stress) kicks in; this causes the experience of fear but also physiological changes that make it more likely you will survive the danger. Your amygdala receives an external stimuli (you hear a gunshot) and your amygdala shouts danger. The warning is passed through your hypothalamus and pituitary gland to your adrenal gland, which reacts by pumping cortisol (a stress hormone) into your blood stream. Cortisol channels energy away from needs that aren’t immediate such as growth, digestion, and immunity.

This neurological and hormonal pathway that kicks in when your body registers the gunshot is your *excitatory system*—the pathway that generates excitement. You also have an *inhibitory system*, a neurological and hormonal pathway that calms you; the two systems work in concert to keep you level of excitement commensurate with the danger level. As part of the inhibitory system, the hippocampus monitors the amount of cortisol emitted, and if it’s deemed too much it sends a message to the pituitary gland through the hypothalamus to cut down on the cortisol release. Specifically, in the hippocampus the message to inhibit is sent when GABA neurons release the neurotransmitter GABA. In the post-synaptic neuron, the GABA attaches to neurons in the hippocampus with GABA receptors, causing these neurons to fire. Their firings start the chain of events that lead to less cortisol being released, so a negative feedback loop.

Both excitatory and inhibitory messages pass through the hypothalamus. Ideally, both systems are in balance and you only freak out when freaking out is the appropriate thing to do. However, genetics, prior experiences and learning can cause a stress response when there is no danger—we get stressed (feel anxious/fearful, either at a chronic low level (*generalized anxiety disorder*) or at a high level for short bursts (*panic disorder*)). This happens either because the amygdala is working too much or the hippocampus too little.

Three drugs that are known to reduce anxiety are benzodiazepine (e.g. Valium), alcohol, and SSRI’s, all by modifying neural synapses. Valium and alcohol temporarily reduce stress by enhancing the inhibitory system; specifically, the GABA receptors in the hippocampus become

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23 Cortisol shouldn’t be confused with *adrenaline*, another hormone released by your adrenal gland when a threat is detected; adrenaline increases heart rate, sweating, and muscle tension.
more receptive to GABA after Valium or alcohol has attached to them. Like many who suffer from generalized anxiety disorder, I make my GABA receptors more receptive by self-administering wine. A nickname for Valium is “Mother’s little helper,” which is the name of 1996 Rolling Stones song about how Valium got your mom through the day.

No one is quite sure why SSRIs reduce anxiety, but they often do. Selective Serotonin Reuptake Inhibitors keep the released serotonin in the synaptic gap longer by inhibiting its reabsorption by the axon terminal that emitted it. Most of the serotonin-emitting neurons in your brain have cell bodies in one of the nine Raphe (ridge) Nuclei, an area at the base of your brain (see Figure 15). Their axons project into many parts of the brain (one axon can synapse with hundreds of thousands of neurons spread all over the place, and the effects of serotonin releases can last for hours). These neurons are known to influence many brain activities, including emotions and moods such as happiness, fear, and aggression.

While a SSRI immediately cause serotonin to remain longer in the synapses, it, unlike alcohol and Valium, doesn’t immediately reduce anxiety; that can take weeks. (This is why your doctor might prescribe Valium for a few weeks even though you have started on Prozac.) So, it’s not the increased serotonin per se that reduces the anxiety. One relevant finding is that the increased serotonin causes, in the hippocampus, an increase in number of receptors for the neurotransmitter glucocorticoid. A speculation is this strengthens the inhibitory system, so reduces the release of cortisol.

Eating chocolate causes serotonin to flow. You can reduce anxiety by learning not to be inappropriately stressed. When there is a threat, other things are also happening around us; cues: things that aren’t dangerous (benign stimuli—maybe it was raining when you heard the gunshot). You can learn, incorrectly, to go into stress mode when one of more of these other things occur, even when there is no threat—you have learned to associate rain with danger. Like a rat that experiences a sight or sound cue paired with something unpleasant, we learn that when that sight or sound occurs we imagine something bad is going to happen, and our mind and body prepares. Cognitive Behavioral Therapy (CBT), and its extensions, can break the link: you learn to no longer associate the stimuli with the threat. Like the drugs, the re-learning changes the number and effectiveness of your synapses.
Besides unwarranted anxiety, there is warranted anxiety, fear and anxiety caused by being at risk. Many people are in circumstances where the probabilities of injury, death, sickness, and hunger are high. Warranted anxiety can be reduced by reducing these probabilities. Knowing the kids won’t starve will reduce the anxiety of most parents. [Independent of how you feel about Obamacare in the U.S., assuring access to healthcare will reduce anxiety. Of course, Obamacare has put those who hate it in a bad mood. An important question is how long these bad moods will last. The reduction in anxiety will continue as long as the access continues.]

![Figure 15: The diffuse serotonin system](image)

**Depressed**

If you are depressed, you are not happy, and we all occasionally experience depression. Many suffer from chronic depression making it a leading cause of disability and unhappiness. “Perhaps as many as 20% of the population will suffer a major, incapacitating episode of depression during their lifetime” (Bear, Connors and Paradiso 2007). Like anxiety, depression causes behavioral changes, a shutting-down, a decreased responsiveness to stimuli—an ice-cream cone is no longer worth the trouble.

Anxiety and depression often go together, and SSRIs are often effective for both anxiety and depression. Why are they effective for depression? One answer is the *monoamine hypothesis*.
of mood disorders. There are two monoamine neurotransmitters: serotonin and norepinephrine. Explaining, your brain contains three mood-critical diffuse modulatory systems. Figures 10 and 14 illustrate the diffuse modulatory systems for dopamine and serotonin. Each of these systems consists of a clump of cell bodies, all with axons spewing their respective same neurotransmitter far and wide. The serotonin system modulates the diffusion of serotonin; the dopamine system diffuses dopamine. There is also a diffuse modulatory system for norepinephrine; its clumps are in your brainstem. The monoamine hypothesis is that depression is a consequence of a deficit in either the serotonin or norepinephrine diffuse modulatory system. The evidence that SSRI’s work as an anti-depressant through these two diffuse systems is (1) SSRI’s keep the effects of serotonin release working longer (inhibit re-uptake), (2) another effective antidepressant drug (imipramine (Tofranil)) inhibits the re-uptake of both serotonin and norepinephrine, (3) some drugs for other ailments cause depression by messing up the release of serotonin, and (4) drugs that inhibits the enzyme MAO—MAO destroys serotonin—are antidepressants. These drugs are called MAO inhibitors; they are effective for treating depression but now are rarely prescribed because they can cause severe high blood-pressure when consumed with foods like red wine and aged cheese.

A different, but overlapping, theory of depression is the diathesis-stress hypothesis. It assumes depression, chronic anxiety, and other mood disorders are caused by hyperactivity in the hypothalamus/pituitary/adrenal system, the HPA. These brain parts are implicated in all theories of anxiety and depression. The adjective “stress” because stress distorts the HPA; the adjective “diathesis” because mood disorders have a genetic component; some people are predisposed. “Animal studies are highly suggestive” (Bear, Connors, and Michael Paradiso 2007) that hyperactivity in the HPA results in depression. There is also strong evidence that infants who experience nurturing and stimulation are better able to respond to stressors in adulthood, so less likely to develop mood disorders. Lousy pre-natal care combined with neglecting the baby can lead to an adult with a hyperactive HPA.

In summary, genes, monoamines, and early childhood experience are implicated in mood disorders. So, what does all this have to do with happiness and emotional WB? A way to increase emotional WB in adults is to make sure babies are nurtured and stimulated. A way to reduce depression and chronic anxiety in adults is with CBT and drugs; electroconvulsive therapy (inducing a seizure by zapping your brain with electricity) is often an effective treatment...
for major depression, but it also zaps your short-term memory—think of it as setting the reset button.

**Pervasive happiness (a happy person) and WB**

The happiness from a particular experience is typically fleeting, and these experiences are often intermittent, not pervasive. So, neurologically, what causes persistent emotional WB? Not being chronically anxious or depressed is necessary, but not sufficient. Having strong enkephalin/anandamide synapses also helps. And, you need either a lot of fleeting pleasures, or sustained pleasures.

By many definitions, WB requires not just the experience of happiness (emotional WB) but also a sense of meaning to your life (life-satisfaction WB). One relevant finding is that a high level of reported happiness is correlated with feeling you have a meaningful life, suggesting a neurological connection between the two.

The neurobiology of persistent happiness is sketchy, and the neurobiology of meaning to your life is more like an informed scribble. But experiencing meaning in your life must have a neurobiological foundation. A bit of research suggests that the brain mechanisms that give you pleasure from chocolate, also cause you persistent pleasure from your meaningful life.

One finding, based more on observation than on neurobiology, is we each have our own quasi-set level of emotional WB/happiness, a level we can easily deviate from in the short run but not in the long run; a hypothesis Adam Smith subscribed to. This is discussed in Chapter 5. Studies on twins, particularly identical twins separated at birth, indicate that happiness has a strong genetic component. For example, one large study finds that approximately 33% of the variation in happiness over time is explained by genetic variation. The paper, “Genes, Economics, and Happiness” finds that a feature on a particular serotonin transporter gene is positively correlated with reported happiness. People that inherit this feature grow stronger happiness-related synapses.

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24 It is called the 5-HHT gene and “much is known about the way different versions of this gene influence transcription, metabolism, and signal transfers between genes…efficient variants of this gene have been shown to moderate the influence of stress on depression, …and [are] linked to optimism” (De Neve et al. 2011). Keep in mind that it’s unlikely a single gene can explain all of the variation in a complex feeling, like happiness, and that very large samples are required if the researcher hopes to find links between specific genes and behavior. Quoting further, “We do not claim that 5-HTT determines happiness, nor do we exclude the possibility that several other genes may play a role in accounting for the influence of genes on happiness.”

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Defining happiness in non-biological ways is difficult—like porn, you know it when you see.

Dictionary synonyms for modern happiness often include pleasure, joy, bliss, felicity, and contentment, but these are not all the same feeling. The physical feelings associated with contentment feels very different from what it feels like to laugh. The feeling of happiness varies on multiple dimensions, and for each of these dimensions there is the question of intensity and how long that sensation lasts: short and intense or less intense but longer lasting. Possible antonyms include unhappiness, sadness, grief, pain, and depression. Which words should be synonyms or antonyms is tricky business. For example, pain often causes unhappiness, but pain is neither necessary nor sufficient for unhappiness. Lack of pain is definitely not the same as happy, unless pain is broadly defined.

_Happiness is the sublime moment when you get out of your corset at night_—Joyce Grenfell (1919-1978)—actress, comedienne, and singer-songwriter.

_What we call happiness in the strictest sense of the word comes from the (preferably sudden) satisfaction of needs which have been dammed up to a high degree_—Sigmund Freud.

**Most economists talk about preferences, not happiness nor WB**

Recollect assumption 5a vs. 5b (a ranking based on betterment vs. desire/wanting). Given that pleasure (liking) and desiring (wanting) have different neurological pathways that are not necessarily in sync, whether your ranking is based on WB (5a or desire (5b) is important. Either way, whether Path A is ranked higher to Path B depends on the electoral chemical brain-mix associated with each path.

When economists think about you becoming better off, they typically think of this being achieved by you experiencing a higher-ranked path of goods and experiences. But, what if there are other more direct ways to feel better, drugs, for example? I often ask my students whether they would take a drug that would make them happier. Most say "No." [This surprises me given that many college students are prescribed SSRI's, and most drink alcohol.] When I ask for an explanation the first response is typically, "There would likely be bad side effects." When I ask what they would do if they knew there were no undesirable side effects, many students continue to say they wouldn’t take the drug, but their reasons change to, "It would be wrong/unnatural/dishonest to achieve happiness in this way." This implies my students care not only about the happiness, but also about the process that achieved the happiness—an outcome, making them both consequentialists and processists (see Chapter 2 and Part III). Another way to
make you better off is to change your ranking so the path you are consuming moves up in the rankings. Economists typically avoid this possibility, but marketers embrace it, also Buddhists.

**Is an economist concerned with policy a WB doctor?**

Most people, including most economists, don't think of economists as WB doctors. Whereas mental-health therapy typically tries to increase WB one patient at a time, macroeconomic policy, arguably, tries to simultaneously increase the WB of thousands, if not millions. As an undergraduate, I switched from psychology to economics. The welfare objective of the two professions is the same, to improve the lot of their patients. [Of course, not all psychologists and economics care about their patients; many simply study models of personal and economic behavior for the sake of the models, not the patients.]

If the goal is to increase WB, my goal as an environmental economist should be to manage the environment to achieve more WB, not necessarily to preserve or clean up the environment—taking account that trashing it can be fun but too much trashing today will make the future unhappy.\(^{25}\) If better is specifically defined as happier (greater emotional WB), the goal all economic policy should be to make the members of society happier. And, this is achieved by finding those policies that make encephalin, anandamide, and other happiness neurotransmitters flow. Of course, many ethicists propose other justifications for policy. Assumption 5a was the ranking of paths is in terms of betterment, and I defined betterment as more WB, so 5a does not mean your ranking has to be based solely on the emotional WB associated with each path. Welfare economists who accept Assumption 5a are necessarily WB doctors, but not necessarily emotional WB doctors.

This chapter considered, “What is happiness?” and outlined some ways to reduce unhappiness, but didn’t consider whether more happiness is morally superior to less. That discussion was started in Chapter 2 and continues in Part III. Next, Chapter 5 looks at the evidence, pro and con, on whether consuming more increases, or decreases, WB.

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\(^{1}\) Sources:

\(^{25}\) I used to own a snowmobile (we did not plow the road to the cabin); it emitted more pollution than a fleet of cars, but zooming through the snow was bliss.

ii Sources are:

iii Sources:
1. Holt, ibid.

iv Sources:
1. Holt, ibid.
2. McManon (Happiness), ibid.

v Sources:
1. Crisp ibid

vi Sources:

vii Sources:


4. David Heeger: Lecture notes and slides on “The Brain.”


ix Sources:


5. Bear, Connors and Paradiso, ibid.


9. Marcel Proust (1913) *Swann’s way: In search of lost time, Volume 1* (translated by Lydia Davis), Penguin Classics.


11. Kent Berridge and Morton Kringelbach (2013) Neuroscience of affect: brain mechanisms of pleasure and displeasure. *Current Opinion in Neurobiology* 23: 294-303. This article is an academic version of the *Scientific American* article, providing references to all the relevant studies.


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17. Nathaniel Daw and Philippe Tobler (2013) ibid


20. Wolfram Schultz (1998) Predictive reward signal of dopamine neurons. *Journal of Neurophysiology* 80(1), 1–27. [http://jn.physiology.org/content/80/1/1](http://jn.physiology.org/content/80/1/1)


Sources:

1. Bear, Connors and Paradiso, ibid. Unless otherwise noted, quotes are from this book.

Chapter 5: Does consuming more increase WB? Is getting rich the path to happiness?

Money is better than poverty, if only for financial reasons (Woody Allen, Without Feathers 1975)

Those who say that money can't buy happiness don't know where to shop (Anonymous)

Is greater WB accomplished by either enlarging your choice set or increasing your consumption of goods and services? A larger choice set does not imply that you will consumes more, but consuming more often requires a larger choice set: while Warren Buffet could consume more, until most of us earn more, we cannot consume more. A larger choice set also increases the ability to give stuff away, or save for a rainy day in old age.

This chapter begins by reviewing data and research on the influence of income on WB. Complicating this review is the fact that many surveys specifically ask about “happiness”, some ask about emotional WB, some ask about life-satisfaction WB, some ask about what emotions the respondent is currently experiencing, and some ask about something that is not quite any of these things, so it is important to keep track of what is asked in each survey. This would be less of an issue if income has the same effect on emotional WB and life-satisfaction WB, but this does not seem to be the case.

My read of the research and evidence on WB (reviewed below) is that you will be better off if enlarging your choice set allows you to go from a path that does not meet your basic needs to one that does: giving the starving access to food makes them better off, so does giving those without shelter a roof, and so does giving those without security a safe place. However, once your basic needs are met, there not much evidence that further enlarging your choice set will much increase your longrun emotional WB—there will be a short-term happiness bump. And, what you do with more wealth (an expanded choice set) is important.

But, the research also indicates that, at a given time and place, the poor tend to be less happy than the rich (report lower levels of emotional WB), even if their basic needs are met. This seems, at first, a quandary: more does not make most of us happier, at least not for long, but at a point in time more income relative to others does. Said another way, the evidence suggests that over time a group’s average level of emotional WB does not increase substantially as its income increases.
increases, but across members of the group at a point in time those with less are less happy. How can both be true, and why?

The evidence on the relationship between income and happiness: big picture

The data, at first blush, can be confusing. In a 2008 article in the Journal of Economic Literature, Andrew Clark, Paul Frijters and Michael Shields put the findings of many studies in four categories (note that they use the word “happiness” to summarize the findings):

1. Country-level data that shows average happiness remaining flat over time despite large increases in income per capita.

But, when one looks at data on the individual level, the results indicate that

2. Across individuals at a point in time, reported happiness is higher for individuals with higher income. This effect is strongest in poor countries.

3. Panel data (data on income and reported happiness for the same individuals at different points in time) finds that that an increase in an individual’s income increases that individual’s happiness, but, again, more so in poor countries.

4. And, when one looks at large samples of aggregate data across countries and time, and one corrects for country fixed effects (idiosyncrasies across countries), the higher a country’s per–capita GDP the happier it tends to be. Average happiness in a country is also positively related to how fast its per-capita GDP is growing relative to like countries.

I will had two additional findings to their list:

5. The relationship between life-satisfaction WB and income might be different than the relationship between income and emotional WB/happiness.

6. And both emotional WB and life-satisfaction WB are more sensitive to a decrease in national income than to an increase.

Research on the relationship between income and WB is ongoing, so these six findings might not be a good summary of what we will know three years hence. My goal is to provide a sense of the history of the research, and to discuss some of the fundamental issues and questions with respect to the data, including: (A) how to measure emotional WB/happiness and life-satisfaction WB, and how to measure changes in their levels, (B) absolute income versus relative income, (C) that the data is diverse and not always comparable, and (D) the components of WB are determined by many things besides income and consumption, making it difficult to identify the specific influence of income and consumption.
In Sections 2 and 3, I look at some different theories of what determines WB and ask how well they explain the six categories of findings—but for now consider only the data

Data and studies on the relationship between income and WB

Some history: the Easterlin effect/Paradox

In 1974, Richard Easterlin pioneered the economic study of happiness, publishing, "Does economic growth improve the human lot? Some empirical evidence". Its noted finding, now known as the Easterlin Paradox, is that while U.S. aggregate income increased a lot between the end of WWII and the early 1970's, reported happiness remained relatively flat—Easterlin data is reported “happiness”. This trend has continued: while real per-capita income increased nearly 100% between 1970 and 2004, there was no corresponding increase in average happiness. This finding has got a few economists concerned because it suggests that economic growth is not the path to increased WB. The Paradox is reflected in the following two figures:

![Figure 1. Happiness and Real Income Per Capita in the United States, 1973–2004](image)

Source: World Database of Happiness and Penn World Tables. Happiness is the average reply to the following question: “Taken all together; how would you say things are these days? Would you say that you are…” The responses are coded as (3) Very Happy, (2) Pretty Happy, and (1) Not too Happy. Happiness data are drawn from the General Social Survey.
Note that their Figure 1 plots happiness while their Figure 2 plots satisfaction, suggesting that both average emotional WB and average life-satisfaction WB have remained flat as incomes have risen. Psychologists and sociologists get the same result and the paradox holds for Japan and Europe. In 1974, Easterlin concluded that average happiness does not vary much between rich and poor countries and economic growth is not the path to greater happiness. He has since moderated this conclusion.

While Easterlin found no temporal relationship between per-capita income and average happiness, he did find, at a given point in time, a positive relationship between one’s happiness and one’s relative income. This relative-position effect has since been found by many. For example, based on Eurobarometer data from 1975-86 on 109 thousand Europeans, the economist Andrew Oswald reports that individuals in the lowest income quartile are less happy than those

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1 This growth-without-happiness paradox has been replicated in other countries and other periods by economists (e.g., Blanchflower and Oswald 2004), psychologists (e.g., Diener and Oishi), political scientists (e.g., Inglehart and Klingemann) and sociologists (e.g., Veenhoven).

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in the top quartile (“Very happy” 19% vs. 28% and “Not very happy” 27% vs. 13%)² More recent studies, using different reference groups and different measures of relative position, continue to find that relativeness matters for emotional WB/happiness.³

In contrast, John Helliwell at the University of British Columbia has analyzed data on life-satisfaction WB, finding a strong distinction between the relative-income effect in OECD countries versus developing countries: specifically in developing countries the effect remains strong through all 10 deciles (each 10% income category from the lowest to the highest); for example, moving from the 80th income percentile to the 90th still significantly improves life-satisfaction WB, but in OECD countries increasing relative income does not significantly life improve life-satisfaction WB once one makes it to about the 40th percentile. This is interesting because in OECD countries moving from the 9th to the 10th decile in terms of relative income requires a huge increase in absolute income.

Measuring WB levels³³

Most measures of WB are self-reported (“What is you level of happiness on a scale of 1 to 5”). Happiness is subjective.⁴ Back in 1974 (and still) Easterlin’s findings were dismissed by many economists because they were based on self-reports of happiness, rather than observed behavior—most economists doubt measures of feelings and thinking that are self-statements rather than objectively observed. This begs the question of what observed behaviors could one use to determine WB—facial expression, body language? Can you imagine an economist measuring WB this way? Charles Darwin suggested both as windows into the emotions of animals. After winning an Oscar, Anne Hathaway’s expression was described in The New Yorker as joy as only a child can express it, and her expression pales compared to Aleksander Gamme’s reaction when on the 86th day of his solo trek to and from the South Pole he discovered a candy bar he had stowed on the way out. Emotional WB, particularly persistent happiness, is often not so expressive. At the other extreme, one can observe behaviors indicative of extreme

² For a Oswald talk on the economics of happiness see https://www.youtube.com/watch?v=Ggcexz4ZNLE
³ See Dolan, Peasgood, and White; Dorn et al.; Ferrer-i-Carbonell; and Luttmer.
⁴“Subjective” as in determined within the “subject” (the answering individual) so determined, at least in part, by what is going on within the subject’s brain. In contrast, objective is “it is what it is.” Taste and color are subjective, size in contrast is objective (as in Box B is bigger than Box C). See Sumner.
unhappiness such as crying, frowning, shaking, lethargy, and suicide attempts, but unhappiness, like happiness is often unexpressed. Blanchflower and Oswald (2008) find, using country-level data, a negative relationship between average happiness and the proportion of the population with hypertension. Hypertension correlates with stress, making happiness less likely; so does the level of cortisol (the stress hormone) in one’s blood.

A researcher could use the assessments of friends and family (which happen to be highly correlated with the self-reported level of happiness) but many economists would reject these as un-objective. An obvious place to look for emotional WB is in neurological activity, but to confirm that the brain activity observed is emotional WB requires an independent measure of emotional WB; e.g., most people reporting they are happy when this neurological activity is observed.

Instead of directly asking about happiness, some researchers have started to ask the frequency and intensity of feelings experienced in the last hour or day, experiences such as joy, laughter, smiling, sadness, stress and anger. The researchers then convert the answers into a level of happiness (emotional WB). How to do this is only now becoming a research question, research motivated more by policy makers than economists: policy makers are asking for direct estimates of WB.

Given that CT assumes that the individual chooses the most preferred path in their choice set, economists are in a circular quandary when it comes to assessing WB. If I buy the bigger TV

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5 Countries with high levels of hypertension happen to be countries where many people are overweight. This raises the question of how happiness and being overweight are related. I know of no studies that look at this relationship, but many of us imagine we would be happier if we lost a few.

6 Taking a middle approach to measuring emotional WB, the Health and Retirement Study at the U. of Michigan asks, “Please tell me if each of the following was true for you much of the time this past week: a) You felt you were happy b) You felt sad c) You enjoyed life d) You felt depressed.”

7 In a 2014 paper, Daniel Benjamin and other economists, propose an index for calculating your level of WB. The index is a weighted average of your answers to a number of questions that ask you to tradeoff different aspects of WB; for example, would you prefer to be much less anxious or somewhat happier? Note how different such questions are from the standard, “How happy are you?” Or “How happy would this make you?” The weights in the index are estimated using the answers to many such questions by many people. The estimated index is therefore a WB index for an average individual, not for you in particular. The authors conservatively pitch their model as an initial step in the long process of building a WB index.

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it must have increased my WB, otherwise I would not have bought it; so if I say "Buying it did not increase my WB" I must be wrong.

Admittedly there are serious issues with comparing self-reported WB levels across individuals and even for the same individual at different points in time. Even short-term memories of feelings can be faulty. Culture, language and expectations differ across individuals, and these differences complicate comparisons across individuals. Italians report lower happiness levels than do than Germans (see Fig. 5), but this might only be due to how a difference in feelings are expressed. How happy you report to be might be a function of how happy you think you have the right to be, or whether happiness is viewed as socially desirable.\(^8\) Statistical models estimated with panel datasets (data on income, self-reported happiness and other explanatory variables, for the same individuals at multiple points in time) are starting to be used to control for such idiosyncrasies (see categories 3 and 4 above), and these are clarifying the picture. But first let’s looks at only time-series data.

**Time-series data and some of the difficulties in determining the influence of income\(^9\)**

To identify the influence of a change in aggregate income on either average emotional WB or life-satisfaction WB, one has to control for all the other things that are changing in society that influence them, factors such as age composition, health and social institutions, and this is difficult. For example, studies of individuals suggest that an individual’s happiness is U-shaped with respect to age, decreasing in one’s twenties but increasing for old farts, like me. So, since many populations are aging, to determine the influence of aggregate income on happiness one has to also determine how the changing age composition is affecting happiness.

Occasionally situations arise where an exogenous shock causes a large change in a country or region’s GDP. For example, in East Germany during the decade after reunification both life satisfaction WB and real income increased substantially, raising the question of whether the increase income caused the happiness increase. Part, but not all, of the jump can be attributed to more individuals being able to fulfill basic needs. For the rest of the increase in life satisfaction there is the problem of separating the influences of increased income from increased

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\(^8\) For more on the measurement of happiness see Diener 2000.
freedom, and increased expectations. In addition, an important aspect of this income shock might be that neighboring regions did not experience comparable income growth.

**At a given point in time the unemployed are, on average, not as happy as the rest of us.**

But it is not clear this is due to the constraint unemployment imposes on consumption. 19% of all the individuals in the Eurobarometer data reported being “Not very happy”; but 33% of the unemployed are in this category. The unemployed have high levels of distress and anxiety. Interestingly, the highly-educated unemployed are less happy than the low-educated unemployed—a disconnect between expectations and outcome? The poorly-educated expect unemployment, so experience less distress when it occurs? Oswald suggests that most of the distress of unemployment is not caused by the loss of income but by loss of self-esteem, a sense of failure and embarrassment; being unemployed reduces one’s status. Helliwell finds that the negative effect of unemployment on life-satisfaction WB is on par with a one-unit drop in one’s health, health measured on a five-point scale.

**One study in detail: the happiness bump**

Seven-thousand eight-hundred and seventy-one Germans were followed from 1985 to 2000, with data collected, each year, on their income and happiness level. The sample consists of randomly selected individuals living in the western part Germany for whom there was at least five years of data. This is panel data, the beauty of which is that it is the same people, year after year, rather than sampling different people every year, and so one can rule out the possibility that answers are changing because this year’s respondents are different from last years. The data has been analyzed by Rafael Di Tella, John Haisken-DeNew and Robert MacCulloch; their Fig. 3 supports the Easterlin Paradox. Average national income is in Deutch Marks.

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9 It does not control for age; the sample is necessarily aging.
Figure 17: Fig. 3 (Di Tella et al.) The graph plots average real income and happiness (on a 0-10 scale) for a group of 7812 individuals who are followed from 1985 to 2000.

Note that “Happiness”, in the graph, is average happiness for the sample in that year. There is nothing in this graph that suggests an increase in average income will cause an increase in average happiness.

The authors estimate a statistical model(s) of each individual’s reported happiness level as a function their current income and job status, job status and incomes in prior years, socioeconomic characteristics including marital, employment, and educational status in each year, plus gender and political orientation. The model includes individual-specific constants (individual “fixed effects”) and year-specific constants, so controls for both the fact that some people are just naturally happier and that things change from year to year in ways one cannot always observe. The estimates results are summarized with two graphs. A permanent 50% in an individual’s income is estimated to cause a temporary bump in the individual’s happiness, but after three years much of the happiness gain has been lost.
In contrast, for most individual, most of the happiness increase that results from a permeant increase in status (an increase in relative position) persists for at least six years.
Summarizing their findings, most people get used to (adapt to) having more income and consumption, but the happiness increase from an increase in their status persists—there is little adaptation to increased status.\(^{10}\)

*When one looks at large data sets across countries, and one corrects for idiosyncrasies across those countries, average happiness levels increase, somewhat, with per-capita income*

This is the fourth category of finding. Higher per-capita GDP in a country relative to other countries the higher its average happiness level tends to be—people in richer countries tend, on average, to be somewhat happier (see Fig. 18 which indicates there are a lot of other determinants). And, if two countries have similar per-capita incomes, the one where per-capita is growing faster tends to be happier—high growth rates relative to others increases happiness.

\(^{10}\) There are fascinating exceptions; those on the political right grow accustomed to an increase in their status, but the effect on their happiness of an increase in absolute income persists. Why?
These category four findings need to be squared with the Easterlin paradox that increased aggregate income does not lead to a significant increase in a country’s average level of happiness. Keep in mind: (1) Richer countries tend to be more democratic, tend to have more stable institutions, and individuals tend to have more rights and freedoms. All of these could increase both emotional and life-satisfaction WB. And (2), the fourth category of findings can be explained by relative position.

The fifth finding that life-satisfaction WB increases (and decreases) with income. vii

Using data from a Gallup panel data that repeatedly asked the same people separate emotional WB and life-satisfaction WB, Angus Deaton and Daniel Kahneman (2010) conclude that in the U.S. once the individual has an annual income of approximately $75K in 2010 dollars, additional income buys life-satisfaction WB but does not increase emotional WB. For them, emotional WB depends on the “frequency and intensity of experiences of joy, stress, sadness,
anger, and affection that makes one’s life pleasant or unpleasant.” Whereas, they define life-satisfaction WB being in terms of “the thoughts people have about their life when they think about it.”

And finally the sixth finding: both emotional WB and life-satisfaction WB are more sensitive to a decrease in national income than to an increase;\textsuperscript{viii}

In a yet published article using some of the same data as Deaton and Kahneman, Jan-Emmanuel De Neve and his coauthors find that an individual’s emotional WB and their life-satisfaction WB are more sensitive to a decrease in national income (negative economic growth) than to an increase (positive economic growth). So another, and important, reason average happiness might not increase in the longrun, even though real per-capita has substantially increased, is that over the business-cycle the average individual’s WB drops more when aggregate income declines than it rises when it grows. In the authors’ words, “…recessions can rapidly undo the WB gains from longer expansionary periods and lead to an insignificant relationship between national income and average WB when considered in the long-run. Complementing their primary finding, they also find self-reported unhappiness (stress, worry, reduced joy) increases when aggregate income declines but happiness is not increased by income growth.

A hypothesis: your WB is determined more by your relative position than by your absolute level of consumption

Relative position refers to both your position relative to others and you current position relative to your former self. The relative-position hypothesis can explain both (1) why a permanent income increase does not cause a permanent happiness increase (increase in emotional WB) and (2) why an increase in relative income (status) can cause a long-term increase in both emotional and life-satisfaction WB. (No researcher would suggest that this hypothesis could be correct for a person whose basic needs are not being met; it is hypothesized for those whose needs are met and are not in fear of them not being met.) (3) The hypothesis does not explain why a permanent income increase would cause a long-term increase in life satisfaction. (4) The hypothesis is consistent with, but does not explain, why a loss of income decreases emotional WB more than an equal income increase increases emotional WB.

\textsuperscript{11} They use “WB” to refer to what I am calling life-satisfaction WB.
The relative-income (status) hypothesis

We all have strength enough to endure the misfortunes of others (François de La Rochefoucauld, French essayist 1613-1680) I might add, and the rich have the most endurance.

What everyone most aims at in ordinary contact with his fellows is to prove them inferior to himself (Arthur Schopenhauer, German philosopher 1788-1860)

This hypothesis predicts you would be happier if you continue to consume the same path of goods and services but your neighbors or peers come to consume less than they do now, making you relatively better off. And, predicts you would be less happy if others come to consume more, even though you continue to consume the same goods and services; you are relatively worse off.¹²

The relative-income hypothesis is consistent with the finding that, at a given point in time, people at the bottom of the scale are less happy than those at the top—those at the bottom are, by definition, the “poor”. Data indicates that those at the bottom perceive the world as largely beyond their control, a world controlled by those higher up the socioeconomic ladder. This perceived lack of control, often a correct perception, causes stress. Most of us experience stress but those higher up the ladder have more control over the stresses they face, and more resources to deal with them. One result is the relative poor do not live as long, suffering more from diseases such as diabetes and hypertension. Their quality-of-life is further depressed because the rest of us have little empathy for them. Research by Dacher Keltner, Michael Kraus, and others, shows that we pay less attention to those lower down the scale and more to those higher up, and those at the bottom of scale are largely invisible to those at the top—an interpersonal empathy gap. When individuals of different status meet, the higher-status

¹² The effect could have gone the other way: one might be happier if there are many people consuming bigger paths than you because their existence makes you believe you will eventually be consuming a bigger path. Observing others with more fuels the American Dream? This might explain why many poor Americans do not want the tax rates on the rich increased.

Recent research indicates Americans seriously overestimate the potential for upward mobility. For the rich the overestimation justifies their wealth and for the poor it gives them more hope than there is. Subjects in one study were asked to estimate the probability that a randomly selected individual currently in the bottom 20% income category (the poorest quintile (1/5)) would move up into each of the other four quintiles. For moving from the bottom quintile into one of the top three quintiles (top 60% of incomes) the average estimate was 45% would move up, but only 30% actually do. Conservatives overestimate more than liberals. In another study respondents overestimated the probability by five-fold that a college student came from the bottom quintile. Michael Kraus, Shai Davidai and David Nussbaum conclude that “Taken together, these sets of results suggest that belief in the American dream is woefully misguided when compared to objective reality.” (NYT 2015)
individual signals disregard for the other person by talking at them, not listening to them, and looking past them. The title of a 2013 New York Times article sums it up, “Rich people just care less”. When we do pay attention, we higher up the scale tend to believe those lower are lower for a good reason, that “social class has an underlying, inherent or natural foundation” (Kraus and Keltner 2013). That is, we feel our higher rank is justified. People at the bottom, in contrast, are more likely to think that relative position is the luck-of-the-draw.13

The importance of relative position, status, harps back to Rousseau who blamed property rights, markets, commerce, and the Enlightenment—beyond the level of the village—for creating an unnatural desire to want more than others, concluding this desire causes unhappiness: the institutions that allow us to consume more, leads to misery because we acquire a preference (an unnatural preference) for a higher rank.14

Rousseau was emotional and passionate15—a bit kinky—who felt that emotions should play a larger role, making a strong distinction between desires and needs, finding desires evil.

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13 A 2010 paper covering four studies found lower-class individuals to be more generous, charitable, trusting, and helpful because “of a greater commitment to egalitarian values and feelings of compassion. (Paul Piff, Michael Kraus, Stephane Cote, Bonnie Hayden Chen and Dacher Keltner (2010) Having less, giving more: the influence of social class on prosocial behavior. *Journal of Personality and Social Psychology* 99(5): 771-784.
14Rousseau did not believe the desire genetic; for him, it started when a man first enclosed a field and said “Ceci est a moi.” His is an interesting conjecture: property rights, the institution that has made it possible for us to consume great amounts of goods and services, make us unsatisfied; property rights brings inequality because with them comes the potential to concentrate them.

Paraphrasing the philosopher Melissa Lane, the Enlightenment propelled the idea that we all could have a higher standard of living (progress) if we commercialized society (more, buying, selling, profits and property rights, more competition). Hume, Smith, and Rousseau all believed commercialization would increase consumption. But Rousseau argued it would not bring happiness because it creates a system based on desires (Assumption 5b), including the desire to have more than others. Paraphrasing Rousseau, commercialization changes man from a virtuous independent (a noble farmer in a small village) to a pursuer of desires who competes with others for self-esteem in the eyes of others. Commercialization is driven by pride, vanity, and esteem-seeking; it creates a world where you can never be satisfied, an unnatural world. Rousseau argues that the market system makes us unhappy because it causes inequality and neighbor-lusting. Long before Marx and Hegel, Rousseau was criticizing the market system. Economists tend to dismiss Rousseau's economic views, but it is the case that once basic needs are met, increased consumption, unless it’s an increase relative to others, does not bring much in the way of increased emotional WB.

As an aside, Rousseau was an early environmentalist arguing that commercialization would cause significant environmental degradation (large polluted cities and the destruction of nature). Rousseau harped for a return to nature, not a return to "acorn grubbing," but a return to a simple agricultural society organized around the family and the village.

15Hume, referred to Rousseau as the “wild philosopher” noting Rousseau “is plainly mad after long having been maddish.” Rousseau thought a lot of people, including Hume, were out to get him (but these were not all necessarily paranoid delusions). He seemed to have visions and he did drop all of his five children, one by one, off at the

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Echoing Rousseau, the American economist, sociologist and critic of capitalism, Thorsten Veblen (1857-1929), in his famous 1899 book “The Theory of the Leisure Class,” harangued relative consumption, calling it "pecuniary emulation". Veblen is responsible for the term “conspicuous consumption”—showing off with goods—arguing that demonstrating superiority with goods replaces showing off with excess leisure (a leisure class) as an economy matures.

Who do we compare with? And, do we compare only in terms of income?

Why do we compare? Social psychologists have social-comparison theory: we use other people to gather information about ourselves (Festinger 1954). Comparison is part of our quest to make ourselves feel better. Social comparison theory and the data both indicate that you compare with those who are similar to you, those you know: neighbors, relatives, friends, co-workers, your ethnic group, your age cohort. Data from the National Survey of Families and Households finds that happiness is negatively correlated with the income of your neighbors, and the effect is stronger the more you socialize with people in the neighborhood.

As described in the last section, a jump in personal income temporarily increases happiness (emotional WB). While part of the happiness bump is attributable to being able to consume more new stuff, it is likely that part of the bump is because we have improved our position relative to others, others including our past self. Like the effect of consuming new stuff, this self-effect must be temporary because our new self will become our old self.

In addition, residents of a region or country also seem to compare their per-capita GDP, and its growth rate, with these measures in other places, and this seems to affect happiness levels; that is another country can be part of one’s reference group. We get a happiness bump from living in a richer and faster growing country, and this bump persists as long as our country maintains its relative position. While you and I are likely to be unaffected by the position of the

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16 Quoting Morey and Kritzberg, “Motives for the drive include self enhancement, perceptions of relative standing, maintaining a positive self-image, and closure…Studies indicate that the inclination to socially compare is positively correlated with (1) low self-esteem and neuroticism, (2) a strong interest in others and what they feel, and (3) having a ‘high chronic activation of the self’…”

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U.S. relative to countries like Liberia, we compare with each other, with Europe, with Japan and with the Commonwealth countries.

**Switching gears a bit**, my sense is that while our happiness is influenced by our relative income it also influenced by our rank on other scales as well, but they have not gotten much attention. **Tim Wadsworth**, a sociologist at the University of Colorado finds that happiness is increasing in how much sex you have relative to the average for your age/gender cohort.\(^{17}\) Besides sex and money, people compare on the basis of specific commodities (e.g. cars, houses), athletic accomplishments, the accomplishments of one’s children, and the attractiveness of one’s partner.\(^{18}\) If we compare on multiple dimensions, an important question is at what rate will you substitute increased status on one scale for reduced status on another? For example, I can spend more time publishing research papers which would increase my professional status, but that would leave less time for training to maintain my position in my cycling gruppo. Others sacrifice affluence to send their children to a prestigious college.

**The difference in happiness levels by income levels in the same society at a point in time could, in part, be the result of expectations and aspirations:**\(^{16}\)

**Comparing to your past and future self:**

You are unhappy with your income if you feel it too low in terms of what is fair, either unfair given your efforts or unfair relative to what others make; that is, your income is low relative to your expectations, expectations driven by your assessment of your ability, your relative ability, and your sense of what is fair and right.

Aspirations (what you aspire to, want to achieve) are influenced by what others have; that someone else has more makes, for example, having more seem more possible. Research by the Swiss economist **Alois Stutzer** and others indicates that having high income aspirations and high expectations reduces happiness. Aspirations are often thwarted, and more so for the poor. (Some might be poor because they lack aspirations (the happy poor?), but most of us, including the

\(^{17}\) Of course a positive correlation between sex and happiness does not imply that more sex results in more happiness: maybe happy people have more sex.  
\(^{18}\) I spend a great deal of time training so I can bike faster and longer than my biker friends, or, at least, not be too far behind. My comparison group used to be all Boulder bikers; then I reduced it to females and older males; now it is only senior citizens.
poor, have aspirations.) Thwarted expectations cause frustration; frustration leads to discouragement—not a pretty picture. In animals, stress that cannot be controlled leads to “leaned helplessness.”19 The picture is particularly unpleasant if you expect that your aspirations will come true, and they don’t. Danes appear happier than other Europeans and it is suggested that this is because they largely have income equality, making it unrealistic for most in Denmark to aspire to a higher relative income.

**If emotional or life-satisfaction WB is determined by relative status, what would increase aggregate WB?**

If relative position in society is more important than absolute income in the determination of WB, increasing aggregate income will not necessarily increase aggregate WB. Depending on how the increase is distributed, it might even have the opposite effect. When my income increases but not yours, it decreases your WB: your relative income has declined. So, if unconstrained in my pursuit of a higher income, I will strive too much, from your perspective, to get ahead—inefficiently work too much from society's perspective—so will you; Robert Frank, a Cornell economist and New York Times columnist, discussed this in 1997.

If you earning more increases your WB but reduce the WB of others, what WB increasing policies might be pursued? A standard economic solution would be to raise marginal income-tax rates at the high end to encourage you to work less and make less (make the income tax more progressive), the same logic as for taxing cigarettes: using the tax to increase the private cost of smoking (or earning) so it equals the social cost.

At the high end, after-tax income will decline because taxes have increased, and possibly also decline because those at the high end might work less: they keep less of every additional dollar so have less of an incentive to work. But there is little evidence that more progressive tax rates would cause the rich in the U.S. to work less or earn less, and a lot of contradictory evidence. Given the current marginal tax rates in the U.S., increasing progressiveness, a lot, would not decrease the amount we work. Tax rates in the U.S., and marginal tax rates, are historically low and low compared to other countries. Detailed data collection and analysis by the French economist Thomas Piketty (author of Capital in the Twenty-First Century) and the

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19 An animal repeatedly subjected to an unpleasant stimulus they cannot control learns to stop trying to avoid the stimulus, even when avoidance becomes possible.
Berkeley economist Emmanuel Saez indicates much higher marginal tax rates than now exist in the U.S. would have no adverse effects on economic growth. Supporting the hypothesis that more progressive taxes will not reduce labor-force participation, the Scandinavian countries have very high rates of labor-force participation.

The U.S. has one of the lowest effective tax rates and one of the lowest rates of labor-force participation. [As an aside, Denmark with one of the highest rates of labor-force participation always ranks high on measures of happiness and life satisfaction, suggesting work might even increase happiness if the stress of working and raising a family is reduced by a safety net for child care and health services.] So, unless U.S. income taxes are made drastically more progressive their effect will simply lead to more taxes paid by the relative rich and less taxes paid by the relative poor, assuming the change is revenue neutral: the after-tax distribution of
income would get squished. But, more progressive tax rates would not change anyone’s income rank (highest, second highest, lowest, etc.): all of us would move closer, income wise, to both our richer and poorer peers.

Whether this squishing of the income distribution would increase, or decrease WB depends on how it affects perceived status and how it affects expectations: the rich would not be as rich as they were compared to you, but the also the poor could also be not as poor. How income disparity affects average WB in a society is an important but not fully answer research question. Scandinavian countries have very progressive income taxes and rank higher than the U.S. and Canada on happiness measures, but they are also more homogenous societies, so the citizens are likely to have more empathy for one another.

Another important, but unanswered question, is how average WB is affected by the distribution of wealth as compared to the distribution of income. A way to squish the wealth distribution (as compared to the income distribution) is with wealth taxes and inheritance taxes. Many developed countries also restrict work hours (35 hour work weeks, 6 weeks of mandatory vacation). Increasing the cost of working more makes sense on efficiency grounds if people gain status by simply working more than their peers, creating a situation where we compete in terms of who works more—picture new associates in a high-powered law office.

Relative consumption levels are also influenced by the provision of public commodities relative to private commodities—public commodities are consumed by all, and by the provision of services by the government, such as education and healthcare. For example, resources allocated to building a large house mostly benefit, in absolute and relative terms, its residents, but resources allocated to increasing national security make us all more secure. Government provided healthcare increases the real income of the poor more than the rich. Put simply, in a market economy allocating more resources to the production of private goods will typically lead to more consumption disparity than would allocating those resources to producing

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20 More progressive taxes does mean that tax revenues will necessarily increase; they might even decrease. If tax revenues are affected, what happens to emotional WB will depend on what is cut from or added to the budget.
21 When I was a professor in Norway, I was in a 90% marginal tax bracket.
22 A public commodity is a commodity that once it is produced is consumed/experienced by all, whether they like it or not. A standard example is national defense. Fighting the war in Iraq is a public commodity, a public good for some, a bad for others. Polar bears saved from extinction is a public commodity: if they are saved for you, they are saved for me, whether I like it or not.

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public goods, or government-provided services. To be clear, I am not claiming that increased income equality and spending a larger proportion on public goods will necessarily increase WB, only that there are strong relative-income/status effects which should not be ignored if the intent is to increase WB. Income inequality is on the increase, particularly in the U.S: 60% of the increase in US national income in the 30 years after 1977 went to just the top 1% of earners.

Summarizing, relative effects are both important and complicated. But, modern economists, with some exceptions, ignore them, and all economists ignore relative effects on dimensions other than income/consumption. The ACT presented in Chapter 1 can accommodate relative effects if my ranking of consumption paths depends not just on what I consume but also on what those in my reference group are consuming.

Other theories suggesting income and wealth are not critical determinants of happiness or WB

This section relates four different perspectives on the causes of WB, starting with genetics and what happened when you were a baby:

One's happiness level has a set point from which it is, longrun, difficult to deviate?\textsuperscript{xii}

Adam Smith, a former Chair of Moral Philosophy at Glasgow University, thought so

*The mind of every man, in a longer or shorter time, returns to it natural and usual state of tranquility. In prosperity, after a certain time, it falls back to that state; in adversity, after a certain time, it rises up to it.* –The Theory of Moral Sentiments (1759/1853, p.149)

If we each have our own fixed level of happiness, our fixed-point, and our basic needs are met, market outcomes, government policies, and making more money, cannot make you happier, at least not for long, nothing can. The early fixed-point research suggested that we have a life-time fixed level determined by genetics and early events, and can only temporally deviate from it—but more recent research, sometimes by the same researchers, suggests the point is quasi-fixed rather than a hard fix: something that can, with effort, but not necessarily more goods, be modified.

Happiness is strongly affected by genetics. In a seminal 1996 study, David Lykken and Auke Tellegen, then psychology professors at the U. of Minnesota, interviewed thousands of reared-apart identical twins. They found that 44% to 52% of the variation in reported happiness across individuals could be attributed to genetics, and after resampling some of their twins over a
period of years, concluded that 80% of an individual’s stated happiness over time was inherited. Differences in income, marital status, education and other observed socioeconomic characteristics could explain only a few percent of the variation across individuals. Put simply, they found that how happy you are, compared to me, is largely explained by the genes we inherited. Their paper ends with the quote

_It may be trying to be happier is as futile as trying to be taller and therefore counterproductive._

In 2000, after 40 years of research on the subject, Lykken tempered his conclusion, stating that while happiness is partially determined by genes, environment is also important, and that some people can permanently increase their happiness by developing strong relationships and by, with conscious effort, changing their attitudes. In 2005, the psychologists Frank Fujita and Ed Diener addressed the question of whether one’s level of life satisfaction is predetermined. By following 2,336 men and 2,873 women over 17 years, they found that while there is a "soft baseline" for life satisfaction, "some individuals do change significantly", and small fluctuations in happiness are common, some lasting for years.

What are the implications of a quasi-fixed level for the question at hand: whether consuming more increases WB? While one can tell a story consistent with more consumption more WB, at least in the shortrun, the existence of a quasi-fixed level of WB is not consistent with the idea that increasing one's level of consumption will permanently increase WB—so Smith was mostly correct. The quasi-fixed research suggests it is not more consumption that increases long-term WB, but more and better relationships and conscious efforts to improve how you live and experience your life, efforts such as meditation, exercise, therapy, and religion. SSSRIs, and other depression and anxiety-reducing drugs, can also make life more enjoyable. At this point, I expect some readers will conclude that, "Morey has lived in Boulder, a rich, liberal enclave, for too long, so thinks the road to salvation is to give up one's worldly pursuits for a yoga mat." In my defense I don't do yoga, I do Pilates.

Chapter 6 reviews the psychological studies on we adapt, and why, to both to good and bad events. The findings are consistent with a soft happiness-baseline. For example, a recent

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23 People actively involved with religion are, on average, happier than those who are not; a likely reason is the social involvement and support. Therapy, particularly cognitive behavioral therapy, can be effective in reducing anxiety, so can exercise and meditation.
study found that patients on dialysis, after they got used to being on dialysis, were no less happy than a control group.

**WB is created by doing, not by acquiring?**

Picture a New Yorker cartoon from June 23, 2014: a dog, having climbed the mountain, attentively waits on the words of wisdom from the monk sitting cross-legged in front of his cave. The caption: *The bone is not the reward—digging for the bone is the reward.* My first thought was the monk doesn’t understand dogs, but, on second thought, he does.

Bertrand Russell's gardener:

*When I was a boy I knew a man bursting with happiness whose business was digging wells. He was of enormous height and of incredible muscles, he could neither read nor write, and when in 1885 he got a vote for Parliament, he learnt for the first time that such an institution existed. His happiness did not depend on intellectual sources; it was not based upon belief in natural law, or the perfectibility of the species, or the public ownership of public utilities, or the ultimate triumph of the Seventh Day Adventists, or ……. It was based on physical vigor, a sufficiency for work, and the overcoming of not insuperable obstacles in the shape of rock. The happiness of my gardener is of the same species; he wages a perennial war against rabbits, of which he speaks exactly as Scotland Yard speaks of Bolsheviks; he considers them dark, designing and ferocious, and is of the opinion that they can only be met by means of a cunning equal to their own. Like the heroes of Valhalla who spend every day hunting a certain wild boar, which they killed every evening but which miraculously came to life again in the morning, my gardener can slay the enemy one day without any fear that the enemy will have disappeared the next day. Although well over seventy, he works all day and bicycles sixteen hilly miles to and from his work, but the fount of joy is inexhaustible, and it is "they rabbits" that supply it –Bertrand Russell, 1930, The Conquest of Happiness*

Getting more income would have decreased their emotional and life-satisfaction WB if it relieved them from their battles with rabbits and rocks. In contrast to income, health and vigor allows them to battle longer. Note Russell’s choice of the word "conquest". Work, not consumption, produced their WB. Job satisfaction in the U.S. is not increasing; in 2013 fewer
than half of American workers were satisfied with their jobs; in 1987, when the Conference Board survey started, is was 61%.

*Mihály Csíkszentmihályi’s Flow* [xiv]

The psychologist Mihály Csíkszentmihályi pioneered the survey technique of contacting people at random times of the day to ask what they were doing and how they were feeling *(experience sampling)*. Based on his finding, in 1990 he published, Flow: The Psychology of Optimal Experience. A president of the American Psychological Association, Martin Seligman, has called him the world’s leading researcher in "positive psychology".[xv]

Flow is the experience of being so involved in an activity that one loses one's sense of time and oneself; one is motivated and involved, and one has no desire to be anywhere else or doing anything else—one is “in the zone”; one if focused and goal directed. While there, there is no anxiety or depression. The experience is highly enjoyable and rewarding, but unconsciously rather than self-reflectively. While flowing you would never say, "Boy, Am I having fun"; it would not cross your mind; you’re too busy doing what you are doing. Russell’s gardener achieved flow on a daily basis, so did the well digger. Csíkszentmihályi introduced flow to modern Western science but he did not invent it; flow, or something very similar, and the benefits of achieving flow ("being in the moment") are foundational in Taoism, Hinduism and Buddhism. Flow contributes to life-satisfaction WB. For it to produce emotional WB requires that it either increase emotional WB after the experience is over, or because one can have increased emotional WB without being consciously aware of it.

Flow is achieved by performing activities that have just the right amount of challenge: too little and one becomes bored, too much and frustration results. Appropriate challenges match your intelligence, education, and skill set. Ideally one’s job is a flow experience: one faces problems and tasks that are challenging but doable. Social interactions can, but often do not, produce flow, and unless one is quite dull, watching TV will not generate flow, but playing the right video game will. Flow requires control in the sense that one has to perceive that one has influence and a good prospect for success. Individuals who are self-motivated and curious are more inclined to experience flow.

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From a Western perspective, flow activities are non-traditional happiness. The flow experience can be fleeting but it can also last for long periods (artists and scientists can spend hours or days engrossed in a project that produces flow), and it can be often repeated if one chooses the right activities. Playing games, playing a musical instrument, and doing sports can be flow activities, so can hobbies. For me, writing this book often produced flow. Flow is not sensual pleasure (like sex, scratching, or a great taste), nor does it necessarily involve doing something meaningful. One can get flow from doing cross-word puzzles, but doing them does not give one’s life meaning or contribute much to the greater good. While, after the fact, people describe flow experience as enjoyable, the enjoyment is not conscious during flow.

The pursuit of flow is consistent with the Assumptions of ACT; it only requires that states of the world that include activities that generate flow are highly ranked. Flow WB does not depend on one's income, as long as one has enough income to meet one's basic needs; it typically does not require that one acquire more possessions. Flow WB is inconsistent with a job that is numbing in its boredom, or far beyond one’s ability. Interestingly, many of us do not pursue flow experiences, but rather pursue distractions. More on this in Chapter ??.

Buddhist Flow: it's the "job," not what the wages allow you to consume

Economists typically consider work a necessary evil in the pursuit of consumables. The Buddhist view is that an ideal job, Right Livelihood, not the pursuit of consumption, is what makes us better off (ends our suffering and awakens us). Right Livelihood is part of the Buddhist Eight-fold Path, E.F. Schumacher, in his often reprinted "Buddhist Economics," referring to the modern economist says,

"His fundamental criteria for success is simply the total quantity of goods produced during a given period of time....From a Buddhist point of view, this is standing the truth on its head by considering goods more important than people and consumption as important as creative activity....For the modern economist, this is difficult to understand. He is used to measuring the 'standard of living' by the amount of annual consumption, assuming ... a man who consumes more is 'better off'...

Quoting earlier in the essay,

The Buddhist point of view takes the function of work to be at least three-fold: to give man a chance to utilise and develop his faculties; to enable him to overcome his ego-centredness by joining with other people in a common task; and to bring forth goods and services needed for a becoming existence. To organise work in such a manner that it becomes meaningless, boring, stultifying, or nerve-racking for the worker would be little short of criminal;...Equally, to strive for leisure as an alternative to work would be considered a complete misunderstanding of one of the basic truths of human existence, namely that work and leisure are complementary parts of the same living process and cannot be separated without destroying the joy of work and the bliss of leisure.

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Consider Adam Smith’s famous pin factory (a factory that produces pins). Smith compares the number of pins produced per day when every worker undertakes every step in producing a pin (cut the wire, sharpen one end, etc.) to specialization where each worker does one, and only of eighteen separate step. He convincingly shows that specialization will lead to many more pins per day (its more efficient—increased output with no increase in inputs). For a Buddhist this conclusion, while correct, misses the point that the work would most likely be boring, and stultifying, so, in the words of Schumacher, “little short of criminal.” At this point, my economist friend Phil would say that specialization will lead to much higher wages and this will more than make up for the boring job. This would be true if boring work and goods are commensurable, as economists assume, but a Buddhist would reject the notion that goods can substitute for an unfulfilling job.

Buddhism rejects the notion that increased income leads to increase happiness. Economicus could have a ranking based on Buddhist principles, and, if he were a tranquil monk, he would have stable emotions. There is nothing in the Assumptions of ACT that implies that better off requires more consumption or more possessions.

What seems critical for satisfaction with work is workplace trust (trust in management and co-workers) and work satisfaction is strongly and positively linked to life-satisfaction WB. A

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25 “To take an example, therefore, from a very trifling manufacture; but one in which the division of labour has been very often taken notice of, the trade of the pin-maker; a workman not educated to this business (which the division of labour has rendered a distinct trade), nor acquainted with the use of the machinery employed in it (to the invention of which the same division of labour has probably given occasion), could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. But in the way in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on, is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which, in some manufactories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them. I have seen a small manufactory of this kind where ten men only were employed, and where some of them consequently performed two or three distinct operations. But though they were very poor, and therefore but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins in a day. There are in a pound upwards of four thousand pins of a middling size. Those ten persons, therefore, might make among them upwards of forty-eight thousand pins in a day. Each person, therefore, making a tenth part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day; that is, certainly, not the two hundred and fortieth, perhaps not the four thousand eight hundredth part of what they are at present capable of performing, in consequence of a proper division and combination of their different operations.” (Smith, 1776: Book I, Chapter I)
2009 study finds that moving up one place on a 10-point scale of workplace trust has about the same effect on life-satisfaction WB as a forty-percent bump in income—Wow. Unfortunately, there is little research on how WB varies by job and profession. The evidence on whether the self-employed are happier is mixed. One study finds a self-employment happiness bump, but finds it only for the rich self-employed.

The next chapter turns to the ACT assumption that one has stable preference (Assumption 2), rather than, for example, preferences that vary with emotional state or changes as a function of the consumption paths one has consumed.

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i Sources:

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1. E.F. Schumacher (1966) *Buddhist economics*, *Resurgence* 1(1)
Chapter 6: Higher ranked paths do not always make you better off: one reason is *duration bias*

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You suffer from duration bias ((systematically over-predict the long-term emotional impact of good and bad happenings): most of us were born with this inclination\(^1\)

Things you imagine will enhance your emotional WB (new car, new husband, polar bears saved) will, but not for as long as you imagine. And symmetrically, things you believe will make you unhappy (getting dumped, cancer) will, but not for as long as you imagine. The name for this misperception is *duration bias*; it is a type of *miswanting*: miswanting as in you want something but that something will not necessarily make you better off; you are mistaken.\(^1\) Chapter 7 considers another major cause of miswanting, an *empathy gap*, and Chapter 8 discusses the *endowment effect*.

Events occurring and acquisitions arriving (Trump is elected, the new car gets delivered) often affect your emotional WB. One dimension is the magnitude of the immediate shift in WB, another is the duration of the shift. Event A might cause your emotional WB level to slightly jump (or fall) to some new permanent level, whereas Event B might cause a large but short spike, up or down. To rank paths based on betterment one has to accurately predict the WB path of each path. And different events and acquisitions are likely to have different WB time paths.\(^2\) Duration bias occurs if you systematically over-predict the duration of the WB shift.

Complicating things further, the emotional WB path might be different from the life-satisfaction WB path.

Duration bias is a major cause of WB-reducing choices. It leads to a ranking based on a flawed sense of longrun betterment, rather than actual longrun betterment—we systematically misjudge how we will feel about it in the longrun. If you suffer from duration bias—and you

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\(^1\) Related to duration bias is magnitude bias. Believing the immediate shift in emotional WB that will result from an act or acquisition will be more, or less, than it turns out to be. Duration bias is more studied than magnitude bias, and like duration bias can cause one’s ranking of paths to be out of sync with betterment.

\(^2\) The economists Miles Kimball, Ryan Nunn and Dan Silverman specify and estimate a model of how emotional WB is affected over time by different events, finding that a ranking of alternatives based on the immediate effect of each on emotional WB is often different from a ranking based on the long-term impacts of each on emotional WB. They don’t model or discuss duration bias. For example, they find that it terms of the immediate shift in emotional WB caused by losing your job is worse than cancer or a heart attack, but not in the longrun.

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do—you ranking is not fully consistent with betterment. So, taking a higher-ranked path doesn’t always make you better off. Economicus does not suffer from duration bias (Assumption 5a says your ranking is based on betterment).

People are generally unaware of the operation of the system of cognitive mechanisms that ameliorate their experience of negative affect (the psychological immune system), and thus they tend to overestimate the duration of their affective reactions to negative events. This tendency was demonstrated in 6 studies in which participants overestimated the duration of their affective reactions to the dissolution of a romantic relationship, the failure to achieve tenure, an electoral defeat, negative personality feedback, an account of a child’s death, and rejection by a prospective employer. Participants failed to distinguish between situations in which their psychological immune systems would and would not be likely to operate and mistakenly predicted overly and equally enduring affective reactions in both instances. The present experiments suggest that people neglect the psychological immune system when making affective forecasts. (Dan Gilbert et al. 1998)

Thinking back to before I had tenure (all universities make mistakes), I thought being denied tenure would ruin my life and getting tenure would permanently increase my WB (both emotional and life-satisfaction). Getting tenure didn’t permanently increase my emotional WB. I don't know whether a denial would have ruined my life, but the above-mentioned survey of academics a year after their tenure decision shows no significant difference in average happiness between those that did, and those that did not. I spent the better part of my youth working night and day to get tenure because I thought I would be devastated if I was denied tenure—was it all a big mistake? Assistant professors correctly predict how they will feel immediately after they learn they didn’t get tenure (emotional and life-satisfaction WB both drop), but incorrectly predict how long these feelings will last. I am not sure whether getting tenure increased my long-term life-satisfaction WB.

Most of us believe that if we get sick our WB will decrease, so try to avoid long-term illness, but what if our beliefs are incorrect? Quoting from a University of Michigan press release about a 2005 paper by Jason Riis and others:

Study of dialysis patients yields surprising findings. Despite what able-bodied healthy people might think, people with severe illnesses and disabilities don't wallow in misery and self-pity all the time. In fact, a new study finds, such patients on the whole may be just as happy as those without major medical conditions. The finding adds to the growing body of evidence that ill and disabled people adapt to their condition and show a resilience of spirit that many healthy people can't imagine.

This is not to say people prefer being sick. While adaptation is typical, it can be incomplete, even after some years. E.g. Oswald and Powdthavee present evidence of partial, but incomplete adaptation to a disability three years after onset. And the following graphs of emotional WB over
time indicates that, on average, the death of an adult child would negatively affect a parent’s emotional WB for much longer (approx. 5 years) than the death of their mother (approx. 6 months). How long the average individual expects the effect to last is another matter.

Figure 22: Part of Figure 1 from Kimball, Nunn and Silverman (2015)

While most of the research on duration bias has been with respect to private goods and outcomes, duration bias also applies to public goods and public bads. Barak Obama was, in his capacity as President of the United States, a public commodity. Once he became the President of the U.S. for me, he became that for everyone, including French people and Afghan terrorists. We were all forced to consume the results of his actions; for some the Obama Presidency was a public good, for others a public bad. Before he was first elected President, many people thought that his election would bring them great, and long-lasting, joy; others expected great, and long-lasting, misery. Both groups were shortrun correct, but now that Obama’s second term is over, most of us realize we weren’t as affected by his Presidency as we imagined we would be—it was not as good, or bad, as we imagined it would be.

Reducing the rate of global warming is, for most, a public good (if it doesn't get as hot for me it doesn't get as hot for you). If we underestimate our ability to mentally adjust to global warming, we will spend too many of our resources trying to slow it down. I, as an avid skier who owns a house in the mountains, now dread a future with little snow. But as temperatures increase I will find myself biking more and skiing less—my interest in skiing will decay, but now I can’t imagine that. (What I just said doesn’t suggest that I think we should do nothing about global warming.)
I would be happy if I heard on the news that wolves were being reintroduced into Colorado, my adopted State. But after reading the literature on my psychological immune system and my tendency to suffer from duration bias, I now suspect my happiness would adjust to the news in a matter of hours. Liberal environmentalists over-predict the long-term pleasure produced by the likes of Obama and wolves, and conservatives and ranchers over-predict their displeasure.

So, why do we suffer from duration bias?

Is there some advantage to duration bias? In his 2002 book, *Strangers to ourselves: discovering the adaptive unconscious*, Timothy Wilson discusses a number of reasons why we have the affliction:

- **Focalism**: When something great happens, or the shit hits the fan, it captures all of our attention (conscious and unconscious)—it is all we can think about—we focus—the happening has salience. When we think about how the happening will make us feel in the future we don't realize that it will no longer be the be-all-and-end-all (capture all our attention), so overestimate the happening's long-term effects. This is good: we would get in big trouble if our attention was completely occupied by something that happened in the past: survival requires paying attention to the present. If the wolf is at the door and you’re still cranked about something that happened last year, you might not notice the wolf.

- **We fail to adequately foresee how we will adjust.** These adjustments can be actions (going to the doctor when sick) or changes in mental outlook (the death brought the rest of the family closer together), but we fail to predict that we will make such adjustments.

- **There is the afore-mentioned quasi-fixed level of happiness that we forget we have (Chapter 5)**

- **Misconstrual (perception errors)**: We don't know how we will react or adjust to a change because it is difficult to predict the implications of things we haven't previously experienced. And, even if the experience is not a new, we still have trouble predicting how it will affect us: memories of past emotions, distress, and pain are often flawed. Mothers forget how much childbirth hurts, and marathon runners forget how they felt at the eighteen-mile point. So, it is easy to make duration errors.

- **Overestimating how long the happiness will last increases current happiness and contentment.** Or, you overestimate the duration of unhappiness, because doing so makes you feel better prepared—*motivated distortion*: thinking the pain in your stomach is stomach cancer because preparing yourself for bad news makes you think, now, that you will be better able handle the diagnosis when it comes.

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3 There is some recent evidence that a few wolves spend time in Colorado. When I hear this I get a flash of pleasure, but mostly wolves don’t cross my mind.
• Spin: Failure to realize how adept our minds are at spinning things to our emotional advantage. We spin/distort things to uncover the silver lining: when the shit hits the fan we figure out a way to spin it so it doesn’t seem as bad. Duration bias occurs because we fail to predict that we spin.

**Modeling duration bias**

If duration bias is uniform and predictable, modeling choice in a world of duration bias is no different from modeling choice in a world without it: in both cases choices with long-term implications are made on the basis of perceptions of how it will make us feel in the longrun, but with duration bias the perceptions are systematically biased. The researcher can predict the individual's choices but the individual is making systematic mistakes by assuming the effects of the choices will affect them more than they will.  

**What are the implications of duration bias?**

Duration bias means some lower-ranked paths would generate more WB than some higher-ranked paths. Our ranking is based on a misperception; it is wrong (Assumption 5a does not hold). More specifically, duration bias means we spend too much time and money to acquire new items and situations that will produce a constant stream of some positive attribute (e.g. better TV picture, Monet over the mantle, saved rain forest). And, we spend too much money and time trying to avoid or eliminate items and situations that will produce a constant stream of some negative attribute (e.g. a disability, ill health, the neighbor’s purple house, ugly drapes). Imagine you become incontinent or, worse, paralyzed from the waist down. Just imagining leads me to assume I would be miserable until the day I die. But, I am probably wrong. I don’t understand that I will become accustomed to a disability, maybe not completely but way more that I could now imagine.

A number of years ago the State of Colorado passed a law that expanded where you could carry a concealed weapon, and based on the law in 2012 the [Colorado Supreme Court](https://www.colorado.gov/pacific/supreme) struck down the University of Colorado’s campus gun law. This ruling means that any of the 500 students, mostly freshman, in my Principles of Microeconomics class might be packing and I got

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4 It is important to distinguish between duration bias and discounting: discounting has to do with placing less weight today on correctly-assessed future benefits and costs. Duration bias could be modeled using a discount factor for how long it has been since the change, a discount factor on top of the one for time preference, but it would likely be vary by type of experience. Having an ordering that discounts future benefits and costs doesn’t imply WB-reducing choices, duration bias does.

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stressed (an emotional state) worrying that if I failed, or offended, the wrong student, I could get shot. Retiring crossed my mind. If I had retired because I was worried about guns on campus, it would have been a mistake. I got used to the idea of guns in class and now rarely think about it. Put simply, I misinterpreted how long the anxiety would last, so came close to making the wrong choice. Anxious people typically over-predict how long a bout of anxiety will last, particularly those who medicate as soon as they become anxious. By circumventing the anxiety with a drug, they never experience the anxiety naturally subsiding, so do not realize it will subside.

Duration bias should be suspected whenever a choice involves long run betterment or worsement. With environmental policies there are typically long run implications. Consider the extinction of a species or the contamination of water-body with heavy metals or PCBs. When an environmental injury occurs, people get upset (are damaged), but duration bias implies that even if the injury remains, the upset will not last as long as we imagine. This raises questions about estimating how much society was damaged, in dollars, by, for example, an oil spill. For example, suppose that soon after injury, while you were bummed, you were asked whether you would be willing to have your taxes increased by $25 a year to insure there wouldn’t be another large injury of the same type (extinction, spill, pollution event). Suppose further that you said yes because (1) you felt it is worth $25 to not experience, for a year, the bad feeling you are experiencing, and (2) you assumed that the bad feeling you were experiencing would last a long time. If the bad-feeling duration turns out to be shorter than you are predicting, the value you place on prevention is less than your answer indicates.5

Complicating matters is we adapt to different things at different rates, and some things are difficult to adapt to. For example, commuting remains a bad as long as you keep doing it. You can’t adapt to commuting because it’s entirely unpredictable. Driving in traffic is a different kind of hell every day (Daniel Gilbert as quoted in Traffic: Why we drive the way we do by Tom Vanderbilt).

The happiness researchers Bruno Frey and Alois Stutzer have identified the paradox of commuting: you go for the bigger house and yard in exchange for a longer commute, not realizing that you will adapt to the house and yard, but not to the commute. Put simply, if you commute, you probably bought too big of a house. Wilson and Gilbert (2008) survey the

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5 Some economists argue that answers to hypothetical questions about willingness-to-pay are biased upwards because you answer knowing you will not have to pay. Whether this is true or false is a different matter from people having an actual WTP that is higher than it should be because of miswanting.
literature on what we do, and don’t, adapt to. One study finds that “people adapt more easily to incarceration than to unpleasant noises.” We don’t adapt to unpredictable noise (consider traffic noises and overheard cell-phone conversations, but do to clock ticking). And, as noted in Chapters 5, while we adapt to consuming more and better things, the happiness lift from being rich relative to others is more enduring. Losing your job “is particularly difficult to adapt to and has a long-term impact on life satisfaction.” Maybe discuss miles research on adaptation somewhere around here. **Distinguish between variation in how long an WB shift lasts vs. how long you expect it to act.**

In closing the discussion of duration bias, note what while the research on it indicates that the bias is in the direction of believing the jump, or decline, in emotional WB will last longer than it actually will, duration bias in the other direction (the emotional shift will be shorter than you expect) would also cause one’s ranking to be out of sync with betterment.

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Chapter 7: Higher ranked paths do not always make you better off: another reason, empathy gaps

Empathy gaps are another cause of miswanting. I will discuss an emotional empathy gap, and a future-self empathy gap.

The emotional empathy gap (we are very bad at predicting what we will do in another emotional state: we are unable to empathize with our other selves)

Related to duration bias is what George Loewenstein calls the empathy gap. As discussed next, people have emotional-state-dependent preferences. That is, my ranking of paths depends on my emotional/chemical state. The emotional empathy gap is that we are very bad at predicting what we will do in another emotional state: we are unable to empathize with our other selves, so do things now that make our other future selves worse off, decreasing our overall WB. The first step is the research on emotion-specific rankings.

Multiple orderings?

Economists simplify their choice theory and ethics by assuming your ranking of paths is static and unique, but is Assumption 2 correct?

*A hot temper leaps o'er a cold decree.* - The Merchant of Venice, act 1, scene 2

Behavioral research, mostly by psychologists, demonstrates that we have different preferences for different contexts and for different emotional states—you are not of one mind and do not have one single ranking of paths. Summarizing, in my words, not theirs, which ranking you use depends on context and your emotional state of mind: assuming $S$ possible situations (combinations of contexts and states of mind), in situation $s$ you use the ranking coughed-up for situation $s$. These $S$ different rankings determine choice in the sense that in situation $s$ you will choose the highest $s$-ranked path from among the paths available in situation $s$. Jordan, sexually aroused, will not have the same preferences as the Jordan who wakes up with a stranger; so a choice that increased Saturday-night Jordan's happiness might make Sunday-morning Jordan very unhappy, or even happier.
The problem is that people often act as if their current preferences are not context or emotion specific, so make decisions not accounting for the fact they will have different preferences in the morning. Jordan often fails to empathize with his or her next-morning self. In contrast, economicus has only one set of preferences: they are stable, so such temporal inconsistencies cannot arise, inconsistencies that call into question what it means to make you better off, and even what it means to be you.

As an economist trying to model and accommodate context and emotion-specific preferences, consider the individual a collection of selves whose behaviors affect each other—there are external affects across the selves. (Last night while stressed, yelling at the kid made me better off, so did the quart of dulce-de-leche ice cream, but today I am worse off: last night’s me made this morning’s me worse off.)

Multiple orderings share many properties with dissociative personality disorders (Dr. Jekyll and Mr. Hyde and the actress Joanne Woodward in the movie, *The Three Faces of Eve*).¹ Consider: as Edwina I wear dresses, heels, and flirt at bars. When Edward, I sit in my basement doing research, unable to walk in heels; Edward would be shocked to learn Edwina hit the bars last night. My third persona, Shirley the ballerina, finds Edward boring and hates that Edwina is always borrowing, and ruining, her tutus. Each personality does things that affects the other two

¹ DPP was previously called multiple-personality disorder. While the disorder fascinates many, it is not clear to what extent it exists: one hypothesis is that is a product of suggestions by the therapist.

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(how could they not, they live in the same body) but none of them take these external effects in account when deciding how to live their lives. Edward and Shirley hate cigarettes and cigarette smoke, but Edwina has smoked Camels for years.

People with dissociative personality disorder have multiple preference orderings; they consist of many selves. The same holds true for people who live with varying emotions—all of us. Our preferences vary across emotional states and if we behave as if our current preferences are permanent, we will make WB-reducing choices.

George Loewenstein, the Herbert A. Simon Professor of Economics and Psychology at Carnegie Mellon University, posits choice is often based on visceral states, visceral as in "from the gut"; you has emotional-state dependent preferences. Visceral states include drive states (hunger, thirst, and sexual desire), craving for drugs, moods and emotions, and physical pain. ²

*As she melted small and wonderful in his arms, she became infinitely desirable to him; all his blood vessels seemed to scald with intense yet tender desire, for her; for her softness, for the penetrating beauty of her in his arms, passing into his blood. And softly, with that marvelous swoon-like caress of his hand in pure soft desire, softly he stroked the silky slope of her loins... And she felt him like a flame of desire (Lady Chatterley’s Lover, D.H. Lawrence, quoted and discussed by Robert Sapolsky in Why Zebras Don’t Get Ulcers)*

Depending on your literary and erotic tastes, this quote may have caused you pancreas to secrete hormones, changing your visceral state. Economists do not talk, or think, like D.H. Lawrence. Emotions and visceral states are important to choice and ethics but have been purged from CT and economic ethics. Economists should be pitied: normal people have passions, lust, and rages, while modern economists have only ordinal preferences.

Hesitate to conclude that behavior chosen in a visceral state (behavior that would not have been chosen in the dispassionate state) is always a WB-reducing choice. Sometimes it is, but it goes both ways: choices you make in the dispassionate state can make you worse off when you are in a visceral state. For example, if Edward is anxious most of the time, when he experiences an occasional bout of calmness he probably should not sign up for a mountain-bike race. He finds

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² For a neurological discussion of the effects of emotions on choice, see Damasio. Loewenstein’s 2000 article relates the history of emotions in the construct of utility: emotions were big with Bentham, but neoclassical economists purged emotions from economics. See also the 1998 article by the philosopher and political theorist John Elster.
the idea of racing attractive when all is calm and smooth; but when the anxiety kicks back in, the upcoming race will make him even more anxious.

There are states induced by psychoactive drugs such as tobacco, alcohol and caffeine—most of us start our day by altering our mind with caffeine, blocking the receptors for the neurotransmitter adenosine. Preference-altering emotions and moods include anxious, depressed, scared, exhausted, sleep deprived, bored, sad, grieving, curious, joyful, feeling alienated, embarrassed and, my favorite, grumpy. We often experience these states in ourselves and others, and they affect how we behave and experience the world. But, we are not always aware of the state we are in.

Loewenstein and coauthors provide examples of how choice differs across emotional states, for example, the turn-back-time for a Himalayan mountain ascent chosen in the planning phase is often ignored during the stress and exhaustion of the climb. The result can be tomorrow’s self is dead, the ultimate negative external effect.

Sexual arousal, induced by erotic pictures, film and self-stimulation, changes your propensity to take risks, be aggressive on a date, and affects your sense of what is appropriate behavior.

Loewenstein, Daniel Nagin and Raymond Paternoster had

Sexually aroused and nonaroused males predict their own behavior in a date-rape scenario. Aroused and nonaroused participants were asked a battery of questions designed to measure their perceptions of the costs and benefits of acting in a sexually aggressive manner, their level of arousal, and a probabilistic prediction as to how aggressively they would act in the conditions described in the scenario... Sexual arousal increases the ‘subjects' expectations of their own sexual aggressiveness and that this impact is not mediated by perceptions of the costs or benefits of such aggression.

Peter Ditto and colleagues have researched the effects on choice of arousal. Males, not in a relationship, and who typically use condoms, either watched a video or read a description of the following situation.

The written text: Imagine that you are single and that you run into an attractive acquaintance, Rebecca, at a bar. You continue to spend time together throughout the night and end up at her apartment at the end of the evening. After talking and kissing on the couch, it is clear that you are both very interested in having sex with each other. However, neither of you has a condom. You discuss the possibility of going to a store, but there is not one nearby. She tells you that she is on the pill and has not slept with anyone since her last boyfriend

The video: In the video, two attractive students, Pierre and Rebecca, talk after class and arrange to meet at a bar later that night. After an evening of dancing, they go to Rebecca’s apartment where they kiss on her couch. Eventually, Rebecca takes off her shirt and indicates that she is interested in having sex (alleviating the threat of a

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3 Caffeine also affects dopamine, acetylcholine and serotonin.

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potential date-rape situation). Pierre then discloses that he did not bring any condoms. Rebecca tells him that she also does not have any condoms but is on the pill (alleviating the threat of pregnancy). The two discuss the idea of obtaining condoms from a local store but conclude that it is not feasible. They discuss their sexual history (e.g., Pierre states that he is ‘‘clean,’’ and Rebecca states that she does not ‘‘sleep around’’). The video ends with Pierre asking Rebecca, ‘‘What do you want to do?’’ and Rebecca replying, ‘‘I don’t know. What do you want to do?’’

The video watchers were more inclined to say they would take the risk and have unprotected sex.

Switching to other emotions, when depressed you rank paths differently, including paths with suicide. Invoking curiosity also changes behavior—it killed the cat. When curious you are more inclined toward a reward now vs. a reward later. (Curiosity can be invoked by asking an interesting question to which the respondent does not know the answer.)

Sadness does not have the effect you might expect. Sadness is a negative emotion and you might expect it, as do other negative emotions, to cause you to value all things less (this is what disgust does); While sadness cause us to value less what we have, it causes us to value new things more.

Jennifer Lerner (Director of the Harvard Laboratory for Decision Sciences) has been studying sadness, invoking sadness, disgust and other emotions in the lab. In a 2004 experiment, with Deborah Small (Professor of Marketing and Psychology at the U. of Penn.) and George Loewenstein, disgust was invoked with a video clip from the movie Trainspotting, and sadness with a clip from The Champ. They used a neutral clip from National Geographic as the control. Half of the subjects were given a set of highlighters, which they could sell. The rest were the potential buyers. Subjects in the disgust and sad treatments who had been given highlighters were willing to sell them for less than those in the control group. Potential buyers in the disgust treatment were willingness to pay less than those in the control group, but potential buyers in the sad treatment were willing to pay more. Lerner interprets this to mean that when you are sad you will pay more to get new stuff in the hope that it will perk you up. Lerner has also found that individuals who get the sad treatment eat more of the free M&Ms.

In a 2012 Lerner study, subjects were offered either $85 paid in three months or a lesser amount immediately. The median respondent in the control group needed $56 now to pass up the $85, but the median for the sad respondents was only $37: sadness invokes impatience. However, when both payments were in the future, the difference between the sad treatment and the control group disappeared, suggesting sadness causes us to want the reward now, not simply sooner.

Boredom causes most other situations to look good—my students long to be anywhere else. Boredom often turns teen-age boys into vandals—it provokes wild-and-crazy behavior. For a
review of philosophical takes on boredom, see *A Philosophy of Boredom* by the Norwegian philosopher [Lars Svendsen](https://www.amazon.com/Philosophy-Boredom-Lars-Svendsen/dp/019023107X). For some extreme reactions to boredom, he considers the 1996 [David Cronenberg movie, Crash](https://www.imdb.com/title/tt0102360/) and the book and movie [American Psycho](https://www.amazon.com/American-Psycho-James-Patrick-Bateman/dp/067942234X) (nothing un-bores Patrick Bateman, a rich 80’s investment banker and party boy, not even torture and murder).

Market transactions often require trust. The team of [Michael Kosfeld](https://www经济学家.com/), [Paul Zax](https://www.economist.com/), [Urs Fischbacher](https://www.economist.com/), [Ernst Fehr](https://www.economist.com/), and [Markus Heinrichs](https://www.economist.com/) have shown that nasally administering the neurotransmitter oxytocin increases the probability you will enter into a financial contract requiring trust—it makes us more trusting. (For mammals, oxytocin helps mom and baby bond, also dogs and their owners)

Happiness is an emotional state and, like other emotional states, influences choices by affecting how we make choices. This is somewhat crazy-making for proponents of [CT](https://en.wikipedia.org/wiki/Choice_theory): you choose the feasible path that will bring you the most WB, but being happy (high emotional WB) effects the path you choose, a confounding circularity.

Intertemporal identity and different selves

Besides day-to-day variation in emotions and contexts, there is the longrun issue of to what extent you will remain the same person over time in terms of preferences and personality. Your identity depends on *connectedness* (how similar you remain over time in terms of preferences and constraints) and empathy (your identity is stronger the more you emphasize with your future selves). How constant is your identity? My current choices and behavior will affect my future selves, so generate external effects on other people (future me-es) whose preferences could differ from mine in ways I cannot predict.

[Daniel Bartels](https://www.economist.com/), and [Oleg Urminsky](https://www.economist.com/), both marketing professors at the U. of Chicago, hypothesize that a reason we discount the future is a disconnect between our current self and our future

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4 See, for example, Mogilner, Aaker and Kamvar (2016) and Labroo and Patrick (2009) the latter find that happiness affects choice because when one is happy one’s perspective is broader, more future looking, and more analytical.

5 This issue of what makes a person the same person they were yesterday can quickly become abstract, but you are free to simply assume a person is the thing that inhabits the same body over time. But, this *materialistic* notion of identity does not solve the problem of how you should behave if your body’s ranking of paths changes unexpectedly. (The SEP article on Identity discusses different notions of personhood and how they have evolved over time. Two bookends in this evolution are Locke and the Oxford philosopher Derek Parfit 1942-.)
selves. (I don’t save for old age, in part, because I do not comprehend or relate to the old guy who will be spending the money, my future-self empathy gap.)

We will argue that our understanding of what constitutes a ‘reasonable’ discount rate has been limited by the implicit assumption that people should maximize the utility of a constant self over one’s lifetime. An alternative position, proposed by the philosopher Derek Parfit (1984), is that a decision about consuming now or later should depend not only on the temporal distance between events but also on the perceived continuity between one’s present and future selves. This implies that the degree of concern one has for one’s future self should be scaled by the degree of ‘psychological connectedness’—overlap in personality, temperament, major likes and dislikes, beliefs, values, ambitions, life goals, ideals, and so on—held between one’s current and future self. Economists assume a constant self.

In five separate experiments Bartels and Urminsky get results consistent with decreased connectedness causing increased impatience. (One method of manipulating connectedness is reading to a subject evidence that core identity is likely to change drastically because of an upcoming event (e.g. college graduation), or alternatively, evidence that core identity is largely fixed early in life.)

In Procrastination and Personal Identify, the U. of Montreal philosopher and ethicist, Christine Tappolet attributes procrastination [in Latin pro means “for” and crassinus means “of the morrow”] to an inability to connect with your future selves—I put off what I should be doing because I do not connect and emphasize with the person who will suffer from my procrastinating. She speculates that this is why the Russian nobleman Itia Ilitch Oblomov (the main character in an Ivan Goncharov short story) every morning decides to stay in bed rather than do what has to be done to keep his estate and save himself from poverty, concluding it is because his empathy gap was huge.

It is notable that economists do not balk at modeling what is best, overall, for a sequence of individuals who all inhabit the same, but changing, body, but balk at modeling what is best, overall, for a group of individuals who inhabit separate bodies.

So, back to the empathy gap
To make longrun choices consistent with betterment, you must (1) understand your natural inclination to not empathize with your other selves, (2) try to empathize with those other selves,

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6 Imagine how you would act if you expected your future self to be a Franz Kafka insect or a 155-pound Phillip Roth breast.

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(3) consider when you are more or less likely to be in other states-of-mind, and (4) consider what, if anything, you can do to influence the occurrence of those states—all tall tasks. Otherwise, you will make choices that are long-term incorrect. Simply understanding that you have an empathy gap is the place to start.

If you can speculate on how your choices might differ across emotional states, you might choose now not to store a loaded gun under your bed.7 And, you might take an Uber car to the bar, rather than driving—and not bring the gun. When a guy at the bar hits, successfully, on my date, if I can understand who I will be the next morning, and empathize with that person, I am less likely start shooting. Most males regret abusing their partners, but it is estimated that 22% of women have been physically assaulted by an intimate partner at some time in their lives.

If I do not empathize with the old guy I will become, I won’t save enough for his retirement. The empathy gap can also keep me from taking actions today that won’t make me better off given my current state-of-mind, but will make me better off in other future states-of-mind. For example, when Homer is depressed or anxious, he doesn’t want to go to work, socialize, or try new things, but when the cloud lifts, he regrets staying at home watching the Simpsons. Depressed, he imagines he will always be depressed, which is a property of depression.

The empathy gap suggests that if an objective is to train individuals to act, or not act, in a certain way when they are mad, scared, or aroused, the training will be more effective if it occurs when they are in that state. Train soldiers when they are afraid and angry how to avoid shooting civilians when they are afraid and angry. Teach people while they are aroused to practice safe sex when they are aroused.

**Why is there an empathy gap?**

A good question: it is not because we lack experience with different-states of mind; we all have been angry, scared, hungry, tired, sexually aroused, curious, and bored. Is there some evolutionary reason we make choices now that make our future selves worse off, or is it simply a kluge?

Loewenstein and David Schkade point out that emotional memories are “qualitatively different” from other types of memories. We are adept at recovering, for example, visual images and the

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7 Oscar Pistorius (the double amputee, “Blade Runner”), shot his girlfriend four times through the bathroom door, either in anger, or, as his lawyer argued, because he was in a vulnerable and fearful state.
sum of 2+2, but not adept at recovering feelings. When you picture mom you experience/see an image of your mother, when you remember a song you hear the song, but when you remember being mad you don’t experience/feel mad, and when you remember a time when you were in pain, you don’t feel that pain. (Of course remembering the circumstances that made you mad can make you mad, but that’s different.) When you remember being in a visceral state, you recover the circumstances; you don’t experience the feeling; it is as if you stored the circumstances around the feeling but not the feeling itself so don’t experience the compulsions that feeling engenders. (Even though we are on the wagon, we go to the cocktail party because we underestimate our compulsion to drink when everyone around us is drinking. We underestimate because we can’t retrieve the compulsive feeling from memory.)

Our inability to recover old feelings has its advantages. If remembering a good time, recovered the good feeling (made you feel great), you could feel great simply by laying around and remembering pleasurable times, but this would increase the probability of you becoming lion food and decrease your incentive to eat and have sex; you could feel satiated by simply recovering the experience.

The gap might exist because empathizing with a future self who is mad, anxious, or sad is unpleasant. What young adult wants to sit around thinking about being an incontinent disabled geezer suffering from the anxiety of their impending death?

**Modeling choice with longrun implications when there are empathy gaps**

If the individual is unaware of his empathy gap, their choices at the moment, are modeled in the conventional manner, but using the ranking based on his current state-of-mind. To predict your future choices the researcher would have to predict your future state-of-mind and your ranking in each of those states.

**Another emotional cause of miswanting: you can misperceive or be unaware of your emotions.**

The psychologists Don Dutton and Arthur Aron had an attractive female approach males in a Vancouver B.C. park and ask them to fill out a short survey about the park. At the end of the survey, she provided the respondents with her phone number in case they had further comments or questions. Half the males were approached on a scary foot-path suspension bridge over a deep canyon, half after they had crossed the bridge. She got more calls for a date from those
interviewed on the bridge. Their propensity to call was greater because they mistook fear for
arousal which caused them to miswant the attractive interviewer, a WB-reducing choice.

In a lovely study, the psychologists Lawrence Williams and John Bargh had each subject met in
the lobby by a greeter who accompanied them to the lab. The greeter was juggling a pile of
papers and a drink. She asked the subject to hold the drink; sometimes it was hot, sometimes it
was cold. When they got to the lab, the greeter left, taking her drink. In the study interview, the
researcher described a person and then the subject was asked to describe that person in their own
words. The subjects who carried a hot drink were more likely to judge the person as having a
warm personality. (I always carry around a Diet Coke with lots of ice; maybe this is why I find
many people cold and unapproachable.)

The rickshaw example and its underlying research.

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Sources:
1. Timothy Wilson 2002 (ibid)
2. George Loewenstein, Daniel Nagin and Raymond Paternoster (1997) The effects of sexual arousal on
   Review* 90 (2): 426-432, Papers and Proceeding of the One Hundred Twelfth Annual Meeting of the American
   Economic Association.
9. George Loewenstein (1999) Because it is there: the challenge of mountaineering ...for utility theory, *Kyklos*
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10. George Loewenstein, Daniel Nagin and Raymond Paternoster (1997) The Effect of Sexual Arousal on

Sources:
Chapter 8: You experience the endowment effect. Can economicus?¹

The endowment effect
The endowment effect is the empirical finding that people typically value a commodity more highly if they own/possess it. What you were willing-to-pay to buy an item (what you will sacrifice to acquire it) is less than what you would have to be paid to then sell it (what you would have to be given to voluntarily give it up). The effect has even been observed when the item was purchased minutes earlier, and it is observed with such common items as M&Ms—people value the bag they just bought more than the bag still on the shelf in front of them. It has been observed with different goods, different populations, children, and different species (monkeys, chimpanzees, orangutans).

This short chapter is about how the endowment effect affects your behavior, whether it is something economicus can experience, and whether it cause you to do things that decrease your overall WB. And, it helps explain why an increase in average National income over time does not necessarily cause in increase in average emotional WB: economic contractions decrease emotional WB more than expansions increase emotional WB. On the individual level, to re-acquire the same level of emotional WB you had before the great recession of the late 90’s, the subsequent expansion will need to raise incomes substantially above their pre-recession levels.

Individuals subject to the endowment effect (most of us) behave differently than those not under its power.
Once you acquire something that makes you better off, you are reticent to give it up, even when offered something you valued more pre-acquisition. Imagine two antique dealer/collectors: one subject to the endowment effect, the other not. They travel the country buying the same antiques at the same prices. You will have to pay more to the one with the endowment effect if you want to buy one.

Why do you experience an endowment effect?
The three standard causal hypotheses are attachment, loss aversion and a big jump in wealth. I was taught that loss aversion and attachment are inconsistent with CT but I no longer understand why; both seem to be consistent with economicus as defined it Chapter 1.
**The big jump in real-wealth explanation**

Imagine two scenarios: I like paintings by Monet and would pay thousands to acquire one (my current WTP for a Monet). Then, lucky me, I find one buried in my back yard (one of the previous owners buried it and forget to tell anyone), and I now own a Monet worth a hundred million. I am now a wealthy man, and while I might sell it my WTA its loss is much greater than my initial WTP. That is the endowment effect applies to me. My WTP to acquire it was much smaller than my WTA its loss occurs because the acquisition greatly increased my wealth.

Second scenario: a one-time cure for your very nasty cancer. The cure has few substitutes and being cured makes you much better off. What you would pay for the cure is limited by your income so not infinite, but once cured what you would have to be paid to abandon the cure is huge.

The real-wealth explanation for the endowment effect, while theoretically sound, does not explain why we observe endowment effects for inexpensive commodities with lots of substitutes (the M&Ms). And, it would not apply if you could immediately buy the cure again. The real-wealth explanation does not contradict any of the assumption of Chapter 1.

**The attachment explanation:**

Attachment simply means with ownership comes attachment: the item is now in your care and you are responsible for it (your dog, my land in the mountains). Long-possessed items embody personal memories (grandmother's dishes, my daughter's first pair of skis). Attachment does not explain why you value the M&Ms you just bought more than the M&Ms still on the shelf, unless you have opened the bag and given all of candies names. Attachment is a reasonable explanation for why I would not sell any of my antique advertising posters for what I paid for them, even if their current market value is less than I paid—I have a personal history with the posters.

Attachment is like duration bias and the empathy gap: it won’t cause you to behave contrary to your WB as long as you know it exists and how it applies to you. However, an issue is whether attachment violates Assumption 2 (you have a unique and stable ranking of paths). If it takes a while to get attached, the answer would seem to be no.
The loss-aversion explanation:

The most common explanation for the endowment effect is loss aversion as posited and studied by Kahneman and Tversky. Loss aversion is weighing losses more heavily than gains of equal magnitude; simply put, you hate to give up or lose what you have. For example, the decrease in emotional WB caused by 10% drop in the value of your stock portfolio is quite a bit larger than the emotional WB bump gained by it increasing 10%. You are adverse to experiencing losses. Sense-of-loss is a particular feeling/emotion, an unpleasant feeling. With ownership comes the potential for loss and you are averse to experiencing this sense of loss. Loss-aversion could explain why you won’t sell the M&Ms for what you just paid for them.

Loss aversion, like attachment, won’t cause you to behave contrary to your WB as long as you know you will experience it and its magnitude. If you are not aware that you are subject to loss aversion, so ignore its potential effect on your WB, your ranking will not necessarily be based on betterment (Assumption 5a). For example, you will spend too much now on commodities that you cannot afford to hold onto in the longrun. Loss aversion does violate Assumption 2: it is different to argue that your ranking is stable if the second you start down a path, paths that contain what you just acquired move up in the ranking.

Sources:
Chapter 9: The effect of misperceptions on behavior and choice

This short chapter considers wrong beliefs and misperceptions. What you know and what you learn are part of every path, so at any given point in time you likely believe things that are not correct, and, in addition, are ignorant about many things. Learning how the world works takes time and effort, and, in addition, can cause discomfort, so even if we always choose our best, feasible path given what we know and believe, life will often turn out differently than we hoped, sometimes in disappointing ways, and sometimes in WB enhancing ways. We are all victims of wrong beliefs and perceptions, including economicus: there is nothing in the assumptions of ACT that precludes some economicuses from believing that Trump can, at low cost, rid the world of all terrorists. And if because of this they ranked Trump paths higher than Hillary paths, so voted for Trump; they did what was best for them, given their beliefs.

Your ranking is a function of what you currently believe, and if, all else constant, your beliefs somehow magically and costlessly change, your ranking will likely change. An acquaintance, whose weight is pushing three-hundred pounds, drinks, in quantity, soda rather than diet soda because "Diet soda is bad." My perception/belief is she is incorrect. If so, and if she is ranking paths based on this misperception she will not necessarily do what most enhances her WB (she will drink too much real soda). [Of course, my perception could be incorrect. Some research—research my unconscious does not want to hear about—finds that people who drink diet soda gain more weight than people who do not.] If her perceptions change, her ranking of paths is likely to change, moving more inline, or further out of line, from how the different paths will actually affect her WB. None of this is inconsistent with the economicus of Chapter 1 who ranks paths, based on the information/knowledge he possesses in each path.

Perceptions and their effects on WB are complicated. Research shows perceptions are often formed unconsciously, and unconscious perceptions often disagree with conscious perceptions. You can have dual perceptions, for example, consciously not prejudiced, unconsciously prejudiced. Economicus can’t have conflicting conscious and unconscious

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1I am defining you perceptions as your beliefs about the world: what things are like, how things work, and what will be the results of different actions. Perceptions can influence your ordering of paths but are not the ordering: some perceive the current U.S. President is not a U.S. citizen; in contrast, whether that perception causes paths with a foreign U.S. President to be ordered higher or lower is another matter.
perceptions. To check out your prejudices, implicit and explicit, take the test at Harvard’s Project Implicit.² My acquaintance perceives that diet soda causes cancer. She learned this from a friend who read it somewhere, but what in her unconscious caused her to adopt this particular assertion? Friends assert many things.

As someone who has developed many surveys to estimate how much an impacted group was damaged by an environmental injury, I care greatly about the perceptions respondents hold when they answer questions designed to estimate how much they have been damaged. People typically come to the interview with varying perceptions and often these perceptions are not consistent with the facts. (Consider an oil spill: people have misperceptions of how much oil was spilled, incorrect perceptions of the physics and chemistry of how oil is dispersed in water, and misconceptions about the biological mechanisms by which oil affects plants and animals.) My first hope with a survey is the respondents, after reading the descriptions in the survey, will have a common understanding of the injury and the understanding corresponds to the actual injury (their perceptions are correct). If not, I will be estimating the damages for something other than the actual injury.

Second, to elicit willingness-to-pay to eliminate the injury, a mechanism must be presented for removing the injury and the respondents must find the mechanism feasible. If their unconscious perceptions are the remediation plan will either not work (dredging the river will disperse rather than remove the PCBs) or not be implemented (the government will spend the money on something else), respondents’ answers do not indicate what they would pay for the absence of injury, but rather what they would pay for something that would not achieve its stated goals. Convincing the respondent the remediation plan will work requires it be consistent with the respondent’s preconceived notions of what will work. Put simply, my goal is to correct misperceptions but this is a difficult task, particularly if the respondent is not even conscious of her perceptions.

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² Quoting from the web page, "It is well known that people don't always 'speak their minds,' and it is suspected that people don't always 'know their minds.' Understanding such divergences is important to scientific psychology. The web site presents a method that demonstrates the conscious-unconscious divergences much more convincingly than has been possible with previous methods."
Chapter 10: Conscious and unconscious mental processes: whose ranking of paths is it?\textsuperscript{i}

As noted in Chapter 1, while most people believe humans have conscious thoughts and consciously choose, Assumptions 1-6 don’t imply this: basic choice theory doesn’t require consciousness. Assumption 7 (self-awareness) implies consciousness, but not conscious choosing. Assumption 8 (the choosing axiom) adds it; it makes you consciously in charge—you choose and this determines the path you consume. This chapter starts our discussion of the role of conscious thought and unconscious processes in behavior and choice. Part II continues the discussion in more detail.

In 1782 Rousseau reflected on the unconscious when he realized why he had been avoiding a corner where a boy would always ask him for money.

That is what I discovered on reflection, for until then none of it was distinctly in my thoughts. This observation has made me recall a multitude of others that convince me that the true and original motives of most of my actions are not as clear to me as I long supposed.

In the path of a bus, you jump back rather than staying put, making a "choice" even before the situation registers as electrical activity in the parts of your brain that embed conscious thought. Alternatively, sometimes you experience cogitating for weeks on whether you should choose option A or B?

Economists do not distinguish between conscious and unconscious cognition. In psychology and neurobiology the distinction is central to explaining behavior, perceptions, and how we make our way through the world. Our brain consists of many separate processing centers: some for conscious thought (ruminating about when I should retire) and others unconscious but instrumental in determining what I do, including when I retire.

The unconscious, once viewed as limited to harboring our infantile Freudian traumas and coordinating physical activities (language, not falling over, and seeing what we see when we open our eyes—activities the conscious mind did not need to be bothered with), now is known to play a leading role in most of our actions. For a persuasive and accessible presentation see *Strangers to Ourselves: Discovering the Adaptive Unconscious* 1992 by Timothy Wilson, a social psychologist at the U. of Virginia.

Morey: Choice, Happiness, and Ethics
Keep in mind that if we consciously consider and decide how to act before we act, this does not mean this considering and deciding was what caused us to act in the way we did. I thought hard and long about buying a vacation home before doing so, but maybe both the thinking and the doing were caused by my subconscious reaction to some prior event. (Event B precedes C, but B does not necessarily cause C, rather, both are possibly caused by some unobserved event A).

Summarizing the research, the contents of our unconscious are determined by some combination of genetics, culture, and experience. For an example of research on how unconscious motives are formed, see McClelland, Koestner and Weinberger (1992).

There are two strands of research on the role the conscious plays in perception formation and choice. One strand argues actions are (all or mostly) initiated by the unconscious, and before the act occurs, and if there is time, the unconscious causes a conscious experience of choosing. This strand, *The Illusion of Choice*, is discussed in Part II. The other strand assumes perceptions are formed and actions are initiated by both the conscious and unconscious. In this strand, decisions made by the unconscious, relatively speaking, are more instinctive/programmed/quick than those formed consciously:

*A hallmark of the adaptive unconscious is automaticity, whereby information is processed in rapid, unconscious, involuntary ways*—Timothy Wilson.

When the bus is barreling down, when you lock eyes with the attractive passing stranger, and when the pause in the conversation give you only an instant to say something funny or witty, quick action is required, and the action taken is likely to be substantively determined by one of our unconscious processors: it would take too long to cogitate. According to the second strand, when there is leisure to cogitate, our conscious thoughts often play, but not always, a bigger role in what we will do. The context also plays a large role in whether a choice is made by our conscious or unconscious minds. Context includes emotional state, your current self-image, and whether someone attractive asked you to do it.

Survey questions about preferences are typically answered quickly, suggesting the unconscious might play a larger role than the conscious in determining whether you circle option A or B, or whether you circle "mostly agree" or "somewhat disagree". The time-lines for
consumer purchases are more varied: sometimes we agonize over a purchase for months; sometimes we go to Costco for groceries and come home with a portable power generator.

And, the different processing centers do not always agree on the course of action. Quoting Wilson

*There is little research on the consequences of having disparate conscious and nonconscious 'selves' that are out of synch. An exception is the work of Joachim Brunstein and Oliver Schultheiss... they found little correspondence, on average, between people's nonconscious and conscious motives.*

We are not of one mind, either at a point in time or over time. Many questions arise. Who is in charge? It depends on what is being determined and the context in which it is being determined—contextual rankings. Are we conscious a decision was made? Not always. Are we aware/conscious of why we do what we do? Probably not, but often our conscious brain makes up a good story to explain what was determined by our unconscious, or so say many psychologists. And, what happens when our conscious and unconscious disagree?

Economists typically imagine the brain as a single, black box that embeds one set of stable preferences. Many economists do not think about how or why preferences arise; economists argue the mechanics of preferences creation are unimportant since our sole goal is to predict choices. [A camp in psychology called behaviorists ruled the psychology journals for the first half of the 20th Century. Again quoting Wilson, "The behaviorist onslaught in psychology was fueled by a rejection of mentalism; behaviorists argued there was no need to take into account what occurred inside people's heads, consciously or unconsciously." Psychology has largely rejected behaviorism, economics has not.]

The goal of CT is not only to predict what is chosen, but also to assume what is chosen is best.

**If I have a ranking, am I aware of it?**

Assuming I have one stable ranking, am I conscious of this ranking and able to describe it, or are only parts of it revealed to me when I observe my choices? I could easily imagine having a ranking but not having a conscious awareness of it. My dog prefers meat to milk, milk to bread, and meat to bread (yes, his preferences are transitive) but he is not consciously aware of this ranking. He is not unique in my household; quoting Shakespeare, "I have much ado to know myself." Bertrand Russell agrees with Shakespeare

Morey: Choice, Happiness, and Ethics
The discovery of our own motives can only be made by the same process by which we discover other peoples, namely, the process of observing our actions and inferring the desire which could prompt them—Bertrand Russell, *The Analysis of the Mind*.

**Does it matter whether I am aware of my ranking?**

If the researcher’s intent is to estimate your ranking (all preference estimation really is), and if the researcher is doing this by observing your real-world choices, it does not matter whether you were, aprior, aware of your ranking. But, what if a researcher asked you the hypothetical question, "Would you prefer A or B?" Many economists mistrust hypothetical choice-questions asserting the responses do not reflect the respondent's ranking, explaining the disconnect in terms of lying or lack of introspection on the part of the respondent, "Ask a hypothetical question get a hypothetical answer."[^3] But the issue is deeper. If I am not conscious of my preferences, I cannot recover them through conscious thought, no matter how hard I introspect. And, my conscious mind will often make up a reason for why I did what I did. Research shows we often rationalize our choice to maintain a positive, or at least consistent, self-image. I, for example, would be embarrassed to say, "I am clueless as to why I do what I do." so make something up and believe it? As Wilson and J.I. Stone suggest, another person would be a better predictor, than me, of why I do what I do.

Maybe, the way to learn about your own preferences is to observe your own behavior or to ask your friends. And, after adjusting for age, gender and income, assume how much others are willingness-to-pay for a flat-screen TV or an environmental cleanup is a good indication of what you would pay. In summary, introspection might be a misguided tool for extracting preferences.

This ends Part I of the book (ACT, WB, and whether ACT is consistent with psychological theory and research on why people behave the way they do). Part II turns to the question of whether we, in fact, make conscious choices, starting in Chapter 11 by trying to identify what makes a choice a choice.

[^3]: See, for example, the Diamond and Hausman article. Interestingly, most economists who disparage stated-preference data believe we have a stable and unique ordering and observed choices are manifestation of that ordering.

Morey: Choice, Happiness, and Ethics
Sources:
7. The following three references relate how we make up reasons to support our self-image: Michael S. Gazzaniga and Joseph E. LeDoux (1978) The integrated mind, New York, Plenum.
Part II: What is a choice? Choice or the illusion of choice? Should we care?

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Economists assert that people make choices without thinking much about the distinction between behavior and choice (a chosen behavior). Whether people do, or do not, make choices comes down to how choice is defined; philosophers grapple with this, and the related concept of free will. While the economic theory of behavior is called choice theory, the theory does not admit choices in the street-sense of the word, but in a much weaker sense. But at the same time, we all experience conscious choosing and believe this experience determines which alternative we then select, but mounting evidence suggests that most, or all, of what we do is set by unconscious processes before any conscious experience of choosing occurs. The neurological evidence is surveyed, after first defining and discussing notions of choice and free will, and their implications for neoclassical choice theory.
Chapter 10: How would you define a *choice*? And the difference between a choice and the experience/sense of making a choice

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A choice is difficult to define, particularly if you feel compelled, as you must, to not use the word "choice" to define a choice.

**Some necessary conditions for a situation to be a choice?**

(1) You are faced with N alternatives (N at least two). (2) You can and must experience only one of the alternatives. (3) You can influence which alternative is experienced. And (4), you are not constrained to experience a specific alternative. Making this last point more explicit, many would say there is only a choice if you were free to experience an alternative different from the one you experienced. While the guy-on-the-street would not, unprompted, list these requirements for a choice, upon reflection he would likely agree with them, but not everyone would (including most economists), particularly if we get more specific about what (3) and (4) mean.

**Does choice require an experience of choosing; that is, have you made a choice only if you feel you made a choice?**

And, if so, what brings about your feeling that you influenced which alternative was realized. You often experience the need to make a choice and then consciously decide on an alternative, and then experience that alternative, giving you the sense that you made the choice. But can you make a choice without consciously feeling that you have made a choice? And, can you not make a choice but feel that you have? The evidence on these two questions, presented in Chapter 13, helps to illuminate why we perceive some of our actions as choices, and some not.

**Contrary to what economists believe and teach, the assumptions of choice theory seem to make choice impossible?**

**Economists assert that people make choices**

But, economists appear to contradict themselves when they assert this; the ability to make choices is, arguably, inconsistent with the assumptions of CT. In explanation, if you are constrained to consume a path in your feasible set, if you are constrained to consume the highest-ranked path in your feasible set, and if your ranking of paths is exogenous in that you cannot
change it in the decision/consumption period, there seems to be no real choice. You must select the highest-ranked path in your set;\(^1\) behavior is axiomatically determined.

Of course, whether there is choice in CT comes down to how choice is defined; but if you were constrained to select the path you selected, the guy-on-the-street would say there was no choice—he definition is a folk definition of choice. So, when economists say that people make choices, they must mean something different from what the guy-on-the-street thinks of as a choice.

**Economists need to define choice in a way that makes choice compatible with the assumptions of their theory of behavior (or drop the word “choice”)**

Economists would say you have no choice if there is only one alternative in your feasible set (N=1), implying that more than one alternative is a necessary condition of choice. But is it also a sufficient condition? That is, do you have economic choice if external constraints do not limit you to a specific path? Economists must think so, because it called “choice theory” even though internal constraints (an exogenous ranking and the requirement to experience the highest-ranked feasible path) constrain you and economicus to experience a particular path. Looking ahead, economists define choice as situations with more than one feasible alternative and not enough external constraints to imply which will be experienced. This is the same definition compatibilisitic philosophers use to make choice (free will in a weak sense) possible in a deterministic world.\(^2\)

**So, what is free will and how does it relate to a capacity to make choices?\(^1\)**

Isabel Archer is on her way to Italy to pursue her destiny and is explaining to her suitor, Caspar Goodwood, her aversion to his suiting.

Isabel: *If there's a thing in the world I'm fond of it's my personal independence... [I want] To put as many hundred miles of sea between us as possible.*

Casper: *One would think you were going to commit some atrocity!*

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\(^1\) Maybe at some point in the past you had some influence on your current ranking. But even if this is the case, in the present you are constrained to consume your highest-ranked feasible path.

\(^2\) By this definition, other animals also make choices (and have weak free-will) whenever their behavior is not completely determined by external constraints: when there is both dry food and fresh meat in his bowl, my dog chooses based on internal, not external, constraints, so exhibits weak free-will.
Isabel: Perhaps I am. I wish to be free even to do that, if the fancy takes me. (The Portrait of a lady, *Henry James* 1917)

Isabel wants to be free to choose to commit one or more atrocities, but only if she fancies it to so choose. Is Isabel free to will and choose?

I have used the term free will without defining it, which has been convenient given there is much disagreement as to what it means. The *Stanford Encyclopedia of Philosophy* defines free will as a capacity “to choose a course of action from among various alternatives.” Note the words “capacity” and “choice”. If you have free will, somewhere in your head are spirits or networks of neurons that give you the capacity to choose.

Consider the word “will” by itself, and what it means to say, for example, “I will that Event $A$ happens.” (This is an archaic use of the word *will* and makes me think of God.) This could be interpreted as I choose Event $A$ over the other alternatives. Or, if $A$ is a behavior, I am inclined to adopt it. It could also be interpreted as I prefer $A$, and because I prefer it, I choose it. *Choosing, willing*, and *preferring* seem to be close synonyms. So, put simply, free will is philosophical-speak for *the capacity to freely choose*, and the capacity to freely choose is economic-speak for free will.

Of course, there is still the issue of what *free* means. For example, Kant thought that if you are required to be rational, and if being rational determines what you will do, then you do not have free will—this is akin to the argument I put forward above for why choice theory is incompatible with choice. So, for Kant an economicus would have free will only if he can choose whether to follow the assumptions of choice theory, but not if the assumptions are an immutable part of his nature. For example, if you could choose to abide by Assumption 4 (*At every point in time, an individual will take their highest-ranked available path*), you could have chosen not to, so are free to not choose your highest-ranked feasible path/alternative.

**Doubts about free will go way back**

*Men are mistaken in thinking themselves free; their opinion is made up of consciousness of their own actions, and ignorance of the causes by which they are conditioned. Their idea of freedom, therefore, is simply their ignorance of any cause for their actions. As for saying that human actions depend on the will, this is a mere phrase without any idea to correspond thereto.* (Spinoza, *The Ethics Part II: Of the Nature and Origin of the Mind* (partially quoted by Wegner))
All theory is against the freedom of the will; all experience is for it. (James Boswell 1791, The Life of Samuel Johnson (as quoted by Wegner)³)

Thomas Hobbes (1588-1679) and Locke also rejected the idea that your will could be free. The philosopher Jennifer Uleman nicely summarizes some of the different takes on free will. Quoting her, Thomas Hobbs "denies that will can be free at all, arguing that only bodies can be free, or unfree, where free [bodies] just means unimpeded." (Unimpeded means unconstrained, as in rich peoples’ bodies are less impeded than those of poor people, and prisoners and cripples are impeded more than most.) Locke "concluded that human will is never free, but is always determined by nature or reason: for Locke, 'free will' is a nonsensical thing."

In contrast, Descartes understands freedom of the will as “a mental ability to endorse and set oneself on a course of action (or more simply, to assent to something, or not), rather than as a function of the grounds determining action or assent." That is, for Descartes you can will (choose) whatever you want, but that does not mean you determined what you would will (would choose) or that what you willed (you chose) will occur. In Descartes’ view, no one will stop me from willing that A will happen but that I willed A, rather than B, was not determined by me, and willing it does not mean it is going to happen. Descartes’ free will is limited free will, at best.

In contrast, For Kant, the will (not necessarily free) is a real thing that resides in each non-crazy adult human. It is the place or process in your mind that chooses an alternative and that then causes you to do what it takes to experience that alternative; it is the "choosing center”—willing is choosing. (economicus has a choosing center.) Quoting Uleman,

A will is free, for Kant, if it determines itself and is not determined by anything else. A will will be free, in other words, if it chooses ends, and pursues courses of action aimed at realizing those ends, on grounds that are its own, and not on grounds given to it by something or someone external to it.

For Kant, Kantian free will is a possibility, but only for humans and, having your Kantian-will free is not guaranteed.⁴

³ Boswell is best known for his biography of his friend, the English man of letters, Samuel Johnson; it is considered one of the greatest biographies in the English language. Boswell knew and admired Rousseau; he had a brief affair with Rousseau’s partner—one of Boswell’s many affairs.
⁴ Kant relied on Dualism to argue that will can be free (Uleman). It is a difficult argument. Kant viewed the body as a physical thing controlled by the laws of physics, and believed that if what you will is determined by the laws of physics—what you will is not freely willed. He also believed that if what you will is constrained by reason, you do not freely will. These two beliefs of Kant argue against the existence of a will that is free. But these arguments are materialist in perspective. Kant got his will freed by assuming that will is not something subject to reason or the
Modern definitions of free will fall along a continuum

At one extreme, for free will,

One wants to be what tradition has it that Eve was when she bit the apple. Perfectly free to do otherwise. So perfectly free, in fact, that even God couldn't tell which way she'd jump. (Jerry Fodor (2003) philosopher and cognitive scientist)

Fodor is providing one definition, not arguing that we have free will in this sense. At the other extreme, you have free will if another agent is not controlling you, and, in addition, other agents, excluding God, cannot predict with certainty what you will do before you do it. At this other extreme, you lack free will only if a mad scientist, or puppeteer, or God pulls your strings. You lack control in this sense if your behavior is effectively determined by your external constraints (people in prison, for example, cannot choose to spend the night in their cell). Or if you’re hallucinating because of drugs or a brain tumor. This is how the philosopher Daniel Dennett defines free will. Let’s call this weak free-will: free will in a weak sense. His definition is close to the legal definition, as in you signed the contract of your "own free will" if you were not "under duress or under the influence of hallucination or other mental derangement." Dennett says that his view of free will

... is probably the consensus not only among philosophers but also among judges, lawyers, and others who have to make distinctions about who is responsible for what and who is excused because they do not free will when they acted.

In between these two extremes, but closer to the first, is that free will is the ability, before the choice is made, to choose differently than you chose. You chose A but could have chosen B (you could have behaved differently than you behaved). And you have this ability even if God—assuming you believe in God—knew which one you were going to choose. Let’s refer to this as strong free-will, free will in a strong sense. Dennett does not believe we have free will in this sense, but also thinks this definition of free will is "bonkers". Again, quoting Dennett,

People care deeply about having free will, but they also seem to have misguided ideas about what free will is or could be ... Our decisions are not little miracles in the brain that violate the physics and chemistry that account for the rest of our bodies' processes, even if many folk think this must be what happens if our decisions are to be truly

laws of physics; it is a spiritual thing. An analogy is God's Will which is not subject to anything earthly; otherwise it would not be God's Will.

I wonder if advocates of this view of free will (free will in the weak sense) believe rich people have more free-will than poor people because the rich are less financially constrained.
free. We can't conclude from this, however, that then we don't have free will, because free will in this bonkers sense is not the only concept of free will.

Fodor assessment of Dennett’s definition of free will is

There’s the lurking sense that what you got isn’t quite what you ordered, and half an hour later you’re hungry again.

In Fodor’s view, Dennett has simply called what we can do “free will”—a bait and switch, a bait and switch because, in Fodor’s view, what Dennett calls free will, most people would not call free will.

Why do we all feel and believe that we have free will and make choices?

While we understand that some of our actions are taken unconsciously—most of us feel that most of what we do happens because we consciously, and freely, decided to behave that way; that is, most of us believe we have free will—that we will—freely—most of our actions.

Two reasons to believe we have free will and make choices:

Reason 1: because we do have free will and do make choices. Most of us believe this is the correct answer. We consciously choose an Egg McMuffin rather than a yogurt for breakfast, and this conscious choosing is why we are consuming animal fat rather than vegetable fat. But—another possible reason (Reason 2) is evolution has klugged us: left us with a flawed notion of causality, causing us to incorrectly assume that the conscious experience of making a choice is what led us to take a particular action.

A bit on causality and logic

Consider two events (I and II) where Event II always happens right after Event I occurred, and Event II never occurs unless Event I precedes it. We tend to conclude that Event I caused Event II because often it has—evolution has caused us to think this way; its objective is not to produce animals that are perfectly rational and logical, only animals that get it right enough of the time. The sun rises in New York City (I) before it rises in Chicago (II), but that does mean the sunrise in NYC caused the sunrise in Chicago. They are both caused by Events III and IV, the motions of the sun and earth.

The illogic is necessary is confused with sufficient. If Event II occurs only when Event I occurs first, then Event I is necessary for Event II (without I there can be no II). But Event I being necessary does not mean Event I is sufficient to cause Event II. (If it were sufficient, then
the occurrence of Event I, by itself, would guarantee that II happens.) Two examples: a necessary condition for being Bob the Bear is that you are a bear, but being a bear is not sufficient to make you Bob the Bear. And, the sun rising in NYC is a necessary condition for it to rise in Chicago.

The two Events of interest in terms of choice are having the conscious experience of deciding to do something (Event I), and doing what was consciously decided (Event II).

Examples of I are I consciously choosing to drink a Coke, and consciously deciding to marry Wanda. Event II is the actual drinking or marrying. That Event I precedes II does not mean it caused II. George only married Wanda after he had the experience of deciding to marry her, but maybe what caused George to marry Wanda was a third event in their past (an event involving a slinky red dress) that is no longer in his conscious memory, or maybe he forget that is was Wanda’s idea. The possibility that Event I did not cause Event II is a hard thing to get your head around when it seems obvious that it did, and, in addition you really want to believe it did. You want to believe that first consciously deciding to buy a new car was what caused you to buy it.

Chapters 13 and 14 presents the evidence on conscious choice and also takes up the issue of why we might have the experience of conscious choosing if it does not influence what we subsequently do. First, I consider the question of whether choice is possible in a deterministic world.

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ii Sources:
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2. James Boswell (1791) Life of Johnson, Book 3  
   books.google.com/books? id=L77nlU6hW8C
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iii Sources:
   http://www.lrb.co.uk/v25/n05/jerry-fodor/why-would-mother-nature-bother
Chapter 11: Is choice (and economic choice) compatible with causal
determinism?

Thinking about causal determinism and its implications for choice theory informs on what it means to make a choice and whether people are responsible for their choices (both critical ethical issues), but be warned that thinking about causal determinism and choice can be crazy-making.

Causal determinism

It is the hypothesis that your actions are completely determined by the laws of nature and what has come before (your genetics, your history, the current state-of-the world)—your actions are caused. Causal determinism is taken as fact by many (but not all) scientists and philosophers, but mostly rejected out-of-hand by the guy-on-the-street, especially if anyone suggests it applies to humans.

In addition, many physicists and neuroscientists are incompatibilists (believe causal determinism is incompatible with free will and choice). Many philosophers are compatibilists, believing causal determinism is consistent with free will and choice. Economists tend to be implicit, and unaware, compatibilists.

The deterministic hypothesis is that with complete information and the ability to process it I could predict everything you will do—all acts are causal and deterministic.¹ ² (Some use the term mechanical determinism.) It follows from classical, deterministic physics. The opposite is indeterminism. Most neuroscientists and physicists are either determinists, or, if indeterminists, indeterminists only because they believe behavior has a random component. Modern physicists accept some theory of quantum mechanics which adds a random component at the subatomic level, but no one know whether it affects the behavior of individuals. There is also some

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¹Causal determinism is different from fate and predestination. Fate and predestination, like causal determinism, imply something is going to happen, but the reason it is going to happen is spiritual rather than the result of physics. An act that is predestined is freely chosen but God knows what you will choose.

² This doesn’t mean that everything can be predicted: currently there isn’t enough potential computing power, and many doubt whether there ever could be enough.
disagreement about whether it is even possible to determine whether the world is, or is not, deterministic.

The determinism argument is we are mechanical/chemical/electrical creatures whose lives and behaviors must follow the deterministic laws of physics. A brain, human or otherwise, is simply a bunch of complicated physical grey and white matter with a lot of chemical and electrical things going on — too complicated for us to, yet, comprehend. And, our brain/body state at each moment in time, and the physical state of the world at that moment completely determines how we act, more precisely react.

Historically, many philosophers and mathematicians were determinists, including Locke, Baruch Spinoza, Gottfried Leibniz (1646-1716), Hume, and the mathematician Pierre-Simon Laplace (1749-1872). In 1814 Laplace articulated determinism in terms of an intellect (demon) who could predict all future action.

In Laplace's story, a sufficiently bright demon who knew how things stood in the world 100 years before my birth could predict every action, every emotion, every belief in the course of my life. Were she then to watch me live through it, she might smile condescendingly, as one who watches a marionette dance to the tugs of strings that it knows nothing about. We can't stand the thought that we are (in some sense) marionettes. Nor does it matter whether any demon (or even God) can, or cares to, actually predict what we will do: the existence of the strings of physical necessity, linked to far-past states of the world and determining our current every move, is what alarms us. (SEP on Causal Determinism)

Notable historical indeterminists include George Berkeley (1685-1753), Descartes, Kant and Rousseau. For Berkeley, Descartes, and Kant their arguments for indeterminism are all based on their belief in dualism—Rousseau’s argument is not.

Is choice consistent with causal determinism? 

There are numerous schools of thought on determinism and choice, varying on whether you believe in determinism and whether you believe choice is consistent with determinism. Behavior having a random component is a way to generate indeterminism, but adding a random component to a person’s behavior doesn’t mean they are making choices—choosing freely isn’t the same thing as behaving randomly.

Many neuroscientists and physicists are incompatibilists, rejecting free will and choice

As noted above, they are either determinists, or if indeterminists, indeterminists only because they believe behavior has a random component. And most don’t believe free will is consistent with either, if free will is the ability to behave differently than you behaved. [The
philosopher Daniel Dennett, a champion of compatibilism, lists the following as distinguished members of the *choice is illusion* camp (incompatibilists): the physicists Albert Einstein and Stephen Hawking, the neuroscientists Wolf Singer, Chris Frith, and Patrick Haggard, and the psychologists Paul Bloom and Daniel Wegner.

**What are philosophers? A lot of them are deterministic compatibilists**

According to Dennett, a compatibilist, and the incompatibilist philosopher Shaun Nichols, a lot (the majority?) of professional philosophers are compatibilists, including the determinists Hobbes, Locke, Leibniz and Hume. Hume even argues determinism is required for free will. Most compatibilists are determinists, but some noted determinist philosophers are not compatibilists.³

Why are there deterministic compatibilists? Cynically, according to Nichols,

> *Many of us Incompatibilists think we know the answer to this: it's wishful thinking! Philosophers embrace compatibilism because they want it to be true. This view is, I think, common among Incompatibilists. Famously, James dubs compatibilism a "quagmire of evasion." Even more famously, Kant says it is a "wretched subterfuge." We can put the incompatibilists' motivational hypothesis somewhat more precisely as follows: Philosophers embrace compatibilism despite its counter-intuitiveness because compatibilism is motivationally attractive.*

Maybe so, but Hume’s classic defense of compatibilism does not come across as wishful thinking. Hume starts by noting that everything has a cause (a earthquake has a cause, and you buying vanilla ice cream instead of strawberry has a cause), so if free will is when behavior is not caused, free will is impossible. Rejecting free will in this sense, he says you have free will when your behavior is not *compelled*, defining compelled behavior as behavior completely determined by exogenous forces. This is the definition adopted by Dennett and is the economic definition of choice, but using different words. What I am calling *weak free will*. Hume’s analogy: imagine a slope with rocks lined up in a row from the top to the bottom, with the shape and size of the bottom rock representing you and what is in your head (your internal constraints). Determinism is a causal chain of events starting with the top rock rolling into the second, causing it to move and roll into the third, causing it to …., until a rock rolls into you. If the size and speed of rock that hits you is sufficient to completely determine where you will end up, your behavior is compelled and you did not choose where to roll. However, if which way you roll is

³ These include Spinoza, and the enlightenment thinkers Paul-Henri D'Holbach (1723-1789), Diderot, and Voltaire. In addition, there are a few indeterminant philosophers who argue free will could exist even if the world were deterministic, but most who argue the world is indeterminant think determinism is inconsistent with free will.

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determined, in part, by your shape and size, you (the rock) have free will and some choice as to where to roll. While a picturesque physics-in-motion analogy, it means big rocks that did not move when they were rolled into exercised free will (chose not to move).

In summary, many philosophers believe in determinism, and most of them believe determinism is compatible with free will, given that they define free will in the weak sense. An exception is the economist/philosopher Christian List (2014) who argues that determinism is compatible with free will in the strong sense (the ability to behave different than you did.)\(^4\)

So, what do regular people believe?

*Humans tend to believe causal determinism doesn’t apply to humans*

Until recently this conjecture was untested. Nichols and Joshua Knobe work in the emerging field of experimental philosophy, so surveyed people on whether the world is deterministic.\(^5\) Quoting Nichols in 2004:

*In a set of experiments exploring the lay understanding of choice, both children and adults tended to treat moral choices as indeterminant. Participants were presented with cases of moral choice events (e.g., a girl steals a candy bar) and physical events (e.g., a pot of water comes to a boil), and they were asked whether, if everything in the world was the same right up until the event occurred, the event had to occur. Both children and adults were more likely to say that the physical event had to occur than that the moral choice event had to occur. This result seems to vindicate the traditional claim that ordinary people in our culture believe that at least some human decisions are not determined.*

Humans tend to reject determinism when it comes to human behavior because determinism conflicts with our sense of self—your sense of self is diminished if it you think your behavior is set. We have two views of how the world works: a mechanical view that applies to the behaviors of rocks, dogs, and all other non-human plants and animals, and a spiritual view that applies to people, spiritual because the laws of physics are transcended—the mind is more than your brain—the dualist view. Rejecting determinism make it easier to believe humans consciously set

\(^4\) List’s argument turns on how one interprets “for someone’s action to count as free is that the agent can do otherwise.” List provides three possible interpretations from the philosophical literature: (1) “If the agent were to try (or choose) to do otherwise, he or she would succeed in doing otherwise”, (2) “The agent has the disposition to do otherwise when, in appropriate circumstances (to be spelt out further), he or she tries to do otherwise, and (3) “It is possible (in a sense to be spelt out further) for the agent to do otherwise.” He then argues that (1) and (2) are consistent with determinism. While I am somewhat confused, (1) seems consistent with determinism in that while you must choose as you choose given the determinants of the moment, if you were to choose to do otherwise (because the world was different deterministically) you would be successful. To buy the argument, you have buy either (1) or (2) as the correct definition of being able to do otherwise.

their course. People readily believe the behavior of lesser animals is deterministic (or random), that lesser animals are driven by instinct and stimulus so don’t make choices in the sense people make choices.

**Do regular people think choice is consistent with causal determinism?**

Nichols and Knobe addressed this question in a 2007 experiment. They started by asking college students to imagine two different universes.

Imagine a universe (Universe A) in which everything that happens is completely caused by what happened before it. This is true from the very beginning of the universe, so what happened in the beginning of the universe caused what happened next, and so on right up until the present...

Now imagine a universe (Universe B) in which almost everything that happens is completely caused by whatever happened before it. The one exception is human decision making...

Ninety percent of the responds thought our world was more like B than A, consistent with Nichols’ earlier finding that people tend to be indeterminists when it comes to the behavior of people, but determinists when it comes to dogs, cats, and rocks.

Everyone was then asked either:

*In Universe A, is it possible for a person to be fully morally responsible for their actions? Yes or No?*

Or

*In Universe A, a man named Bill has become attracted to his secretary, and he decides that the only way to be with her is to kill his wife and 3 children. He knows that it is impossible to escape from his house in the event of a fire. Before he leaves on a business trip, he sets up a device in his basement that burns down the house and kills his family. Is Bill fully morally responsible for killing his wife and children? Yes or No?*

These two questions, both about Universe A, were asked because many people believe you are not responsible for actions you did not choose. 72% answered yes to the second question (Bill is responsible), 14% answered yes to the first question, quite a difference.

At this point the authors were concerned that they couldn’t determine whether the difference in yes responses was caused by the abstractness of the first universe compared to the concreteness of the second, or caused by the second, but not the first, viscerally affecting the respondent. So, they did a second experiment with each subject asked one of two questions, Half of the people who got each question were told to answer assuming Universe A, half Universe B.

*As he has done many times in the past, Mark arranges to cheat on his taxes. Is it possible that Mark is fully responsible for cheating on his taxes? Yes or No?*
Or
*As he has done many times in the past, Mark stalks and rapes a stranger. Is it possible that Mark is fully responsible for raping the stranger? Yes or No?*

Both acts are concretely described but the second generates a negative visceral response. For those told to assume Universe B (the indeterminant universe) most answered yes, finding both the rapist and tax cheater responsible. For those told to assume Universe A (the deterministic world), most asked about the tax cheater answered No (not fully responsible) and most asked about the rapist answered Yes (responsible).

Summarizing, people tend to judge a deterministic act as consistent with free will (so attribute moral responsibility to the act) if the act is explicitly negative, is concretely described, was performed by a human, and makes them viscerally upset—but not when the nature of the act and actor is unspecified.6 This result has been replicated in non-western populations. We are of two minds when it comes to the question of whether free will is consistent with determinism, a logical mind that concludes the deterministic actor is not responsible, and an emotional mind that concludes they are, a finding consistent with results presented in Chapter 7.

**So, what do economists believe?**

While they might not realize it, economists are deterministic compatibilists if they believe that choice is consistent with the assumptions of choice theory, since choice theory makes choice (free will) deterministic.

Chapter 12 reviews recent neurological and psychological evidence on choice and free will. More and more, the evidence suggests most, or all, of our behaviors are determined in the unconscious parts of our brain, and our conscious brain, later, but before the behavior occurs, sometimes has an *experience of choosing*. Our conscious brain, by consciously willing the action, tricks us into thinking this caused the action. However, this does not mean conscious thought plays no role: those conscious thought can affect the unconscious, so influence future behaviors.

6 “Indeed, concrete cases of bad behavior lead people to attribute responsibility, even when the action is caused by a neurological disorder.” (Nichols 2011)

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i Sources:

ii Sources:
3. Shaun Nichols and Joshua Knobe (ibid)
Chapter 12: The evidence on conscious choice

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The neurological evidence:

An increasing number of studies indicate that before you consciously decide on an action, activity in your brain can be measured that predicts the action, brain activity you are unaware of. Call this brain activity Event I: Event I predicts both Event III (the act) and, if it occurs, Event II (conscious choosing, the willing of the act). These findings support the contention that your unconscious initiates the act and then before the action occurs, you consciously "decide" to do it. Paraphrasing the Harvard psychologist Daniel Wegner, choosing is an experience, not a cause.¹

The Libet experiment

Imagine you are a subject in the following experiment. You enter a small room and sit at a desk comfortably resting your left arm on the desk. On the wall in front of you is the face of a large 60-second stopwatch with an illuminated dot traveling around its circumference. The stopwatch has the seconds marked in five second intervals (0, 5 sec. 10 sec., etc. up to 55 sec.). You notice it moves much faster than a normal stop watch. While you do not know its exact speed, the dot covers the 60 stopwatch seconds in 2.6 real seconds. That is, it takes the dot .43 seconds (430 msec.) to go from 0 to 10 and 1.3 seconds (1300 msec.) to go from 0 to 30. So, if

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¹ What he actually said was "...conscious will is an experience, not a cause."

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you tell someone where the dot was when an event occurs (e.g. when your hand is touched), they can determine when you think the event happened.2

A research assistant attaches you to two sets of electrodes. The first set is attached to your left wrist. It will record if-and-when you flick your wrist (when your wrist-flexing muscle contracts). The second set is attached to your scalp, recording if-and-when a certain negatively charged pulse occurs at the top of your brain. You are told to sit there for a few minutes and, if you want, sometimes flick your wrist. Whether and how often you flick is completely up to you. You are asked to remember the position of the dot if-and-when you decide to flick.

This is a stylized description of a famous experiment on consciousness and choice; it was conducted in 1983 by the University of San Francisco neuroscientist Benjamin Libet. The results: Approximately a half second (500 msec.) before your wrist muscle contracts, the electrode on your scalp records the start of a negatively charged pulse (a readiness potential). That is, this neural activity, which you are not aware of, precedes and predicts you will flick your wrist a half second before you flick it. It is called a readiness potential because your unconscious is getting ready to cause your wrist muscle to contract.3 [Note the experiment does not demonstrate that the readiness potential causes your wrist to flick—some even earlier neurological event might have caused it—more on this later]

The question is at what point do you consciously decide (choose) to flick your wrist? Based on where the dot was when you decided to flick, this happens, on average, approximately 200 msec. before the muscle contracts, indicating the flick is initiated by your subconscious at least 300 msec. before you consciously “decide” to flick. WOW, but with caution.

Interpret this result carefully. It indicates your unconscious indicated (chose?) when you would flick your wrist, and implies your conscious choice to flick is not what caused the flick. Questions ever since the experiment include: (1) Does the experiment truly indicate your unconscious caused your wrist to flick, and indicate your conscious decision to flick was not the cause? It seems to. (2) If yes, does the result hold for more complex decisions (e.g. proposing to

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2 Testing dot time: dot time for an unseen stimulus to a subject’s hand (a light touch) is only about 50 msec. after the touch, so the sensory lag is small, measurable, and can be accounted for.

3 Quoting Libet, in 1965, Kornhuber and Deecke “found that a recordable electrical charge in brain activity regularly and specifically preceded a voluntary act… a slow rise in electrical negativity … The electrical charge started about 800 msec. or more before a subject performed an apparently voluntary act… the readiness potential (RP) or in German, the bereitschaftspotential.”

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Wanda)? This is hard to test (see Lady Ottoline Morrell, discussed below). (3) And does it mean consciously choosing an action is not what makes that action occur (a violation of Assumption 8b: That perception of choosing is what caused them to take a path with those components). It seems to.

A readiness potential does not precede every action; it only precedes voluntary actions. [A readiness potential does not precede reflex actions, or other uncontrolled actions.] For example, as Libet pointed out, when people with Tourette’s syndrome involuntarily swear, the swearing is not proceeded by a readiness potential, but their voluntary actions are preceded by readiness potentials.) So, a readiness potential is not necessary for an action to occur because all actions are not preceded by readiness potentials, but they are necessary and sufficient for voluntary actions.

Many neuroscientists and philosophers have questioned whether the experiment really demonstrates what it suggests. There are reasonable answers supporting the Libet finding, but these answers are not bombproof. However, the fundamental finding that the occurrence of an act can be predicted based on unconscious brain activity before you consciously decide to act has been replicated multiple times. In 2007, John-Dylan Haynes, a neuroscientist in Berlin, found, using fMRI imaging, the researcher could predict, with 60% accuracy, whether you will push a left or right button as much as 7 seconds before you push it, and 6 seconds before you “chose” which button to push. Quoting Kerri Smith, the Podcast Editor for the journal Nature, talking about a 2011 study:

Some researchers have literally gone deeper into the brain. One of those is Itzhak Fried, a neuroscientist and surgeon at the University of California, Los Angeles, and the Tel Aviv Medical Center in Israel. He studied individuals with electrodes implanted in their brains as part of a surgical procedure to treat epilepsy. Recording from single neurons in this way gives scientists a much more precise picture of brain activity than fMRI or EEG. Fried’s experiments showed that there was activity in individual neurons of particular brain areas about a second and a half before the subject made a conscious decision to press a button. With about 700 milliseconds to go, the researchers could predict the timing of that decision with more than 80% accuracy. ‘At some point, things that are predetermined are admitted into consciousness,’ says Fried. The conscious will might be added on to a decision at a later stage, he suggests.

4 For example, how can the researcher be sure he has correctly measured when you decided to flick your wrist? The lag between when the readiness potential starts and the dot time of deciding could be measurement error caused by the time it takes to turn one’s attention from deciding to observing the position of the dot.

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Additional support for the role of the unconscious in behavior is recent research that indicates that your brain can both formulate a goal (e.g. get you invited to a party), and cause you to take actions to achieve that goal, without you being aware of the goal or why you are taking these actions. Distinguishing between goals and actions/behavior, a goal often motivates actions (choosing to lose weight is a goal, skipping dessert is an action). In a 2010 *Science* article, Ruud Custers and Henk Aarts summarize and interpret this recent research on unconscious goal-formation. The previous view, and what most of us want to believe, is that goals are consciously chosen. For example, my goal to write this book must have been consciously adopted. But, it seems that this does not have to be the case. Summarizing, you can be subliminally motivated to adopt a goal and then unconsciously take actions to achieve it. For example, in a lab the goal is brought to the attention of your unconscious subliminally or, outside the lab, by environmental cues that you are not aware of. You then unconsciously evaluate the rewards associated with that goal (in the lab with a subliminal reward cue, or because you already unconsciously associate that goal with a reward). Then, depending on how your unconscious assesses the magnitude of the associated reward, you adopt the goal and take actions to achieve it.

Despite such findings, most people believe consciously choosing is what causes you to perform an action or adopt a goal. That is, while most people believe Assumption 8b is true, there’s a good chance isn’t. CT can get along without Assumption 8b, economicus just becomes less of a me.

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5 People speak more softly when seeing a picture of a library, are more likely to clean their table if there is vague whiff of cleaner in the air, and get more competitive when they enter an office if there is a leather briefcase on the desk (Henk Aarts and Ap Dijksterhuis (2003), Holland et al (2005), and Kay et al. (2004))

6 For example, in one study they review, students were seated “in front of a computer, allegedly to test their computer mouse skills. Before starting on this test, some participants were subliminally exposed to words related to the goal of socializing on the computer screen, whereas others were exposed to words unrelated to this goal. At the onset of the mouse-skill test, they were told that if there would be enough time left after the test, they could engage in a lottery in which they could win tickets to a popular student party. Thus, spending more effort (by working faster) on the mouse-skill test was instrumental in attaining the goal to socialize. The participants indeed worked harder on the mouse-skill test when the socializing goal was primed, and this effect was stronger when socializing evoked a stronger positive reward signal in the minds of the participants (which was assessed in a separate implicit affective association task). Importantly, checks indicated that priming caused participants to pursue the goal independently of their reported motivation to attain it.”

7 Interestingly, Libet, in late life, raised the possibility that after the readiness potential and the conscious deciding occurs, you still might be able to consciously veto the action (stop yourself) which would mean we have free won’t rather than free will.
So, does the Libet and related findings imply that conscious thought, including conscious choosing, has no effect on behavior?

No. Even if your unconscious is the determining step before an action is taken, it leaves open the possibility that earlier (right before, or much earlier) conscious thinking influences what you do. For example, in a current choice situation—before your unconscious decides what to do and your conscious brain then experiences conscious choosing—consciously weighing the alternatives could influence what your unconscious decides. Or, the process of conscious choosing—after your unconscious has decided, while not affecting whether you now go with A or B in the current choice set—might influence what the unconscious will choose in future choice sets. Supporting this conjecture, in a 2011 survey article Roy Baumeister, E.J. Masicampo and Kathleen Vohs argue that “The evidence for conscious causation of behavior is ... empirically strong. However, conscious causation is often indirect and delayed, and it depends on the interplay with unconscious processes.”

Imagine if there was not the experience of conscious choosing

Imagine our brains evolved absent event II (the experience of conscious choosing never occurs). In which case, we would not know what we were going to do until we did it, meaning you would not be able to tell the kids you were for taking them for cheeseburgers rather than taking them to boarding school. Bertrand Russell learned he loved Lady Ottoline Morrel when he heard himself saying, “I love you.” Without II, communication and social interactions would be more primitive. The experience of conscious choosing conveys an important evolutionary advantage in terms of planning and coordinating. Many of us believe II is absent in birds, wolves, and other animals; if so, they can’t consciously plan; so, they can’t consciously coordinate their later actions—which gives humans a big advantage. Also, without the experience of choosing, your sense of self (conscious identity) would be lessened: believing that

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8 Keep in mind that while consciously thinking about what to do is a type of conscious thought, much conscious thought is not an experience of choosing. For example, you consciously realize that you are reading this footnote.
9 They reviewed experiments where conscious thought was manipulated (e.g. asking you to imagine a future action) and subsequent behavior was then observed, finding many studies where experimentally manipulating conscious thought influenced behavior (e.g. you are more likely to perform an action if you first imagine performing it). As Baumeister and Bargh note, none of the experiments contradict the Libet result that the immediate cause of behavior is unconscious.
10 Morrel, a dramatic British socialite and patron of the arts, had an open marriage and was off and on with Russell for many years; she had many lovers. D.H. Lawrence portrayed her in Women in Love, and some critics believe she was the inspiration for Lady Chatterley. http://www.theguardian.com/uk/2006/oct/10/books.booksnews
consciously choosing determines what happens next conveys an evolutionary advantage, even if it is not true—we are programed to believe we consciously choose. In the 1890 words of William James,

*But the whole feeling of reality, the whole sting and excitement of our voluntary life, depends on our sense that in it things are really being decided from one moment to another, and that it is not the dull rattling off of a chain that was forged innumerable ages ago.* (James, 1890, quoted by Wegner)

James did not believe conscious choice is an illusion, but admitted it might be. If it is an illusion, as the evidence above suggests, it is, in the words of Wegner, the *illusion of choice*. If we were created in God's image, it is unlikely we would entertain such an illusion—God hopefully does not suffer from it.

**Other evidence on conscious choosing and subsequent actions**

An issue complicating the study of the relationship between the conscious experience of choosing and the subsequent action is you can’t, by definition, consciously know whether your unconscious determined what you did—you cannot be conscious of your unconscious.

Consider how the perception of choosing to act, followed by the act, and finally an outcome can be distorted. Begin by deconstructing what Ralph said at the bar:

*Yesterday I decided to go duck hunting, saw a duck in the sky, choose to shoot, shot the duck, and my dog retrieved the now-dead duck that I shot.*

The sequence as Ralph perceives it is (1) he had the experience of consciously choosing to shoot at a duck; (2) he shot his gun in the direction of the duck; (3) the duck was shot at because he consciously chose to shoot at it; (4) he is in possession of a dead duck; and (5) he believes he committed duckicide. In Ralph’s mind, he chose to shoot and this resulted in an outcome, dead duck in his possession. But, for Ralph to be correct, these five implicit conjectures must all be correct. The neurological research throws conjecture (3) in doubt, even if (1) and (2) are correct. So, what about conjectures (1), (2), (4), and (5)?

To initially keep things simple, assume there is a dead duck in Ralph’s possession, so (4) is correct. (1) is incorrect if his recollection is false; maybe he shot reflexively but, being a responsible gun owner, Ralph can’t imagine shooting without first deciding to, so concludes he must have decided to shoot. Maybe (5) is incorrect. Maybe another hunter shot at the same time as Ralph, or maybe the duck died in midflight of natural causes as Ralph shot his gun. Maybe (2)
is incorrect, maybe he did not shoot in the direction of the duck and he only believes he did because after he shot, the duck fell from the sky.

At this point, you are probably saying “Whatever—Sure (1), (2), (4) or (5) might be false, but why sweat such unlikely events.” Sweat them; we are great at: (A) imagining we experienced conscious choosing when we didn’t; (B) believing the experience of choosing causes what we do; (C) believing we caused an outcome to occur when we did not (or believing we did not cause an outcome when we, in fact, we did); and (D) believing the outcome is different from what it is. Also, keep in mind that action doesn’t require the experience of choosing to act. This plus these four inclinations make it likely we will misinterpret the importance and influence of conscious choice—indeed, independent of (3).

Let’s start with most of what we do is NOT preceded by conscious choosing

One way to think about the relationship between conscious choosing and a subsequent action is to contrast that relationship with actions that are not preceded by conscious choosing. [Economists typically do not think about whether a purchase (e.g., buying a TV or going to Chez Faux for dinner) first requires conscious choosing.]

We are all aware that many of our actions are not preceded by a conscious decision to take the action, so called automatic behaviors/involuntary act, so you know action does not require prior conscious choosing. Examples of *automatics* include the different components of physical activities such as walking, skiing, driving and breathing—the mechanics are mostly produced unconsciously. (Imagine if to breathe you had to always consciously inhale and exhale.11) Other examples are habits, instinctive reactions to things unexpected (touching hot stove), and impulsive acts driven my emotions— “I killed them both in a jealous rage and then drove to COSTCO to buy toilet paper, but somehow came home with a riding lawn mower.”

Research and experience demonstrate that if the spinal cord receives data that there will be bodily injury if immediate action is not taken, it will send instructions to the muscles to immediately act even before you are consciously aware of any danger12—only after you dive out of the way do you consciously register what happened. There is an evolutionary advantage to

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11 Conscious breathing is the norm in endurance races, meditation, and scuba diving.

12 Stepping on a tack fires pain neurons in your foot; the message is transmitted to your spinal cord; from there one message goes to your brain and the other heads straight back down a motor neuron to your foot, causing a muscle contraction before you register the event. Bear et al. have a nice diagram.
forego conscious choosing when delaying the action would get you run over. But danger is not required. A Williams’ sister is more likely to win Wimbledon if she does not consciously choose how she will hit every ball flying her way. If some attractive other smiles as you pass on the street, you either react, or loses the opportunity. Circumstances that require quick response are not the only situations where we forego conscious choosing. Warren Buffet’s son supposedly claimed his father changes his portfolio when his back starts hurting, not because he consciously weighed new information (reported by Malcolm Gladwell in *Blink*).

**With respect to A (believing we experienced conscious choosing when we didn’t)**

In a 1977 experiment by Richard Nisbett and Timothy Wilson, subjects were asked to memorize a list of word-pairs, and in one treatment the list included the pair “ocean-moon”. Afterward, participants were asked to name a laundry detergent. Those whose list included ocean-moon were much more likely to answer Tide—not surprising. But, when asked why they said Tide, the subjects said things like ”Tide was the detergent their mother used.” Or “It has a cool box,” but hardly anyone said, “Because I memorized ‘ocean-moon’.” They imagined consciously choosing to say Tide because afterwards they felt compelled to self-rationalize their choice of words. We do not have full conscious access to the parts of our brain that determine our behavior—I observe my behavior, and then create an explanation that I find plausible and works for me—sometimes my explanation is even correct.

**With respect to B (believing the experience of conscious choosing causes what we do)**

We all want to believe we exert conscious control over our lives, so are compelled to attribute many outcomes to our conscious reckonings, but choice experiments demonstrate that the probability of you choosing a particular alternative can be manipulated by messing with your unconscious, independently of what you consciously reason. This supports the neurological results discussed above.

Specifically, recent studies with subliminal cues demonstrate that choice can be influenced by these cues (information that never reaches conscious awareness). Subjects are shown a piece of information for a short period of time (msec.) followed quickly by, for

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13 This might be more of a Western thing in that Westerners, as compared to Asians, tend to view the world from a more individual-centric, personal “me” perspective.
example, a random letter which masks the information. Behavior is influenced, which demonstrates that the conscious is not always in charge, even when we think it is.\textsuperscript{14}

Subliminal persuasion is most easily demonstrated when it addresses a conscious physical need (hunger, thirst, etc.). In 2006, the psychologists Johan Karremans, Wolfgang Stroebe and Jasper Claus demonstrated

priming of a brand name for a drink [Lipton Ice Tea] will only affect choice behavior of people who are thirsty (i.e. have a goal to drink)

Supporting this finding, in a 2009 study, Christina Bermeitinger and her coauthors showed

Subliminally presented brands of dextrose pills biased choices of tired (but not non-tired) participants.

More recently, Thijs Verwijmeren and colleagues investigated the influence of subliminal cues on choice of beverage when one of the products was consumed more frequently than the other. The two beverages were Lipton Iced Tea and Spa Rood (a popular Dutch brand of mineral water). The cue was either “Lipton Iced Tea” or a control. The cue only influenced choice if the subject was thirsty, consistent with the two other studies. If the subject habitually drank Lipton, the Lipton cue had no influence, even if the subject was thirsty. But, if the subject more habitually drank Spa Rood, the Lipton cue increased the probability they would choose Lipton: respondents chose an alternative different from the beverage they typically chose because they were presented with information they were not consciously aware of—conscious processing did not determine their selection.\textsuperscript{15}

Summarizing, subliminal cues affect choices when one is motivated to fulfill a physical need. This raises the question of whether choice can be affected by subliminal information when the motivation is more implicit, for example, a motivation to succeed. This conjecture was tested and found correct in 2012 by Maxim Milyavsky, Ran Hassin and Yaacov Schul: information

\textsuperscript{14} Subliminal research got a bad name in 1957 when James Vicary claimed he found that inserting “Drink Coke” and “Eat Popcorn” in movie frames caused movie goers to buy more of each. He could not replicate the study and later said the whole thing was a gimmick. His initial claim caused a public uproar, and made research on subliminal cues a dangerous endeavor, and lead to subliminal advertising being banned in Australia, Britain and the U.S.

\textsuperscript{15} None of these studies debriefed on why they made the selection they made. In a personal email Thijs Verwijmeren speculated that if asked the subjects would have come up with an incorrect reason for their choice.
processed unconsciously can influence choice whenever there is a motivation for choosing, not only when the motivation is a physical and conscious need.16

**With respect to C (believing you caused it when you didn’t, and believing you didn’t when you did)**

The Denver Broncos football team lost the 2014 Super Bowl because I, stupidly, was not paying attention during the Bronco’s disastrous first-play from scrimmage.

Exotic examples of things we cause but don’t think we cause are the voices schizophrenics hear, the things hypnotized people do, and the words we spell out on Ouija boards. Many students who get a D on my first midterm believe they did not cause their D: Edward asked questions that were tricky, misleading, and were not on material covered in class. In contrast, A students believe their conscious efforts caused the grade. When we pray to God to give us strength to act, and then act, we attribute the act to God rather than to ourselves. Such an attribution is problematic if God does not exist or does not care what we do. When I could not find the most recent version of this chapter on my computer it was, of course, not an operator error.

We have all heard of false confessions, even ones where the confessor believes they did it. In 1996 Saul Kassin and Katherine Kiechel produced these in the laboratory. Each subject was falsely accused of crashing the experimenter’s software, thus losing the data from the study. The subject typed a list of letters read off by a partner (actually a research assistant, who read the letters either 43 letters a min. or 72 lpm.). Before the trial started, subjects were warned that if they hit the ALT key the software would crash and the data would be lost. After sixty seconds of typing, the experimenter said the program crashed and accused the subject of hitting the ALT key. All subjects initially denied it; none had actually hit ALT. The experimenter then turned to

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16 Motivation to achieve was manipulated: before a “separate” choice task, subjects played “find the words” in a square of letters. One set of subjects’ letter-squares included words related to achievement; the other treatment (the control group) saw only motivationally-neutral words. Then, before the choice task, each subject was subliminally cued with a word, or non-word. There were 16 word-cues and 16 non-word cues, and each cue was related to only one of four word-categories (emotions, cloths, family and fruits). E.g., the emotion words were love, joy, anxiety, and jealousy, and the emotion non-words were nadsach, sitam, dagma, and raghah. Then the four word-categories came on the screen and the subject had to guess the correct category (e.g. fruits if the subliminal cue was mango). Correct guesses were rewarded. The subjects in the control group guessed correctly no better than random; the subjects who were motivated to achieve guessed correctly significantly better than random. The critical point is that these subjects were not consciously aware that they had been motivated to achieve.
the partner and asked if she saw anything. She either said “I did not see what happened,” or “I saw the subject hit the ALT key.” Of the subjects who heard 72 lpm, and were witnessed against, 100% signed a confession, and 65% “came to believe they were guilty” (when leaving, the “next subject” who happened to be standing outside and had heard the commotion (really another R.A.) privately asked “What happened?”). 35% confabulated details to support their false beliefs (they were asked in the debriefing to say when they hit the ALT key).

Of the subjects who heard 43 lpm, and were witnessed against, 89% signed the confession. Of those who got this slow pace and were not witnessed against, 35% signed the confession. In summary, it is not difficult to make you think you did something you didn’t, even if it’s a bad thing. Billy Wayne Cope is in jail for raping and murdering his daughter. He confessed and provided gory details after the police told him the semen in her vagina matched his DNA—it did not—the DNA was much later matched to a rapist who had recently moved to the neighborhood.

My hard work, not my co-authors, is responsible for many of my published co-authored papers, but my co-authors believe it was their hard work. Correctly attributing an outcome that results from a complex interaction between people (work, social, sexual) is difficult—exactly who initiated that kiss? And, if we like the outcome, we tend to attribute it to our efforts, but to others if we don’t. This is called self-serving attribution; it increases self-esteem.

As discussed in Chapter 10, there is the tendency to ascribe causation if physical action on our part immediately precedes an observed outcome. (I flicked the switch and the light came on. I shot in the air and a duck fell to the ground.) If A proceeds B we tend to infer A caused B, particularly if B is desirable, so we take authorship for A. Man evolved to think in this second-best manner. Consider an experiment where every second or so you choose whether to press a button or not, and then a light flashes or not: the light does not always flash after you push it, and sometimes it flashes even when you didn’t push the button. Treatments vary in terms of the actual amount of control you and other subjects have over the light (e.g. 25%, 50% and 75%)—complete control (100%) means the light flashes every time you push the button and never flashes when you don’t.17 You can be tricked into thinking you have more control than you have

17 With 25% control, the light comes on 75% of the time when the button is pushed and 50% of the time when the button is not pushed; whereas, with 50% control the percentages are 75% and 25%. That is, control is the difference between the two percentages.

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simply by increasing the number (not the proportion) of times where the outcome is what you predict (the number of successes), independent of your actual amount of control. That is, we will conclude we control the light if we observe enough occasions where we flicked the switch and the light came on, plus occasions where we did not flick and the light did not come on.

In a 1979 light experiment, Lauren Alloy and Lyn Abramson studied perception of control using a sample that intentionally included both depressed and non-depressed subjects. The non-depressed subjects, but not the depressed subjects, overestimated how much control they had over whether a light came on. Like the study described above, subjects flicked a switch and a light either came on, or not. Their subjects suffering from depression accurately assessed their lack of control—which might have something to do with why they were depressed in the first place. A conjecture for why we suffer from an illusion of control is actual control is easier to recognize than no control (independence between our actions and what happens next). In a very simple 1983 experiment by Howard Tennen and Jeanette Sharp, the light came on a fixed proportion of the time independent of whether the subject pushed the button, so the subject had no control, but the subjects experienced the illusion of control. Prior to the trials, each subject was classified as either an internal or external type using an I-E scale of control orientation. [Externals tend toward believing what happens is out of their control, whereas internals tend to view their actions as having influence.] The hypothesis was that internals would suffer the illusion of control, but not the externals. Both types suffered it, internals just more so.

Ap Dijksterhuis, Jesse Preston, Daniel Wegner, and Henk Aarts have shown whether or not you take credit for an action can be influenced by subliminal cues that “direct attention to self”. Subjects looked at a sequence of strings of letters on a computer screen in a fast race with the computer to determine whether each string was a word. They were told the first response (theirs or the computer’s) would blank the screen, after which another string appeared. In fact, it blanked half-a-second after each string appeared, independent of what the respondent did—the subject never caused the screen to blank. After each trial, the subject was asked if they answered

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18 In a 2013 paper David Shanks (a cognitive psychologist) and his coauthors report that they couldn’t replicate another Dijksterhuis finding, his finding that people who think about professors just before they take an intelligence test do better than those who think about football hooligans. This, in part, has called into question the findings that “behavior can be influenced or ‘primed’ by thoughts or motives triggered unconsciously…” (Nature 2013). In a 2012 open letter to researchers in social priming, Daniel Kahneman said more replication of results in this area was needed, but that he is a “general believer” in priming effects.
before the computer. Before each trail the subject was subliminally cued with either a personal
pronoun (“I” or “me”) or a neutral word. When cued with a personal pronoun the subject was
more likely to say they beat the computer. Subjects subliminally cued with the word “God” were
less likely to say they beat the computer, but only if they were believers. [It is probably fair to
say that many believers attribute many, if not most, outcomes to God—God’s will.] In another
experiment Aarts demonstrated that in situations where causation is unclear “feeling of control
and self-causation” are enhanced if success is subliminally conveyed.

With respect to D (believing the outcome is different from what it is):

There is it and what caused “it”, this sub-section is about whether it is true, not what
caused it. Was the dead duck really dead, or even a duck? My mother once called to report her
sister died and to tell me she had called the funeral home to come for the body—the funeral
home went to the hospital and reported back to her that their services were not yet required.
People make mistakes about the facts on the ground.

Truth, like beauty, is in the beholder’s eye. The accused believes there was no rape
because the accused believes the victim wanted to have sex, believing the victim chose to have
sex and sent signals indicating this. The accused is attributing the sex to a choice made by the
other party when, in fact, the other party did not necessarily make that choice, and, if she didn’t,
the accuser caused the sex. The majority of Americans believe Barack Obama is a U.S. citizen,
but many don’t. Some believe our planet is warming, some don’t, and everyone can’t be correct.
We judge truth based on what is happening around us, filtered through personal perspective:
“facts” reported to us by second-hand sources we trust and sources we don’t trust; our implicit
biases; and what our group/tribe believes.

Finally, keep in mind that your actions are influenced by your unconscious does not, by
itself, imply you are not making choices—it is your unconscious. Unconscious choice is
consistent with all of the axioms of CT except for 9b. What about the causal determinism
discussed in Chapter 11. Causal determinism must be the case unless you subscribe to religion,
spirits, or randomness. (There are many subscribers.) Casual determinism is consistent with
actions being initiated at the unconscious level. The question of whether you can make a
choice—consciously or unconsciously—in a world of causal determinism comes down to how
choice is defined.
Summarizing

This ends Part II, the discussion of what is a choice, and do humans make choices. CT assumes, obviously, that you, and economicus, make choices: “choice” is in the theory’s title. But, saying that behavior (as explained by CT) is chosen behavior is inconsistent with the street-sense of the word choice, which is you could have chosen differently. CT assumes you must experience your highest-ranked feasible bundle, and both your ranking and what is feasible are given, so you can’t behave differently than you behave. Your behavior is deterministic, imposed on you: you can’t change your ranking of bundles or what is feasible, and you are forced to experience your highest-ranked feasible bundle. These rules make your behavior deterministic, and in a specific deterministic way. CT assumes, in philosophical free-will speak, that your behavior is causally deterministic. Most people believe the behavior of animals and refrigerators is causally deterministic, but are disinclined to believe human behavior is causally deterministic.

The question is to how to make the behavior of you and economicus choices. It is done by defining, implicitly, a choice as a situation where exogenous constraints limit you to no fewer than two alternatives. That is, if internal factors constrain you to one of the two or more alternatives on the table, it is still a choice.

Many physicists and neuroscientists are incompatibilists (believe causal determinism is incompatible with free will and choice). Many philosophers are compatibilists, believing causal determinism is consistent with free will and choice. Economists tend to be implicit, and unaware, compatibilists; that is, we implicitly define free will as “your will is free if external constraints do not limit you to one alternative.”

While economists share their belief in deterministic compatibilism with many noted philosophers, they should be aware that most physicists and neuroscientists, and many philosophers, reject the argument that free will is compatible with casual determinism.

Related, is the issue is whether the conscious experience of choosing influences which alternative you select. While most of us believe that the process of conscious choosing determines which alternative we select, there is strong and mounting evidence that most, or all,

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19 One can avoid causal determinism by assuming behavior has a random component (e.g. random-utility models) but, if the expression of the random term is exogenous, you still are constrained to do what you do.
choices (in the economic sense of the word choice) are made unconsciously: at the final step, the unconscious selects the alternative and, sometimes, you then have a conscious experience of choosing what your unconscious decided on. While this is not fatal for CT (most axiomatic expressions of CT say nothing about the conscious vs. the unconscious), it is an injury. I suspect most economists assume the conscious experience of choosing is why you did what you did (most other people believe this as well, but unconscious choosing it not what most of us had in mind.

With questions about the ability to choose in mind, I now turn to Part III: Most Moral Philosophers are not Welfare Consequentialists, so what are they?

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**ii Sources:**

Sources:

1. Richard Nisbett and Timothy Wilson (1977) Telling more than we know: verbal reports on mental processes, *Psychological Review* 84(3): 231-259. This article has been cited more than eight thousand times.
2. Mark Bear, Barry Connors and Michael Paradiso (2007), ibid

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Part III: Most moral philosophers are not welfare consequentialists, so what are they?

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Except for Chapter 2, Parts I and II were individual-centric. Chapter 2 identified welfare economists as a subset of welfare consequentialists—consequentialists (only the outcome matters) and the only effects that matter are the WB (welfare) effects on society’s members.
Chapter 13: A primer on a few contrasting moral philosophies

In the words of the Nobel laureate in Economics, Sir John Hicks (1904-89)

If one is a utilitarian [welfare consequentialist] in philosophy, one has a perfect right to be a utilitarian in one’s economics. But if one is not...one also has the right to an economics free of utilitarian assumptions.¹

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The study of moral philosophies (ethics), studies, builds, and compares theories about right and wrong. Are your actions right (morally right) or wrong (morally wrong), right as they affect you?² Right as they affect others? As noted earlier, a moral philosophy is simply "a method to test right from wrong". All moralists agree right is right and wrong is wrong but disagree on how both should be defined and measured. Welfare economics (introduced in Chapter 2) is all about determining whether a policy is right or wrong, so a moral philosophy, one based on one objective—maximizing social WB—an objective many reject. As in Chapter 2, I mostly avoid the words “good” and “bad”: both words can mean many things besides “right/moral” and “wrong/immoral”.

A moral philosophy can be as straightforward as a list of specific moral and immoral acts (.e.g. The Ten Commandments), but many find such lists unsatisfying: the list can get long, my list is different from yours, and the question arises, "Why is that on your bad list?" leaving you to answer, "Just because" or "God said it was immoral”. So, most non-religious moral philosophies start, not with a list of moral and immoral acts, but with a list of foundational axioms/assumptions. Then the moral philosophy derives, through deduction, whether an action is moral or immoral given its axioms. Kant, for example, got it down to a single axiom, which he called a precept.

Most people (but not necessarily moral philosophers) judge actions moral or immoral based on all sorts of different overlapping criteria: how an action makes them feel, religious beliefs, perceived rights, intentions, consequences, whether the act is natural (human nature), process (how it was decided upon), disgust (Yuk!), and inherent value (value for its own sake)—

¹ While Hicks used the word “utilitarian” he meant, in our parlance, welfare consequentialism.
² Historically, much of moral philosophy has concerned itself with how best to live your life. Economics avoids this question; economicus has little choice in the matter: he is forced to choose his highest ranked feasible life.

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to name a few (see Chapter 2). Ethical systems based on different criteria for judging are contrasted with welfare consequentialism, and the special case, welfare economics.

I start my brief survey of moral philosophies discussing a few of the many ethics that give WB an important role in determining right from wrong, but do not give WB the only role. A good place to start is Buddhist ethics because it like welfare economics puts much emphasis on WB, but is, at the same time, very different from welfare consequentialism. Then I summarize some other ethics that also give WB an important role but not the whole role. Discussed then is the liberalism of John Stuart Mill. Then I move on to ethics where WB plays little, if any, role in determining right from wrong.

But before I discuss Buddhist ethics, I elaborate a bit more on welfare consequentialism and the special case of it, welfare economics.

**Processists vs. consequentialists**

In Chapter 2 consequentialism was discussed, in particular welfare consequentialism. Welfare economics judge on the basis of consequences. An action should be judged on the basis of its outcome, not on what caused the action (Mill 1867). David Hume was an early consequentialist. In contrast, processists deem an action moral or immoral based on whether the process used to choose the action was a moral or immoral process, independent of the result.

Whereas a welfare consequentialist would judge the killing of a child by a sadistic pedophile moral if that child was destined to be Hitler or Pol Pot—millions of lives would have been saved, a processist might disagree, arguing that the intention and the process (the desire to sadistically, sexually murder) is immoral, making the killing of baby Hitler in such a manner wrong. Welfare consequentialist and processists also disagree about the rape of Lucretia. Lucretia was raped by the son of Rome’s last king at the end of the 6th-Century, B.C. Lucretia killed herself. Shakespeare wrote a poem about it.

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3 Qualifying a bit, a welfare consequentialist would say the process is important if the process itself is enjoyed or disliked. For example, imagine you love to eat chocolate ice cream and would choose to eat it, but your mother says you have to eat it. You might get less WB in the latter case. That said, economists think very little about the process by which goods and services are consumed. Economists do not say things like, "We need to take account that chocolate is enjoyed more if you eat it slowly and concentrate on its taste and mouth feel."
Figure 25: Tarquin and Lucretia (Titan 1571): Many Renaissance artists depicted the rape or suicide

The citizens of Rome were so upset they overthrew the king, and the Roman Empire was founded, so the overall effect was WB increasing, but an effect that resulted from a rape. Kant was a processist believing actions not based on a duty to behave morally are not necessarily of moral value—right is determined by your will/intention to do your duty, not what you actually do.

Processes are typically judged moral or immoral based on some notion of the fairness or justness of the process. For example, some advocate majority voting because they believe it is a fair and just process for group decision-making. If it happens to increase WB, that’s only, for them, frosting on the cake. If the outcome decreases WB, that is immaterial. The U.S. founding fathers chose majority voting as a way for the people to elect its representatives and as a way for those representatives to make policy, but limited the influence of voting by requiring that decisions cannot violate the *U.S. Constitution* or *Bill of Rights*. They rejected majority voting by itself as the best process, but at the same time judged decisions by the will of the people as far superior to decisions by Monarch or Church. Implicit is the idea that policies and decisions that are chosen by voting and that are constitutional are moral policies.

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A process is deemed fair and good if everyone involved agreed to the process apriori. Picture the Gary Larson cartoon with four desperate, starving individuals in a lifeboat, you, two other humans, and a golden retriever. You all agree to draw straws to determine who will be slaughtered for everyone else’s dinner. You lose. An observing processist would have no problem with the outcome. A welfare consequentialist would likely argue the dog should be dinner: since dogs have shorter life-spans than people, so less potential future WB to lose.

Most of us judge on both process and outcome. For example, many of my students believe happiness without effort is wrong—“it is important to earn your WB.” In 1974 the philosopher Robert Nozick cooked up a thought experiment: a virtual-reality pleasure machine—you are wired up and have the experience of living a life of immense enjoyment, all the while sitting in a sealed black box. (We discussed artificial pleasure in Chapter 3.) Most people say they do not want that kind of pleasure. Nozick interprets most peoples’ distain for the machine as a rejection of welfare consequentialism.

Most legal systems judge guilt and determine punishment on the basis of both consequence (the victim is dead) and process (how did you kill him and what was your intent). We excuse you, or limit your punishment, if your action was an accident, if it was in self-defense, if you are insane, or if it was a mistake (e.g. you reasonably thought the sex was consensual).

Consider the role of WB in different ethical systems
Ethical systems differ in terms of how much WB counts for determining right from wrong. Foremost, either WB is important or it is not. (E.g. for a pure processist, whether an act is right

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4 Some might question whether the dog was capable of agreeing to the process. There is quite a philosophical literature on dogs in lifeboats. See, for example, the debate between Singer and the rights theorist Tom Regan, “Dog in the lifeboat: an exchange,” New York Review of Books, April 1985. And “Rights, justice and duties to provide assistance,” by the environmental philosopher Dale Jamieson in Ethics 100, January 1990.

5 But eating you, rather than the dog, could be welfare enhancing. The dog might be a happy dog and you might be a depressed individual incapable of experiencing WB. And, while you might be racked with guilt for eating the dog, the dog would likely not sweat eating you.

6 You are suspended in darkness and silence, and your brain is stimulated such that you perceive having a happy life. None of my students ever want to live in his Pleasure Machine, but most of them have a hard time explaining why, saying only “it isn’t real happiness.” Philosophers use the adjective “authentic”. In the 1973 Woody Allen movie Sleeper, did Woody and Diane Keaton have real orgasms in the Orgasmatron, or just think they did, and does it matter? It would matter to a processist. As an alternative to the chamber, consider a happiness pill—many of us take one.
or wrong is not determined by how the act affects WB.) If WB does play a role in determining right from wrong there is the extent of that role. At one extreme, WB is the only thing that counts; this is welfare consequentialism. One large subset of welfare consequentialism assumes that the objective is to maximize aggregate WB; Benthamite utilitarianism is a subset of this maximize aggregate WB subset. While welfare economics is a subset of welfare consequentialism, it is not necessarily a subset of the maximize aggregate-WB subset.\footnote{Note that the objective of preference utilitarianism is to maximize aggregate preference fulfillment, not aggregate WB. So, if preferences and WB don’t matchup, preference utilitarianism is not necessarily an ethic where WB counts.} I struggle to find a term to describe all ethical systems where WB is important but where WB is not the only determinant of right from wrong. My current favorite is \textit{NotOnlyWB ethics}. Many ethics are \textit{NotOnlyWB} ethics.

A common view among view amongst both welfare consequentialists and NotOnlyWB ethicists is self-awareness conveys a greater capacity for enjoyment and suffering, and, additionally, so does the ability to consciously imagine your future and mortality. Pigs have more capacity for enjoyment, and suffering, than spiders, and humans more capacity than pigs. But this does not imply every human is capable of more WB than every pig. So, even if every individual who can experience suffering or enjoyment counts equally, it might be ok in terms of aggregate WB for humans to eat pigs, but it might be better if we ate dogs—assuming they taste about the same: dogs are arguably less self-aware than pigs, so pigs have more capacity for suffering.

Most ethics who care about WB agree that individuals who were once alive but are now dead (George Washington and your dead grandmother) cannot experience WB. The same for individual entities for which life was never an option (Rocky the rock, and Ralph the refrigerator), Most ethicists assume plants cannot experience WB. The ethical implications of assuming plants cannot experience WB are drastic. Thinking about plants, they do seem exhibit a preference to survive: seeking water and nutrients with their roots, light will their leaves, and using chemicals to fight off pests. That said, few ethicists argue that individual plants should have moral standing.

\footnote{Morey: Choice, Happiness, and Ethics}
Should all WB count

A distinction amongst different NotOnlyWB ethics is whether certain types of WB should be excluded when WB is aggregated. One can care about WB, but not want to count false or wrong WB, WB that is, in some sense, either not real or caused by unacceptable preferences. Welfare economists do not parse right from wrong preferences (there are no bad preferences, but some preferences create negative external effects so need to be managed for efficiency sake). But many NotOnlyWB ethicists reject this. One example is John Harsanyi, mentioned in Chapter 2, who argued that WB derived from hatred and prejudice should not count. Another is the Canadian philosopher and welfarist L.W. Sumner, the author of *Welfare Happiness and Ethics* (1999). Sumner argues that all pleasures should not have moral worth, should not contribute to WB. Imagine, for example, that you are happy, and have been for years, because you have a devoted and loving spouse. But it is all a deceit: he never loved you, and his affairs started right after the honeymoon. Sumner argues that whether your happiness contributes to your WB depends on how you would have reacted if you had found out the truth. If you would have said “C’est la vie”, your pleasures should count. But, if instead, you would have concluded your life was a farce of your priorities, a life not your own, then your happiness should not be part of the moral calculus. A welfare economist would say enjoyment is enjoyment.

Whose welfare counts (who gets moral standing)?

Related to the issue of what types of WB should count is the issue of whose WB should count. Referring to the casualties in a far-off war,

*How horrible it is to have so many killed, and what a blessing that one cares for none of them* (Lord Brabourne edition of Jane Austen’s letters)

There are billions of individual people and animals currently alive and many more coming down the pike, so who counts is an important question for anyone who argues that whether an action is right or wrong, depends, at least in part, on how it affects the WB of individuals. For example, to give moral standing to Zach, a specific Zebra, would mean what? At a minimum it would mean his level of WB should count. Most economists limit moral standing to humans, but not

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8 See also Chapter 2, Section I.
9 You might argue that a zebra’s level of WB is difficult to determine and I would agree, but I would add it is easier to determine an animal’s WB than it is to determine yours, you are more complicated. My dog Sofie was, for example, a simple creature, rarely deceptive or unclear; she wanted to play ball, run, pounce, and have her stomach
necessarily all humans. Recollect that Bentham was species inclusive, so is Peter Singer. Bentham and Singer argue for the inclusion of everyone, and anything, who/that can feel pleasure and pain. Other modern ethicists require some degree of self-awareness. As noted in Chapter 1, research suggests dolphins, elephants, humans, and magpies are, to a large degree, self-aware.

The Harvard philosopher Christine Korsgaard requires, as Kant did, that to count we have the ability to be "aware of the grounds for our beliefs and choices," of our "reasons for thinking and acting as we do." We can "step back" and "evaluate." "And this enables me to take responsibility for what I do." because "we are not completely governed" by our instincts, desires and emotions. Korsgaard believes only humans have this ability to think about themselves abstractly and symbolically. Kant argued individual’s incapable of taking responsibility for their behavior have no right to moral standing, and that other animals do not have this capacity, so our obligations are to only humans. Korsgaard argues that because humans are the only moral animals and because we share many sensations with the other animals, we have obligations, to ourselves, to them.  

Aristotle and Aquinas also made purposefulness and the ability to evaluate your actions as requirements for moral standing.

All of the economists I know would limit moral standing to individuals who either have preferences or can experience different levels of WB. Most economists include only humans, but this is simply their personal ethical choice. If it’s only humans, the enjoyment and suffering animals experience can have influence but only to the extent their experiences cause humans enjoyment or suffering. Some environmental and ecological economists include other sentient creatures; a few would include all individuals who can experience pain.

There is then the separate question of whether all the individuals in an accepted species should have standing. I imagine most welfare economists would say the decision to include or exclude, for example, foreigners, is not part of their expertise. For example, an economist calculating the benefits and costs of a project for the French government would be comfortable rubbed. Even if Zach and Sofie have moral standing, do not expect them to sit debating whether Zebra WB should count.

For more on our duties to animals see Nussbaum on the complexity of animal values, Nussbaum, and Korsgaard on an extended Kantian perspective that animals should not be treated as a mere means-to-an-end, not treated only as a resource (Korsgaard 2004).
not including benefits and costs experienced by Canadians or dolphins. Rawls, for example, limits society to citizens of a sovereign state who “share a commitment to a norm of fairness” (Runciman). So, a fundamental contrast between welfare economists and other welfare consequentialists is welfare economists assert that they have no expertise, or opinion, as to whose WB counts.

Next I summarize some different moral philosophies, and contrast them with welfare consequentialism and welfare economics. While there is a logic to the order I present them, feel free to jump around or skip some, but try to get a flavor for the diversity.

**Buddhist ethics**

Buddhism is an ethical system in that it outlines how you should live your life and how you should behave towards others. There are many forms of Buddhism; the following is my understanding of its basic, and universal, principles. In particular, I emphasize how it differs from and is similar to and different from welfare consequentialism and welfare economics. For Buddhists welfare consequences are important, with good process (Right View and Right Thought) as a path to increased WB. While increasing the WB of every member of the group is good; the main concern is increasing WB by reducing suffering. The group consists of all beings that can experience pain, and the WB of all count equally. Quoting from a Buddhist text

*Through actions of body, speech, and mind, the Bodhisattva sincerely makes a continuous effort to stop all present and future pain and suffering, and to produce present and future pleasure and happiness, for all beings* (Śāntideva as translated by Charles Goodman)

This sounds like the utilitarianism of Bentham. But, other writings show that intention can also critical for determining moral from immoral. According to legend, the Buddha died because a follower generously gave him some spoiled food, but before he died The Buddha insisted that the act was moral because the giver did not know the food was contaminated (Goodman). Given that both WB and intent matters, Buddhists are NotOnlyWB ethicists.

While suffering exists and cannot be eliminated (bad-shit happens), there is an emphasis on the reduction of the unnecessary suffering of you and other creatures. The first two of the *Four Noble Truths* are (1) suffering exists, and (2) unnecessary suffering is caused by desires and wants for new things and trying to hold onto things that are impermanent. So personal suffering

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11 It is also a religion in that it has monks, monasteries and scriptures, but an atheist religion: there is no god.

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can be reduced by reducing your desires and wants (learning to live with and appreciate what you have, while you have it). Like the neuroscience of Chapter 3, Buddhism separates wanting from liking, suggesting that what you desire will often not be liked, and wanting just leads to more wanting. So, if you understand this, and dis-attach from your desires, you will avoid a lot of unnecessary suffering. Unlike welfare economics, Buddhism explicitly reject that notion that you only prefer what you will like.

While an individual of a species (e.g. George a human) has personal experiences, the Buddhist separation between individuals of your own species and other species (your neighbors, other animals, and trees and plants) is weaker than the welfare economist’s notion of individuality: in Buddhism your WB cannot be separated from the WB of other living things. And, rather than you being a constant and enduring thing, you are simply your current thoughts, and they are only weakly connected to your past and future thoughts and experiences, much as your experiences are weakly linked to the experiences of other creatures—which you do today influences not just what your future self will experience but also what other creatures will experience.12 Because of this, the effects of your actions on your future self are no more important than their effects on others, both now and in the future—implying that in Buddhism it does not make sense to think of your WB as separate from the WB of others—a sharp contrast with the welfare economic assumption that the welfare of society is some aggregate of the individual WB’s of its separate members.

In Chapter 5, flow was described as a type of happiness, you pursuing goals and doing activities that are challenging but not too challenging, and thereby entering into a state of flow (losing your sense of self and time, being in the zone; a feeling that is retrospectively described as happiness). While the western notion of flow can be achieved by doing things that only you value, flow generated by activities that increase the WB of others is Buddhist flow. The concept of Right Livelihood is work and leisure are two sides of the same coin, and work, done correctly, is a path towards greater WB. This is quite different from the perspective that having more is the path to greater WB and that work is simply the unpleasantness you have to endure to get to consume more. Right livelihood might be described as having a job where you have goals to

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12 In lockstep with Buddhism, David Hume could not find his “self” (The Berkeley philosopher Alison Gopnik speculates that Hume might have known of Buddhism). See also the section in Chapter 7: “Intertemporal identity and different selves”.

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achieve that are within your reach, but not easy; you have autonomy and responsibility; you are part of a greater whole, a team; and the products of your labor are social goods. My sister-in-law achieved this as a hospital orderly cleaning bedpans. Right livelihood is not consistent with producing or selling guns, drugs or alcohol: working in these industries would not increase your WB or the WB of others. Some Buddhists would also include slaughter houses and butcher shops, arguing that the killing of animals is neither good for us nor them.\textsuperscript{13}

Buddhism, like the Bible, has rules for how to behave towards others (refrain from killing (humans and other creatures), stealing, sexual misconduct, lying, and drunkenness); but rather than obeying them to please god, the Buddhist notion is that following them will increase your WB and the WB of others.\textsuperscript{14} E.g., lying often stresses the liar; besides, lying often causes trouble (sounds like Epicurus). It is recognized that these are behaviors to aspire to, not commandments without exception.

Two questions come to mind. Can one be a Buddhist and adhere to the assumptions of ACT (be an economicus)? And how does the ethics of Buddhism compare to welfare consequentialism and welfare economics. There is nothing in the assumptions of ACT that preclude an economicus from being a good Buddhist, but they would not have a typical Western ranking of paths—Buddhists have Buddhist preferences: they would not rank based on attachment to desires and would ignore their “self”—their ranking of paths would skew towards those paths that took an integrated and aggregate view of WB, and their ranking of paths would be grounded in the view that all is impermanent.

The Buddhist needs enough income to get by without working 24/7; beyond that it is unlikely that more income would increase their WB (again, a hypothesis supported by the research discussed in Chapter 5). But, a Buddhist does not have to be an economicus.

While Buddhism cares greatly about WB (reduce suffering), it is not welfare consequentialism: intent and perspective matters. As noted above, Buddhism is inconsistent with the welfare economic notion of social WB in that it rejects the notion that your WB can be

\textsuperscript{13} Tibetan Buddhists, including the Dali Lama, eat meat. On the high plains of Tibet there is not much to eat in the winter but sheep and yaks (Goodman)
\textsuperscript{14} Buddhists who believe in reincarnation might worry that treating others badly will generate bad karma, causing them to come back as an animal with a low-level of WB. That the purpose of rules is to increase WB is akin to rule utilitarianism, so unlike the Ten Commandments.

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evaluated separately from mine, and because of this it is inconsistent with the notion that social WB as some aggregate of the WB of society’s members. It has a much more expansive view of who counts. And, unlike welfare economics, Buddhism judges preferences, concluding that aggregate WB would be enhanced if we all achieved Buddhist preferences:

**John Stuart Mill: a backward-looking utilitarian and a forward-looking liberalist**

I was taught that John Stuart Mill was, along with Jeremy Bentham and James Mill, a founding father of what I called in Chapter 2 Benthamite utilitarianism. But such a characterization does a disservice to both Benthamite utilitarianism and Mill. Over his life Mill argued as both a utilitarian (Mill 1867) and a liberalist (Mill 1859), but neither view requires the other. Mill suffered from dissociate personality disorder: there was Utilitus Mill, the back-looking devoted son of James Mill and the godson of Bentham, and there was the more passionate forward-looking Liberace Mill, committed to liberty; the two mostly coexisted without openly condemning the other, but rarely appeared together in public, and Liberace appeared more as Mill aged. Mill wrote *On Liberty* eight years before *Utilitarianism*. *Utilitarianism*, however, was a look back, "the ideas contained in *On Liberty* underpinned his future actions as both a politician and public intellectual....*On Liberty* illuminated his future” (Reeves). First I present Utilitus Mill, then Mill’s liberalist ethic.

**Utilitus Mill, the utilitarian?**

For Utilitus Mill, moral behavior, often not achieved, is behavior directed toward increasing aggregate happiness, but such behavior might, or might not, be consistent with maximizing personal happiness. Mill was raised as a Benthamite utilitarian but did not write *Utilitarianism* until late in life.\(^{15}\) In the view of his modern biographer, Richard Reeves, Mill wrote it as a tribute to his father and to Bentham, not because of any great passion for Benthamite utilitarianism.

> *From Mill's perspective, utilitarianism marked an end rather than a beginning. In it [Utilitarianism] he finally laid to rest the ghosts of his father and Bentham. The essay looked backwards, offering a final settling of his Benthamite accounts, and scarcely featured in his thoughts or actions in the remaining dozen years of his life.... Utilitarianism illustrated Mill's past...* (Reeves)

\(^{15}\) Mill's childhood was tough, rigorously educated in an "intellectual petri dish" by his father and Bentham; it resulted in a nervous breakdown. They hoped to make him the torch bearer for utilitarianism. (Reeves).
In the honoring, Mill fundamentally deviated from Benthamite utilitarianism: Bentham argued all pains and pleasures were commensurable, a univariate cardinal concept—to judge the morality of a policy one only had to put all its pain and pleasure effects on the correct scale and see which way the needle moves. Mill mucked up this simplicity by stating that pleasures generated by more valuable activities (intellectual pursuits) should count more than trashy ones, making his measure of WB a multi-dimensional concept. Bentham utilitarianism is a single metric for judging activities, whereas Mill introduced a second qualitative element into the equation, raising the difficult question of who was to say which activities produce more valuable pleasures. Mill might have preferred reading Socrates dialogue to having sex with strangers, but it is hard to find grounds for why Mill’s pleasures should be the valuable pleasures (Reeves). For Mill, like Bentham, pleasure was a cardinal concept, so, possibly comparable across individuals.

According to Mill, a virtuous man is a man who, with some success (intent is immaterial), increases net happiness, not necessarily the man who maximizes his own happiness.

The standard is not the agent's own greatest happiness, but the greatest amount of happiness altogether (Mill1867).

For Mill a human was free to choose any feasible path, so not constrained to experience his highest-ranked feasible path (Assumption 4 of ACT).

**Freedom to choose: Liberace Mill and liberalism**

In contrast, John Stuart Mill’s *liberalism*, starts judgment at the level of the individual but judges an action or policy as right for the individual if it gives the individual more freedom and wrong if it restricts his freedom: "pursuing our own good in our own way." (Mill 1859) The classic work is John Stuart Mill's *On Liberty*. Liberalism is not libertarianism. [Mill's role for the

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16Mill found "superiority of mental over bodily pleasures...It is better to be a human being dissatisfied than a pig satisfied; better to be Socrates dissatisfied than a fool satisfied." Would a foolish pig agree? The Greek philosopher Aristippus (435-336 BC) claimed bodily pleasures are better. In 1823 Bentham, under a pseudonym, argued that the pleasures of male-with-male sex should be included in the felicity calculus, so such acts should not be illegal (Bentham (2013) *Not Paul, but Jesus: Volume III*, Collected Works of Jeremy Bentham preliminary edition. Bentham Project, Faculty of Laws, University College London: London, UK)

17 Mill noted that mental pleasures are often cheaper and safer than the bodily sort. Compare home in bed reading Homer to having sex with a prostitute in Hyde Park, the latter a most popular Victorian pastime. "In 1857, the Metropolitan Police estimated that the capital contained 2,825 brothels and 8,600 prostitutes. Evening visitors to the Haymarket were treated to what was popularly dubbed the 'Haymarket march past,' and even Dostoevsky, in 1862, 'noticed mothers bringing their young daughters to do business' (Reeves)."
government goes far beyond what U.S. Republicans desire—his advocacy of social programs has caused some to label him a socialist.] From their license plates, we know New Hampshirers want to Live free or die

Liberalism differs from welfare consequentialism and welfare economics in that individual liberty is morally right, even if the individual uses it to rain misery down on his head. Summarizing On Liberty, you should be given the freedom to flourish in the manner of your choosing unless your actions harm others—a moral life is the life the individual chooses and in a good society everyone is allowed and encouraged to choose. Autonomy—literally self-governing—gets closer in some ways to what Mill meant than does the word “liberty”. When talking to a French correspondent, Mill used the phrase "l'autonomie de l'individu" to describe the main theme of On Liberty (Reeves). Applied to non-human, non-domestic animals, liberalism is living, and dying, in their natural state.

Liberalism as a moral philosophy gives precedence to a freedom—a process for achieving things—rather than consequences, what the individual achieves. If an economist assumes individuals are incapable of acting contrary to their WB, as economists typically do, giving you more freedom cannot reduce your WB, and the line between liberalism and welfare consequentialism blurs.

For the modern Tea Party, freedom (fewer restrictions on choice) is the primitive and only measure of right. Welfare economists also believe more choice is better than less but not for its own sake, but because (1) more choice allows you more opportunities to better yourself, and (2) economicus always takes complete advantage of every opportunity to better himself.

But what does it mean to say you should be given the liberty to flourish unless your actions harm others, in which case they should not be permitted. In the language of economics, when does a negative external effect (an action that directly and negative affects others) rise to the level of a harm. Quoting That principle is that the sole end for which mankind are warranted, individually or collectively, in interfering with the liberty of action of any of their number is self-protection [bold added]. That is, the only purpose for which power can be exercised over any member of a civilised society, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant.” Mill ()
Strictly interpreting the term "self-protection", it would seem that Mill would judge the full internalization of many externalities as a violation of his principle. Reading further, Mill broadens the principle:

*Those principles, I contend, authorize the subjection of individual spontaneity to external control, only in respect to those actions of each, which concern the interests of other people* [bold added]. ... *Acts, of whatever kind, which, without justifiable cause, do harm to others, may be, and in the more important cases absolutely require to be, controlled by the unfavorable sentiments, and, when needful by the active inference of mankind. The liberty of the individual must be thus far limited; he must not make himself a nuisance to other people.*

Mill excludes from his principle, children and, of course, barbarians. You get a better feel for what Mill considered harm through some of his examples. Mill said, "Fornication...must be tolerated." meaning prostitution should be legal (Reeves). Reacting to the argument that society can limit drinking simply because it decreases security and weakens and demoralizes society, Mill angrily responded that if this is harm, then we would all, wrongly, have an interest in everyone’s "moral, intellectual and physical perfection" (Reeves). So, if I get drunk and offend you with my free speech and offensive behavior, Mill would say I am at liberty to do so, but if I then get in my car drunk and run you over, I have crossed the line.

I am tempted, but hesitant, to summarize the above by saying that for Liberace Mill your personal freedom ethically trumps your WB in the sense that more personal freedom and less personal WB trumps less personal freedom and more WB. But ethically it is better to restrict your freedom if it leads you to harm others. But keeping in mind that for Mill many reductions in the WB of others do not rise to the level of harm.

Interestingly, the U.S. Declaration of Independence conveys the right to life and liberty but only the right to pursue happiness, suggesting that the founding fathers thought liberty trumped happiness. Another interpretation is that the founders believed that giving you more liberty would always increase your WB, or, at a minimum, generate more WB than if the Monarch or Church was calling the shots. Research discussed in Part I suggests that the founding fathers had it wrong if they were assuming you, and I, always know what's in our best interests.

Consider the following thought experiment on freedom to choose: You can live in World X or World Y, in World X you choose, subject to your constraints, your highest-ranked path. In World Y, all is the same except the government forces you to consume the path of goods and
services you would have chosen in X: your eats and drinks are the same, and what you would have chosen, but you don’t have the freedom to not eat and drink them. Which world would you choose, and why? It depends on (1) how much you directly value choice,18 and (2) how the amount of freedom-to-choose your experience affects your enjoyment of specific goods and services. Mill, the liberalist, would judge World X better than Y, even if you would prefer being told what to do: Mill asserts that thinking and choosing are inherent of value. Mill does not address (2): the issue of how an ice-cream cone tastes that you are required to eat but would have chosen to eat would compare in taste to one you were not required to eat. Economists typically ignore the possibility that the enjoyment you get from consuming a good is influenced by how you came by it. In addition, economists don’t talk much about choice being valued for its own sake independent of what is chosen, but there is nothing in ACT that precludes either.

Thinking back to the definition of a path (in Chapter 1) and Assumptions 5a *(Experiencing a higher-ranked path is better for the individual, from their perspective, than experiencing a lower-ranked path)*, freedoms (or their lack of) are components of every path, and they could be a critical determinant of how you rank paths. If freedom was paramount to your WB, you could rank paths with more freedoms above those with fewer freedoms, independent of the other components of those paths. Or, more middle of the road, while appreciating freedom you might be willing to trade some of it away for more ice cream cones, or less global warming. But, Liberace Mill would say paths with more freedom for you are ethically better for you, even if you don’t think so. (It is an interesting juxtaposition: freedom to choose is right for you but you are not free to choose ice cream over freedom).

**Do I need some references on value of freedoms? Also see study on how people have preferences over how they get to choose.**

**Neither enjoyment nor suffering nor freedom are primary (deontological/duty ethics)**

Numerous philosophies reject determining the right or wrong of a policy in terms of how it affects individuals, arguing right and wrong is not determined by increases or decreases in the WB of society’s members, or determined by whether it gives them more freedom, but by God, or

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18 This issue is discussed by the economist Frank Hahn (1925-2013) who argued that the exercise of choice might enhance WB.
the supreme leader, or by what is natural, or by what gives the group an evolutionary advantage, or by rights, or by doing one's duty. Start with duty.

**Kantian ethics: the universality principle and more**

Kant's *universality principle*, the bedrock of his moral philosophy, is, simply put, your actions are moral if you would want everyone to behave like you, and immoral if you would not—you would be happy to make your behavior the law.¹⁹ For example, your stealing is moral only if you are fine with a law that would require everyone to steal. You have a **duty** to behave according to the universality principle—Kantian ethics is duty based (deontological).

Kant’s universality principle is similar to but not the Golden Rule (“Do unto others as you would have them do unto you.”). The convicted murder is following the Golden Rule but violating the universality principle when he says to the judge, "Sentence me as you would have me sentence you." because even the murder does not want everyone free to murder.

Kant would want us to agree/contract to live by the universality Principle. In this sense Kantian ethics is a type of **moral contract**: society’s members enter into contracts/agreements, often implicit, and behaviors that violate these contracts are wrong.²⁰

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¹⁹ "Act only according to that maxim whereby you can at the same time will that it should become a universal law" (Kant). This is the first formulation of Kant's *Categorical Imperative*, a commandment/imperative with no exceptions for how to live your life.

²⁰ The modern version of right and wrong based on a Kantian-type moral contract is Scanlon’s book, *What We Owe to Each Other*. The premise is that an action or principle is good if can be justified to reasonable others; it is a rule of behavior we should be able to agree on. See the section “Contract Morality”.

Morey: Choice, Happiness, and Ethics
Kantian ethics rejects the determination of moral from immoral on the basis of consequence. For example, happiness, which is often the result of some action (the consequence of some process) can be moral, but is not universally moral.

Kant considered his universality principle an obligation all rational being have a moral duty to follow. He felt it the foundation, the only foundation, of morality and a principle derived from pure reason and logic, a principle not inferred by observing the world (according to Kant, observation can tell us how people act but not how they should act), and a principle derived without regard to its influence on the world. He was wrong about his universality principle being the result of pure reason and logic. Kant is the guy who said

*Fiat justitia, pereat mundus* (Let justice be done, though the world perish)

For Kant, intention was paramount, and for an action to be unequivocally moral it had to be based on intent to do one's duty—kissing your partner is a moral act only if you and the partner do it out of a sense of duty—how it makes the two of you feel does not make the kiss moral or immoral. [This sounds close to what the religion of my youth taught me about sex. You have a duty to procreate but it being fun does not make it right.]

Not everyone has a duty, only rational, self-regulating, autonomous individuals, so non-human animals are duty-free and unable to act either morally or immorally.

Kantian morality and an ethic based on WB judge on completely different criteria making Kantian morality difficult for economists to get their heads around: whether an action is moral or immoral is not based on its effect on WB, and, in addition, consequences either do not matter, or are secondary. For example, for a Kantian, a policy that increases the WB of some and decreases the WB of no one (a Pareto improvement) is not necessarily a moral improvement. Economists need to be aware that many people believe people have duties and that people should subscribe to fulfilling their duties. There are more living Kantian philosophers than welfare consequentialists. Interestingly, Haidt and others find that in the U.S., duty-based morality is more common amongst conservatives than political liberals.

**Kantian choice theory**

Kanticus is very similar to economicus except kanticus has a super power, the power to not choose his most-preferred feasible path. He has preferences (a complete ranking of paths where a higher ranked path is better for him) and only some paths are feasible. Like economicus,
he gets to choose a path from the feasible set, so both have free will, or do not (see Part II). However, kanticus can voluntarily constrain himself (his super power) from choosing his highest-ranked feasible path, doing so based on moral rules/duties he has self-imposed: if you are a kanticus you can choose to resist your own preferences and desires “…[so] one’s preferences are not a reliable guide to proper decision making” (White). To predict the behavior of kanticus, a choice model needs to account for duties, responsibilities, and the obligations you self-impose. Kanticus is not a slave to his preferences, desires or emotions—he can act contrary to them.

Of course, an economist can dismiss the distinction between economicus and kanticus asserting that self-imposed duties and moral rules are simply a determinant of your ranking of paths. Economists can get away with this because they are vague about what a preference means, so can argue along the following lines, "Linda likes to abuse puppies, but does not because she literally feels it is wrong (generates a bad feeling), so her chosen path includes no puppy abuse”. This is the thing about CT; there seems to be no behaviors inconsistent with it. If I abuse, it is because my highest-ranked, feasible path includes abusing, and if I do not abuse, even if I would enjoy the experience, the same is true. At some point this becomes circular nonsense. An economist might explain that I do not abuse animals because, if I did, I would experience a bad feeling afterward (which more than offsets the good feelings), or I am afraid that if I abuse animals I would end up in jail or, even worse, or I would burn forever in hell (which would really hurt, and for a long time). For most economists, my decision to not abuse cannot simply be because I personally have decided that it is unacceptable behavior, so will myself not to do it (consciously force myself to not do it). The Kantian economist Mark White posits a model choice where you have two separate rankings of paths: one reflecting only your personal inclinations, the other reflecting your personal inclinations given your behavior cannot violate the universality principle—a ranking consistent with doing your moral duty. If your will is strong, you choose using the duty-based ranking. If your will is weak, you choose using the ranking based only on personal inclination. White defines the strength of your will as the probability you behave consistent with your duty-based ranking. Moral is choosing based on your duty-based ranking.

21 However, this implies that we, to a degree, choose our ranking. While Kant would say you are free to choose your morality, I imagine many economists would more likely assume it exogenous (culture, upbringing, etc.)
There are really two Kants: the duty-based, text-book Kant, described to here, and a more human, caring Kant. The above Kant of Wikipedia and college-classroom fame can be quite unappealing ("cares more about rules than about ends," "eschews all feelings," "insists on duty for its own (incomprehensible) sake," "cold fish" (Uleman). He comes across as someone who does not care about people. The best way to describe the more human Kant is to excerpt from Jennifer Uleman's beautifully written, book on Kant's morality.

The interpretation of Kant's moral theory that I [Uleman] offer cuts against the grain of interpretations that emphasize Kant's commitments to formal rules and rationalism... Kant was deeply committed to a kind of formalism, and was deeply committed to rationality. But if these commitments are overemphasized, or emphasized in the wrong ways, we are left with a view that is less engaging and more academic than Kant's...Kant does insist that diverse human aims and ends, to be morally acceptable, must conform to the 'form of universality'—that is, that they may be pursued only if they could be universally endorsed. Described thus, Kantian morality does not endorse any particular aim or end—it just insists that we pursue our aim and ends only if they pass a formal test. Because it does not dictate particular aims or ends, Kantian morality seem to endorse good human lives lived across circumstances and historical time and place: it seem pluralistic and inclusive. Because it insists on universal acceptability, it seems to respect the value of hearing from everyone, or at least of imaginatively trying to: by putting yourself in other people's shoes (would it be OK with everyone): it seem deeply democratic...

In addition, Kant

Demands much more than accord between ends and aim and a certain form; he demands that we embrace, as intrinsically and ultimately good, the free rational human will itself [emphasis added]. Embracing the free rational will as good means organizing our individual and collective lives in ways that actively honor this good. As a consequence, Kantian morality rejects projects the ultimate object of which is to serve God, or to alleviate material suffering; these projects, for Kant, unacceptably subjugate free rational will to other ends...The free will that Kant values is one that is fundamentally legible to others, and committed to a radically shared rationality...emphasizing the aim or end—free rational willing.

So, the primitive for this more humanistic Kant is not the universality principle, it is free rational willing: doing one's duty and following the universality principle is just the collective path to free rational willing, Uleman’s term for Kantian autonomy; in this interpretation, free rational willing is the heart of his morality. Since economists are more comfortable with the word choosing, an economist might change her phrase to free rational choosing: people are rational and in Kant's view should live in a world where they can freely choose their acts, including the ability to not follow their preferences. And, a will is a real thing that resides in every human adult, the thing that chooses an alternative and then causes you to do what it takes to experience that alternative; it is the choosing center—willing is choosing. Your will is free if it gets to choose "on grounds...
that are its own, and not on grounds given to it by something or someone external to it" (Uleman).22

This Kantian morality shares a primitive similar to the primitive in Millsian liberalism (free choice by rational individuals is what should be encouraged) but differs in that Kant believed the way to achieve this was for each individual to rationally choose to subjugate their freedom to their duty to the universality principle because following it is the logical way for everyone to account for the fact that their actions affect others. You might think of it as Kant's universal way to internalize externalities.

Kantian morality, like many moralities, is dependent of man being rational, and having free will, both of which are questionable. For more on Kantian ethics from an economics perspective, see *Kantian Ethics and Economics* by Mark White.

My rights (and your duty to uphold my rights) vii

*Rights Theory* judges on the level of the individual, assuming the individual has certain rights: your action is moral if you had the right to take that action, wrong if you lack the right; or wrong if your action violates the rights of another.

A *right* is a type of entitlement, a prescribed protection (Kramer). For example, a "right to life" means your life is protected from assaults by others.23 If you have a right to life, others have a duty to not take your life. Rights impose duties on others: you have a duty to uphold my right. On-the-street advocates of a particular right tend to emphasize that right, playing down the duty side. Rights are typically thought of as unconditional in that the right-holder has the right under all conditions.

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22Kant relied on dualism to argue that your will can be free (Uleman). Kant viewed the body as a physical thing controlled by the laws of physics and also believed that if what you will is determined by the laws of physics, what you will is not freely willed. In addition, he believed if what you will is constrained by reason, your will is not free. (For example, if constrained by reason you cannot freely will that three plus three equals eight.) These beliefs of Kant argue against the existence of a will that is free. But these arguments against the existence of free will are materialist in perspective. Kant got his will freed by assuming will is not something subject to reason or the laws of physics; it is a spiritual thing—the dual of materialism. An analogy is God's Will which is not subject to anything; otherwise it would not be God's Will.

23 A right, a protection, can be contrasted with a *liberty*, another type of entitlement: a liberty is a prescribed freedom, for example, a freedom to sing in the shower or a freedom to beat the wife. A liberty can be viewed as a freedom to wreak havoc. A liberty is a lack of a duty; as in I am not duty-bound to keep my mouth shut in the shower.

Morey: Choice, Happiness, and Ethics
An action is moral if the agent who takes the action has the right to do it, even if the action makes everyone miserable, and I am behaving morally if I dutifully uphold your rights, even if doing so makes me miserable. Many rights are asserted: human rights, women's rights, right to life, abortion rights, civil rights, the right to remain silent, even property rights—these are rights of individuals. [In contrast, some environmental ethicists assert every species has a right to exist (not go extinct) which is a right conveyed on the species, not on any member of the species.\(^\text{24}\)] Rights often conflict, for example “The Right to life” versus “A Women’s Right to Choose”. A common view amongst rights theorists is that rights are primitive and, supposedly, do not require justification. In this view, a right that exists only because it achieves some goal is not a real right. That said, there is often a compulsion to justify a right. Justifications include: God, the Laws of Nature, the interests of society, and "Just because”.

The most influential early account of rights theory is that of the 17th century British philosopher John Locke; he argued that the laws of nature mandate that we should not harm anyone's life, health, liberty, or possessions. For Locke, these are our natural rights, given to us by God. Following Locke, the United States Declaration of Independence authored by Thomas Jefferson recognizes three foundational rights: life, liberty, and the pursuit of happiness. Jefferson and others rights theorists maintained that we deduce other more specific rights from these, including the rights of property, movement, speech, and religious expression.

Four features are often, but not always, associated with moral rights. First, rights are natural insofar as they are not invented or created by governments. Second, they are universal insofar as they do not vary by country. Third, they are equal in the sense they are the same for all people, irrespective of gender, race, or handicap. Fourth, they are inalienable which means I cannot hand over my rights to another person, such as giving up my right to freedom by selling myself into slavery.

If the right is bestowed by God or the laws-of-nature (a natural right) there is no presumption that exercising a right makes the right-holder better off, or your violating someone

\(^{24}\) Giving a non-human species the right to exist, independent of human welfare, and in an environment suited to their species, has drastic implications for humans. If this right exists, then humans have a duty to preserve the species, an obligation. Humans would be required to fulfill this obligation before they worry about their own WB. Such a duty perspective on animals is alien to economists.

Morey: Choice, Happiness, and Ethics
else's right makes them worse off—rights are simply right and violating a right is simply wrong. Bentham considered natural rights "nonsense on stilts".

Consider property rights—the right to possess and control. Most economists are big fans, but why? Locke considered the right to possess (have possessions) a natural right, bestowed by God. Economists do not claim the right to own property is God-given but argue that property rights are moral because they lead to a good outcome: an efficient market-equilibrium allocation of resources and goods—a right justified by consequence, a WB justification, not a God or law-of-nature justification, so not a real right. Economists are not rights theorists; they think in terms of the efficient amount of things, not absolute rights. For example, there is some efficient amount of free speech, and it might be less, or more, than the current amount.

Your free speech and your right to your property constrain me—I cannot consume what you own, unless you offer. Rights typically increase the choice set of the right holder and decrease the choice sets of everyone else. Economists can model behavior with rights as a type of constraint: for example, choose the highest-ranked path subject that the constraint that all feasible paths include free speech.

Millsian liberalists do not like unconditional rights. The principle of liberalism is the right to choose to live as you please, assuming your choices do not cause too much harm, so it is a conditional right. The right to liberty is problematic because if I have a duty to uphold your right to liberty, I have less liberty.

Complicating morality based on rights, there are two views on the function of rights (what they do for the right holder): will theory and interest theory, and both are problematic:

*The function of a right is to give its holder control over another’s duty...*will theorists [emphasis added] *believe that all rights confer control over others’ duties to act in particular ways...To have a right is to have the ability to determine what others may and may not do, and so to exercise authority over a certain domain of affairs.* (Wenar on Will Theory)

*Interest theorists maintain that the function of a right is to further the right-holder’s interests. An owner has a right, according to interest theory, not because owners have choices, but the ownership makes owners better off.* (Wenar on Interest Theory)

Why is this distinction important? For *will theorists*, a right is only a right if the holder of the right is capable of waiving that right, implying individuals unable to waive their rights (e.g. infants, animals, and comatose adults, have no rights. By this logic, I do not have a right to
freedom because I cannot legally waive my right to it under U.S. law and become your slave, and Australians do not have the right to vote because they are required, by law to vote. Interest theorists do not require that rights be waivable, in part because they want infants, animals and comatose adults to have rights.

In interest theory you are only eligible for a right if you would be made better off by having that right—you can have no right to free speech unless having it will make you better off. Those incapable of being better or worse off cannot have rights. In this scenario, all living individuals who are capable of suffering could have a right to not suffer. But, interest theory does not say that you automatically have a right if having it would affect you; it just does not preclude the possibility. That said, interest theory is often rejected with the argument that it could lead to more animal rights, and animals should not have rights.

The word of God, or supreme leader

Divine command theory posits that God is the decider when it comes to what thoughts and behaviors are moral or immoral (sin). With God as the decider, cursing one's parents is immoral:

*Whoever curses his father or his mother shall be put to death.* Exodus 21:17

To operationalize this moral philosophy requires the ability to figure out God's rules. Is God cool with my becoming a suicide bomber against the heathens? Religion is the foundation of ethics for many millions of people, but easy to criticize. Quoting the Harvard psychologist Steven Pinker, writing for the Sunday New York Times magazine:

*Putting God in charge of morality is one way to solve the problem, of course, but Plato made short work of it 2,400 years ago. Does God have a good reason for designating certain acts as moral and others as immoral? If not—if his dictates are divine whims—why should we take them seriously? Suppose that God commanded us to torture a child. Would that make it all right, or would some other standard give us reasons to resist? And if, on the other hand, God was forced by moral reasons to issue some dictates and not others—if a command to torture a child was never an option—then why not appeal to those reasons directly?*

Most people are not as quick as Pinker to dismiss morality based on God's Will, most people are religious, at least to some extent.

The God I learned about ruled clearly on the morality of numerous activities such as parent-honoring and wife-of-neighbor lusting. I was told that God declared, he never told me this directly, "Sex before marriage, or simply for fun, is immoral." But God provides no guidance for
many others activities—is it better to play baseball or read comic books?—suggesting I could decide, within limits, what was best for me—maximize my own personal enjoyment—as long as no Commandments were violated. That said, I was taught I would do a lot of sinning (be immoral).

For the Christian God, intent and remorse seem more important at the end of the day than actions: if, when my time has come I believe and ask for forgiveness, I am off the heaven no matter how many I lusted after or smited along the way. I am not sure whether this makes God a processist or a consequentialist. I am also not sure whether my childhood God would want us to save the whales, or even if she cares. Religions and gods differ on the value of the environment: the Buddha, for example, would view us and the whales as inseparable parts of the system, making both whales and humans worth preserving. Morality based on the word of God is very different from ethics based on WB: sinning might make you happy and no one unhappy, but, in the eyes of God, it is not moral.

The will of nature

Actions are moral if they follow the natural order—you and your dog having sex is immoral, even if you both enjoy it; it is not natural. Natural law morality assumes all men have a common human nature and it is a moral nature, so acts consistent (inconsistent) with it are moral (immoral). To be moral is to do what is in your nature. To operationalize this ethic requires that human nature (behaviors and characteristics common to all humans) be identified; religious thinkers, philosophers, anthropologists, and primatologists have collectively spent thousands of years on the question of whether there is a human nature and, if so, what it is. If there is such a thing, is it bestowed on us by God our creator, genetics, or things learned that are common to all cultures? For example, the making and use of tools, while observed in some primate groups, is not observed in all of them, so it is not part of primate nature. Tool making, is,

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25 Consider the following story devised by the psychologist Jonathan Haidt (Haidt 2011): "Julie and Mark are brother and sister. They are traveling together in France on summer vacation from college. One night they are staying alone in a cabin near the beach. They decide that it would be interesting and fun if they tried making love. At very least it would be a new experience for each of them. Julie was already taking birth control pills, but Mark uses a condom too, just to be safe. They both enjoy making love, but they decide not to do it again. They keep that night as a special secret, which makes them feel even closer to each other. What do you think about that, was it OK for them to make love?" Most people think not, but most of the reasons conjured up for why it was not ok are assumed away by the story. In the end, many people simply say it is bad but cannot articulate why (Pinker).
however, part of human nature, so a moral activity for humans but not for chimps? Within-species sex is human nature, so moral. Is lying to and killing other humans, human nature?

Rousseau, for example, believed in human nature and thought it a moral nature, making him a proponent of Natural law morality. Others argue that people are inherently immoral: Thomas Hobbs being a prime example. Many assert that genetic engineering is immoral for the same reason that Frankenstein's monster was immoral; they are both unnatural. Some environmentalists believe that saving nature is moral simply because nature is natural. Environmental economists are too quick to dismiss such thinking as illogical; it is not.

This ends the brief discussion of deontological/duty ethics.

**Virtue ethics**

In virtue ethics, moral versus immoral is determined at the level of your character: to be moral is to have a virtuous (moral) character. Your behavior and its consequences are secondary. Duties and rules are secondary. Social contracts are secondary. If throughout your life you maintained a virtuous character, you had a moral life, and that is the goal. Plato and Aristotle were virtue ethicists, so was Aquinas—virtue ethics was the predominant moral philosophy up until the Renaissance. The economist historian Deirdre McCloskey argues that Adam Smith was a virtue ethicist, and there is much in Smith’s *Theory of Moral Sentiments* that suggests this. Economists who have not read it might imagine Smith a welfare consequentialist; he was not.26

In the Nineteenth and early Twentieth Centuries, virtue ethics was eclipsed by Kantian ethics and welfare consequentialism, only to reemerge in philosophy in 1958 with the publication of *Modern Moral Philosophy* by the British philosopher Gertrude Anscombe—virtue ethics had never lost its street appeal. Anscombe’s article rejected, for example, welfare consequentialism because “it commits one to endorsing evil deeds” and concluded that Kantian ethics with its notion of ‘self-legislation’ is just incoherent” (SEP on Anscombe).27 Whether it was her intent to resurrect virtue ethics is debated, but the article had that effect.

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26 Smith suggests two guides for behavior: rules against really bad acts (killing, raping) and virtue for everything else (SEP on Adam Smith’s Moral and Political Philosophy). He thought the morality of an act depended on both the intent and the consequences, but if the intent was virtuous, the behavior is good, unless, of course, the outcome is disastrous. Virtue (“proper gratitude, kindness, courage, patience, and endurance”) results from empathy for others, our sympathy of others—our “moral sentiments”.

27 “Self-legislation” refers to idea that you should not perform an act that you would not have everyone legislated to perform—Kant’s universality condition.
The three pillars of virtue ethics remain the Aristotelian concepts of *arête* (excellence or virtue), *phronesis* (practical or moral wisdom) and *eudaimonia* (true happiness/flourishing/moral happiness)—(SEP on Virtue Ethics). Virtue ethicists do not all agree on what are the primary virtues (secondary virtues are virtues implied by the primary virtues) but include generosity, honesty, compassion and courage. To possess a virtue means that it is part of your core. Taking honesty as an example, always telling the truth is neither necessary nor sufficient to possess this virtue, possessing it simply means you strive to be, for its own sake, an honest and truthful person, not that you blurt out the truth on every occasion.

Practical and moral wisdom is the knowledge and experience you need to do what you intend—for example, you know what it takes to be generous or courageous. Teenagers often lack practical and moral wisdom—they intend to do the right thing, but often muck it up. If you possess the virtues and are experienced enough to have practical and moral wisdom, and lucky enough to have some wealth, you flourish, experience *eudaimonia*. It is easier to say what this does not mean than what it does mean. It does not mean your WB is maximized; in fact a virtuous person would not maximize their personal WB.

Non-humans can be neither moral nor immoral: they are incapable of virtue: it requires the ability to evaluate your actions, so your dog cannot be a bad dog, but you can be in the dog house for lacking virtue.

Welfare consequentialists, including welfare economists, could, and do, complain that virtue ethics produces no objective criteria or rules or judging behaviors and policies (e.g. many welfare consequentialists want to maximize aggregate WB and want to find mechanisms to achieve this). A virtue ethicist thinks the pursuit of an objective criteria, such as maximizing aggregate WB, is folly.

Looking back to Buddhist ethics, Damien Keown, Professor of Buddhist Ethics at the University of London, proposed that Buddhism is a type of virtue ethics, arguing that the intent of following the Buddhist path was to make you a virtuous person, one of its end goals. The debate in Buddhism is whether it is an end goal or simply an effective way to reduce suffering and increase WB.

28See the discussion of *eudaimonia* in Chapter 4.
Evolutionary morality theory

Morality could be based on evolutionary biology: genes for being good: see for example Richard Dawkins (1976) and Steven Pinker (2008). We get along and most of us do not do welfare-decreasing things to each other because gene containers that get along are more likely to pass their genes onto the next generation. It seems that empathy (the ability to put yourself in another’s shoes) and reciprocal altruism (I do something to help you even though it temporally weakens me because I expect you to return the favor) are in our genes. Empathy contributes to our caring for others, particularly the weaker, and reciprocal altruism contributes to our sense of fairness and justice. (In a related vein, the economist and game theorist Ken Binmore in his book *Natural Justice* argues that the ethics a society practices are the result of cultural, rather than biological, evolution, the solutions to repeated games.)

Contract morality (contractualism)

Members of society, using some agreed upon process, enter into contracts/agreements with one another; some of these are explicit (it is against the law to kill) but many are implicit. Behavior that violates a contract is wrong/immoral. Both Rawls and Kant can be viewed as contractualists: Rawls more a political than moral contractualist; Kant a bit of both. Kant and Thomas Scanlon, the modern voice of contractualism, both argue that the contract is motivated by everyone’s mutual respect, and it is rational to respect others. Quoting from Scanlon’s influential 1998 book *What We Owe to Each Other*:

*An act is wrong if its performance...would be disallowed by any set of principles [rules]...of behavior that no one could reasonably reject...*

That is, no reasonable person could argue that the rule is not justified. Morality for Scanlon is about our contractual relationships (explicit and implicit) between rational individual. In his review of Scanlon’s book, the philosopher Thomas Nagel, describes the idea behind Scanlon’s contractual rule.

The idea is that if our aim is to be able to justify our conduct to others, we will want it to conform to principles that none of them could reasonably reject, because then everyone who shares our interest in justification would in effect be prepared to license what we do insofar as it accords with those principles. If we deliberately do something that is in this sense wrong, we are in effect saying we don’t care about its admissibility to reasonable others.

Contractualism differs from welfare consequentialism and welfare economics. It is only concerned with how we behavior to others, while welfare consequentialism is concerned with
both that and how we behave to ourselves. WB does not play the leading role. The objective is not to maximize aggregate WB, and all types of WB are not necessarily commensurable.

In contrast to contractualism, Thomas Hobbs believed that you are predominately motivated by self-interest but would commit to a social contract that would limit what you could do only because it would limit the bads things other people could do to you, such as shooting you or shunning you. The economic Nobel laureate James Buchanan (1919-2013) thought the same; that is, entering into a social contract that outlines good behavior is motivated by self-interest rather than respect. This camp, to distinguish it from the mutual-respect camp, is referred to as contractarianists. The moral contractarian philosopher David Gauthier assumes you want to maximize only your personal WB but that this is often achieved by behaving in ways that taken on their own would make you worse off in the shortrun. For example, you do not break your promises or bully even though it would increase your current WB; behaving morally is the practical things to do because it will influence how others will deal with you in the future, when you want something from them.

**Moral philosophies based on group rights, things having rights, and inherent value**

Most moral philosophies convey moral standing to individuals only; in which case, a group of individuals only has moral standing because each of its members has moral standing. E.g. many welfare consequentialists want to maximize the aggregate WB of the individuals in the group. Contrast that assumption with assuming that the group has moral standing or value, but the individual members of the group do not. Imagine the group holds rights or that the objective is to maximize the WB of the group but the welfare of the group is not some aggregate of the WB of its individual members. The group is effectively an individual entity with rights.

For example, you might posit that a non-human species has the right to not go extinct or more broadly the right to prosper in its natural state. E.g., elephants have the right to exist and to live undisturbed in their natural habitat. Such a group right conveys no rights nor moral standing to specific elephants—in fact the prospering of the species in its natural environment might require the suffering of all it members: wild animal are in a continuous struggle to live. This group right conveys a duty on our part towards elephants, making us wrong if we do not provide
them with sufficient natural habitat and immoral if we turn their tusks into jewelry. (Of course there is the question of what sufficient natural-habitat means.)

Or you might posit that future humans have a right exist with sufficient resources, so current humans then have a duty to make this happen. Given such a right, we have a duty to provide for them even if no future individual has rights. Or, you might posit that an ethnic, cultural, or religious group has the right to exist without giving moral standing to any of its specific members.

If it is the group, rather than the individuals in the group, that has moral standing, it is difficult, at least for an economist, to talk about the WB of the group, but it is possible. One, for example, might consider the WB or integrity of a family that has a right to exist and prosper independent of the WB of its members, but economists typically do not think like this.

There is the question of which groups get to have group rights. At a minimum the group has to have a persistent identity. For example, a crowd is a group of people but a crowd does not typically have a persistent identity. In contrast, Canadians, fetuses, and Kurds are groups with persistent identities. There are lots of groups with persistent identities.

Equally alien to economists, value for some is determined at the level of an ecological system (e.g. the Everglades or a redwood forest) or natural formation (e.g. the Grand Canyon) "It is good to preserve and maintain the Everglades and immoral to destroy or diminish it.” In this view you behaved immorally if you turned part of it into a golf course. The Wisconsin forester Aldo Leopold wrote in 1949 in his now famous *A Sand Country Almanac*

*A thing is right when it tends to preserve the integrity, stability and beauty of the biotic community. It is wrong when it tends otherwise.*

He did not explain why the biotic community has a right to be beautiful. With this perspective, the suffering or pleasure of an individual animal or plant has no relevance. Leopold’s reason is neither an animal-rights justification nor a justification based on preserving the Everglades for humans. This designation of value is most often expressed in environmental ethics, applied to entities that that are, in some sense, natural, but it could be applied to a built entity such as the Sistine Chapel, the German language, or Venice (“Venice has value and should be preserved because it is unique and a remarkable creation”). A justification given for attributing value to a natural or environmental resource is that, unlike a truck, they did not come into existence to

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make humans better off (Brennan 1984). Another justification was put forward by the philosopher Richard Routley/Sylvan. He asked a hypothetical question of the following sort. If you’re the last person on earth would it be ok, for fun and before you died, to push a button that destroyed the Grand Canyon, the Sistine Chapel and all other cool stuff. He thought most of us would conclude it was wrong to push the button, even though there would be no humans around to experience these wonders.

The common denominator here is inherent value: a thing or group has value in and of itself, independent of how any living individual (human or otherwise, including that thing) experiences the world: it is value that no individual experiences, experience-less value. Economists understand experiential value (value that is experienced) but they do not understand or believe in inherent value — for them it makes little sense. Consider a tree. Assuming the tree is incapable of experiencing, an economist would say the tree only has value if its existence has the capability to influence the experiences of those individuals who have social standing. For example, I have social standing and the tree makes for an enjoyable view from my house, or it can be used to build an addition to my house, or can be used to sequester carbon dioxide making the earth more pleasant for society’s members.

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29 Qualifying a bit: all economists believe that humans have inherent value, but believe most others things don’t.

I was tempted to use the word “intrinsic” rather than “inherent” but will stick with “inherent” because while inherent value is a type of intrinsic value in the philosophical sense of the term, it isn’t the only possible type of intrinsic value. “Intrinsic” in philosophy typically means axiomatic; as in the hedonistic assumption that the only measure of moral is pleasure and the only measure of immoral is pain, which implies, for example, that ice cream can’t be intrinsically moral or immoral because ice cream is neither pain nor pleasure, but it could be extrinsically moral if its consumption produces pleasure, the only intrinsic moral good. Acts and things only have extrinsic value if they produce intrinsic value. Not everyone agrees on what are the intrinsic values. The inherent value of an object or system is a type of intrinsic value because it existence is axiomatically defined as morally right. The philosopher G.E. Moore (1873-1958) suggested that when determining whether something (a thing or a feeling) was intrinsically valuable, you consider whether it would be valuable if it were the only thing in existence. If you answer yes, you think, according to Moore, that thing has intrinsic value (SEP on Intrinsic vs. Extrinsic Value). That is, if you would say that pleasure (or a species) is valuable even if it is the only thing that exists, then you believe pleasure (or that species) has intrinsic value. Not everyone buys Moore’s test. What is and has intrinsic value is the core of ethics.
Or, the tree has value because *Heckle and Jeckle*, both card-carrying members of society, nest in it. If those with social standing permanently leave the planet, the economic view would be that the tree no longer has value. But, the tree still can have inherent value. If inherent value exists, it is independent of whether people believe in it; it is not determined by us.  

Making the distinction clearer: if society's members get value, for example, from simply knowing that an ecosystem exists and is thriving, this is economic value, not inherent value. Why? Because one or more individuals experience the value. Above I assumed the tree is incapable of experiences, but a polar bear can experience pleasure and pain. If a particular polar bear is a member of society their experience of pleasure is an economic value, not an inherent value. In contrast, the inherent value of a bear is not something the bear or anyone can experience.

Note the distinction between a species' inherent value and its right to exist. Either can be used to motivate the preservation of polar bears, but they are not the same reason: a "right" is simply the "right thing to do"; it does not imply that doing the right thing needs to have value. If a group has inherent value, this could be used to argue for the group’s right to exist (not go extinct). But a thing or a group could have a right to exist even if it has no inherent value. For example, one might posit that if would be wrong to destroy a distant star simply because it is part of the physical universe.

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30 God has been invoked to motivate inherent value, as in "Polar bears have inherent value because God values the creatures he created." But this is faulty reasoning. If God is an individual who experiences something because his creatures are prospering, then his experience has economic value, assuming that God has moral standing.
When I teach environmental economics to environmental-studies majors, many of them express the belief that the environment and planet have inherent value. And they reject the idea that the management of environmental resources should be based only on the values experienced by individuals. Even though I have sometimes accuse them of being crazy, their belief is logical if one starts with the axiom that there is inherent value.

All this said about moral philosophies:

In the Eighteenth century, Hume, the greatest British philosopher, pointed that there are reasons supporting different moral philosophies, but there is no one correct moral philosophy based on "Reason". As Mill said,

*What proof is it possible to give that pleasure is good?* (1867)

The bottom line is there is no logical reason to choose one moral philosophy over another. It all comes down to how moral and immoral are axiomatically defined.

For example, there can be no logical arguments against axioms such as "We should improve the environment because improving the environment is the right thing to do." or one that says giving individuals with moral standing more freedom to flourish is good, or that the only metric of good is "doing one's duty". Axioms cannot be judged on the basis of logic. [Axioms can be judged on whether they contradict fact, but axioms that define the essence of a moral philosophy are typically not of that sort. A moral philosophy based on a set of axioms can be judged wrong if those axioms are self-contradictory. E.g. if one axiom is more freedom is the only measure of better and another is more happiness is the only measure of better.]

Facts can have a big effect on how to implement a moral philosophy. For example, and as noted earlier, a WB consequentialist would advocate freedom for Robinson Crusoe if they believe he will always choose his most-preferred feasible path, but advocate interference in his life if they believe Robinson will make drastic errors of choice.

You can be an economist modeling choice with, or without, being a WB consequentialist. You can also speculate on the role of choice theory assuming a different ethic, as in Mark White’s book.

Now that I have briefly reviewed some of the other moral philosophies, Chapter 15, the next to last, returns to welfare economic, getting specific about its limitations as a moral
philosophy. Chapter 15 ends with a brief discussion of economic ethics that are not welfare economics.

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Economic fairness is, unfortunately, in the eye of the beholder.

Everyone cares about fairness, not just economists, but assessments of what is fair vary widely. For economists, better (an increase in social WB) is some combination of more efficient and more fair, and welfare economists typically punt on what is, and is not, fair: claiming no expertise or standing. Most other people decide on a daily basis what is and is not fair, but often disagree with one another. Here, the question is what are more or less fair distributions of WB? For example, many people would find it unfair for the combined wealth of the 8 wealthiest men equals the wealth of the bottom 50%. In my principles of economics course I tell my students that there is no objective criteria to judge whether one distribution of WB is more or less fair than another—it is simply a matter of what you choose to believe. I have read, heard, and said this so many times, I give it no thought. But this economic view that fairness is subjective is, in itself, a subjective assumption that many, including many moral philosophers, would reject. The problem with fairness being individually determined, and with no requirement that everyone’s assessments be based on facts, is that if a policy changes the distribution of WB, economists have no method for determining whether the change is moral or immoral. Welfare economists are willing to evaluate a policy assuming a specific metric for fairness, but unwilling to choose the metric. If welfare economists deemed themselves capable of defining a fairness metric, and chose one (e.g. the assumption that the objective is to maximize aggregate WB, or some other metric), welfare economics would be more policy relevant. Looking to later in the Chapter, John Rawls, Amartya Sen, and Partha Dasgupta have pushed economics ethics towards more relevance by getting specific about what is, and is not fair, in part by expanding the notion of WB to include freedoms, safety, and education, and then asserting fairness requires certain components of WB be available to all.

In the minds of many people, what they deem fair depends on their beliefs on why people do what they do, how much of behavior is chosen. For example, if you believe the poor could

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1 An economist might note that economics is a science and specifying a criterion for fairness is unscientific. It is true that parts of economics follow the scientific method, but economic ethics is not one of those parts.
have been rich and prosperous but chose, instead, leisure, while the rich are rich because they chose hard work, then you likely view as unfair policies that take from the rich and give to the poor. Alternatively, if you believe whether you are rich or poor is mostly a matter of dumb luck (who bore you, where you were born, and what happened to you when you were a baby), you might think it only fair to take from the rich and give to the poor. How much we control our actions and destiny are questions that economics, psychology, and neuroscience are designed to answer. The findings to date suggest not as much control as we would like to think.

**Even if I act in my own best interests, my actions will often not increase efficiency nor social WB**

Consider the ax murderer, pedophile, or smoker, or worse the pedophilic ax-murderer who smokes. That my selfish actions may affect your WB complicates moral philosophy, particularly moral philosophies that judge good from bad based on some aggregation of WB across individuals. My performing beastly acts might increase my WB, but they probably won’t increase aggregate or social WB.

Actions we do that directly affect others are called *external effects*, and external effects often increase the actor’s WB but decrease social WB. Common examples could include second-hand cigarette smoke (and other types of pollution), the influence on others of your clothes, and whether you floss.\(^2\) The CO\(_2\) emissions that produce global warming are a global external effect. Without regulation smokers will smoke too many cigarettes if the intent is to maximize aggregate WB, and all of us will emit too much CO\(_2\). The problem occurs when you personally do not have to incur the full social costs of your actions, so perform it too often from society’s perspective. For example, when you commute to work you don’t take account of how much your presence on the road is slowing down everyone else—same for the other drivers. Economists typically like to correct these inefficiency problems by adjusting your costs so they equal society’s costs, done, for example, with a tax or regulation (e.g. a carbon tax, road toll, and a cigarette tax).

For external effects, economists typically use examples where the effect is a physical impact (e.g. the negative effects of pollution on health, or another firm's costs of production), but

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\(^2\) Note that the existence of an external effect, such as pollution, does not, in itself, imply there is inefficiency or that social WB is not maximized. It could be the right amount of pollution.
external effects include everything that directly affects third parties, including external effects caused by people taking offense to the behaviors of others simply because they find certain behaviors objectionable. An example should suffice: Assume that I do not like displays of affection by straight white people, so my WB declines whenever I witness such displays. I don’t even need to see it; just knowing it is happening makes me miserable. Imagine there are a lot of people with my views about straight whites, and we tend to be rich while straight whites tend to be poor. In which case, reducing public displays of affection (hand holding, kissing, etc.) by straight white-people, could well be efficiency increasing, and might even increase social WB depending on how different distribution of WB are judged. Efficiency might even require that they have their own neighborhoods and schools. In addition, I, and many others, become livid when ignorant people practice free speech. If so, efficiency might require less free speech. Many people get upset by many things many people do (having inappropriate kinds of sex, having too much fun, being fat, criticizing their beliefs (religious, political and other), and practicing other kinds of disgusting behaviors).

You might believe that negative external affects that result from what, in your opinion, is an objectionable preference on the part of the impacted should not be allowed, but most welfare economists don't go there (Harsanyi being an exception). What does and does not increase social WB depends on peoples' preferences, but economists, unlike normal people, show no inclination to draw a line between appropriate and inappropriate preferences. That said, economists are willing to consider aggregate WB after their client tells them to exclude pedophiles and terrorists from the roles of society.

An external effect that economists do not much discuss, but should, is relative wealth effects: “I feel bad because your new car is nicer than my car.” And, "There is nothing worse than making less money than your brother-in-law." A relative effect occurs when your welfare depends not just on what you consume but also on how much your friends and neighbors are consuming. Evidence presented in Chapter 4 indicates substantial relative-wealth effects. As noted earlier, many years ago Robert Frank successfully demonstrated that when there are relative wealth effects increasing aggregate income won’t necessarily increase aggregate WB.

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3 Of course, economists would argue on efficiency grounds that without regulations or laws there will be, for example, too much child molestation. But, their argument is the same efficiency argument I could use to keep straight whites out of my neighborhood.

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(your being better off because your car is now nicer than mine is offset by my being bummed because my car is now crummier than yours). If all we care about are relative effects, giving us each the same new car will make none of us better off. Chapter 5 also discussed other relative-position effects (faster runner, more attractive spouse, more sex than your peers). That relative position affects WB makes aggregate WB more difficult to assess.

In Chapter 2, I defined Pareto improvements and Pareto deteriorations. While utilitarianirs and welfare economists agree that Pareto improvements are right, and Pareto deteriorations are wrong, that doesn't mean much. If the group is large, there are almost no actions that will not hurt someone. Knowing that Pareto Improvements are right is of little practical value has lead welfare economists to talk about Potential Pareto Improvements ((actions where the gains to the gainers, in dollars, is greater than the loss to the losers, and the losers are not compensated for their losses). A Potential Pareto improvement is simply an action whose benefits are greater than its costs (it passes the Benefit-Cost test). An action is, by definition, efficiency increasing if it is a Pareto improvement or Potential Pareto improvement—this is the economic definition of efficiency increasing. A society is operating inefficiently when it is possible to change things so as to make some members better off without making any members worse off. Once overall efficiency is achieved there is no longer a potential to make society more efficient—then if one member is made better off, another must be made worse off. One might want to include actions that are Potential Pareto improvements as right policies, but recollect from Chapter 2 that efficiency increasing does not imply that social WB is increasing, nor does a decrease in efficiency imply a decrease in social WB. For example, the amount rich people would pay to stop an action might be greater than what poor people would pay to implement it (meaning it is not a Potential Pareto improvement), but welfare economists recognize that it might increase social WB. And an action that is a Potential Pareto improvement (so efficiency increasing) might decrease social WB if it benefits only certain rich guys (Donald-types and rich dictators) while making poor children worse off.

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4 They are called Potential Pareto improvements because if the gainers compensated the losers for their loss of WB, the result would be a Pareto Improvement. So, these outcomes have the potential, unrealized, to be a Pareto improvement.
Two facts further muddle Pareto criteria for judging actions. (1) One can typically make any action a Pareto Improvement, or a Potential Pareto improvement by adding or subtracting individuals from the roles of society. I often play this game with my students. If the action is not a Pareto Improvement and you want to make it one, simply ban from society those individuals who are made worse off by the action.\(^5\) If the action is a Pareto Improvement and you don't want it to be Pareto Improvement, find some individuals who are made worse off by the action and enter them into society's roles—as simple as that. Economists say that efficiency is a positive concept, which it is, but it only becomes an operational concept after the determination of who is, and who is not, a member of society. And that determination is normative. Of course most of us believe our society should not include French people or other foreigners, simply because they do not belong to our tribe. The Israelis exclude the Palestinians and the Palestinians exclude the Israelis. Another critical question is whether future animals (humans and other creatures) should belong. For example, if future individuals do not count, why sweat global warming?

And (2): whether an action is a Potential Pareto Improvement (efficiency increasing) depends on how society’s wealth is distributed. For most actions there are gainers and losers, and an action is more likely to be efficiency increasing the more the wealth of society is held by those who gain from that action, and the less the wealth is held by the losers. That is, how wealth is distributed affects whether an action is efficiency increasing: an action is more likely to be efficiency increasing if it helps rich people and hurts poor people than if it hurts rich people and helps poor people.

**But didn't I learn in my economics courses that an unregulated, competitive market system is the right system because when it is in equilibrium the allocation of resources and distribution of goods and services will be efficient?**

Hopefully you did not learn this; as Lionel Robbins (1898-1984) pointed out in 1938:

\[\text{It was not possible to say that the economic science showed that free trade was justifiable.}^6\]

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\(^5\) For example, if you assume banning Muslim from entering the U.S. makes them worse off but makes Christian Americans better off, banning will be a Pareto Improvement if Muslims are first deemed foreign and without moral standing.

\(^6\) Putting this quote in context, Robbins was reacting to Mr. Harrod's conclusion that if we cannot make interpersonal utility comparisons, economics has little to say. "But I confess that at first I found the implications very hard to swallow. For it meant, as Mr. Harrod has rightly insisted, that economics as a science could say nothing
What you should have learned is that the outcome will be efficient in an unregulated, competitive market-equilibrium if certain conditions are fulfilled, and two of these conditions are the actions of economic agents do not directly increase or decrease the WB of others, and people do not make WB-reducing choices. This first condition is not fulfilled (e.g., many are negatively affected by the second-hand smoke from my cigarette consumption and some are positively affected by the second-hand smoke from my marijuana consumption—both are legal in Colorado). It is the case that efficiency can be increased by the government either taxing or subsidizing my smoking, but there is no guarantee that doing so would increase aggregate WB, or social WB, and besides it would then be a regulated market.

And, people make WB-reducing choices.

And, even if the competitive market equilibrium outcome were efficient, there might be another outcome, either inefficient or efficient, that generates more social WB because fairness is an issue. Market systems did not evolve to achieve fairness. In market economies those who start with a big pile of resources do well and like the system, while those who start with a small pile often hold the opposite opinion.  

But! But!—doesn’t a voluntary trade between two individuals always increase social WB?

Supposedly, no one enters into a voluntary transaction that will make them worse off. If true, the trade increases the WB of both parties to the trade. But, even so, voluntary trades do not always increase aggregate or social WB. A voluntary trade will increase social WB if at least one of the individuals is a member of society, neither individual makes a mistake, and if there are no by way of prescription. It could say whether a certain course of action could lead to a desired end. It could judge the consistency of different policies. But, in itself, it passed no verdict of good or bad. It was not possible to say that economic science showed that free trade was justifiable..."

7 Of course mistakes and luck sometimes cause those who start with little to become rich and those who started with a lot to become poor. You might counter my conjecture that the market does not redistribute wealth by arguing that in a market system with enough hard work you will get ahead. Fair enough, but I would counter that a propensity to work hard is a resource that you either got, or didn't, in the parental/genetic draw. I got lucky by being born with intelligence and then by being adopted by parents who were not financially rich, but who were willing to spend all that they had on their children’s’ educations. In addition, my anxiety genes have caused me to work hard to keep the wolf at bay.

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direct effects on the WB of others. If these conditions are violated the trade might decrease social WB.

Some examples: first a choice-error example: If I overestimate the long-term pain of nicotine withdrawal (miswant), the transaction of buying cigarettes might make me worse off even though I voluntarily entered into it. Another example: even if your selling me cigarettes increases your and my WB, when the negative effects of my second-smoking are taken into account this trade might decrease social WB. Or, society simply thinks that my preference for antique kiddy porn is wrong; so you secretly selling it to me does not increase social WB even though it increases your WB, my WB, and decrease the WB of no other living person. My voluntarily agreeing to have sex with your dog while you happily watch is not necessarily a moral act, even if the dog likes it, but it is a Pareto Improvement.

Welfare economics in a nutshell$^{ii}$

Our ability, as economists, to distinguish right from wrong comes down to the following: if we can agree on who is, and who is not, a member of society, actions that increase the WB of some members of society and decrease the WB of no members are right and actions that decrease the WB of some members and increase the WB of no members are wrong. This is not saying much.

Economists really have little to say about how the welfare of individuals should be aggregated to social welfare, making the economists' ethics toolbox, in practical terms, mostly empty. Efficiency increasing is good except when it's not, and increasing fairness is good except when the cost is too high in terms of the size of the pie. The ethics of economics is vacuous on the practical level.

Welfare economics is severely limited by the CT assumption that we each only rank paths (an ordinal ranking), so cardinal preferences (the concept that Path F can be way better than Path D) while not excluded are not needed to explain our behaviors. And even if our preferences are cardinal, most welfare economists assumes your happiness is not comparable to mine (see Chapter 1 and 2). The idea that we cannot compare the WB increase to some with the WB loss to others, goes back, at least, to Jevons, who referring to interpersonal comparisons of utility, stated in 1871 that
I see no means whereby such comparisons can be accomplished. Every mind is inscrutable to every other mind and no common denominator of feeling is possible. (Jevons as quoted by Robbins 1938)

Quoting the Oxford moral philosopher and economist, John Broome (1998):

This idea [the refusal to make interpersonal comparisons] gave rise to a style of welfare economics that still lingers. In the United States, indeed, it still predominates. Virtually everything that happens in an economy is good for some people and bad for others. The dogma says economics cannot compare the benefit to some with the loss to others. So it cannot judge whether a change is good or bad on balance. Economics, then, is unable to judge the merits of virtually any economic event.

In spite of all this, many, myself included, have spent hundreds, thousands, of hours estimating dollar measures of utility changes so we could add them up and present them in a journal, or to a policy maker, or to a lawyer suing a PRP, "potentially responsible party"; such behavior suggests our estimates can be used to determine whether a policy will make society better off. These estimates can be used to estimate whether an action will increase or decrease efficiency, but not whether it would increase aggregate or social WB.

A way out of this dead end is to make the goal maximizing efficiency rather than maximizing aggregate or social (see Posner in Chapter 2). But welfare economists reject this: they view efficiency as a secondary goal in the pursuit of more WB. That said, a lot of economists run around saying "more efficient is good" (better than less efficient). Quoting Broome (1998) again:

They [welfare economists] have slipped from identifying efficient states, which can be done without interpersonal comparisons, to claiming that efficient states are better than others, which generally cannot. Robbins was right about this...

Welfare economics concentrates on identifying efficiency because, unable to adopt a fairness metric and insisting that WB cannot be compared across individuals, it had nothing else to do. From that it has slipped into pursuing efficiency regardless of other goals. As note earlier, one way towards making welfare economics more prescriptive would be for it to assume the objective is to maximize aggregate WB where every individual’s WB counts equally.

Interpersonal comparisons are making a comeback: Rawls, Sen, and Dasgupta

The dearth of welfare economics has led a number of economic philosophers to search for additional criteria one might use to make economic ethics more useful. These works are studied more by non-economists than by economists. They propose and defend specifics on what is fair, embrace interpersonal comparisons, or proceed assuming right is what is contractually acceptable to society’s members. Here I limit the discussion to Rawls, Sen, and Dasgupta, three
of the main economic ethicists of the last fifty years, interestingly none of which are utilitarians or welfare economists as I have defined those terms.  

The moral philosophy of John Rawls is based on both process and consequence; the great Harvard political economist envisioned a group of reasonable people choosing how society should be organized (the form or government, the laws, and how economic activity is organized) before knowing their positions in society (wealth, intelligence, parents, abilities, etc.)—choice behind a veil of ignorance. Rawls argues this is a good process because it causes good consequences—the process eliminates self-interest bias on the part of the deciders, making Rawls a Process Consequentialist. The Rawlsian process would result in a good social contract so society adhering to it would be morally good and society deviating from it would be bad.

Rawls defined fair, something that most economists are not willing to do, arguing that the organization of society’s institutions and the distribution of its wealth must have a certain level of fairness if it is to be accepted by its citizens. He restricted himself to societies with sufficient resources to meet everyone’s basic needs. Social cooperation in the use of these resources leads to a larger pie of goods and services but to get this social cooperation the citizens need to know in advance that goods and services cooperatively produced will be fairly distributed. Rawls defines unfair as it is not fair for me to get more simply because I was born rich or with more than average talents. So, Rawls argues the output should be equally distributed unless distributing it unequally would be better for everyone, including the least well off. Rawls expressed this in this in two principles, the first takes precedence over the second.

The first principle affirms for all citizens familiar basic rights and liberties: liberty of conscience and freedom of association, freedom of speech and liberty of the person, the rights to vote, to hold public office, to be treated in accordance with the rule of law, and so on. The principle ascribes these rights and liberties to all citizens equally. Unequal rights would not benefit those who would get a lesser share of rights, so justice requires equal rights for all in all normal circumstances...

Rawls’s second principle of justice has two parts. The first part, fair equality of opportunity, requires that citizens with the same talents and willingness to use them have the same educational and economic opportunities regardless of whether they were born rich or poor.

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8 Yew-Kwang Ng is a welfare economist who endorses interpersonal comparisons.
9 Social contract theory goes back to Thomas Hobbes’ 1651 book *Leviathan*. Rawls’ ethic concerns what is a moral society and system, not whether an individual’s behavior is moral or immoral, making Rawls more a social justice/political philosopher than a moral philosopher.
10 If a system is accepted as fair by all of its citizens then behaviors that violate the rules of that system are wrong.
The second part of the second principle is the difference principle, which regulates the distribution of wealth and income (Wenar). 11

Society can only fairly choose an unequal distribution of income if everyone makes more under the unequal distribution. And, if society can choose between a number of unequal distributions (all preferred by everyone to an equal distribution), the fair choice is the distribution that provides the highest income for those at the bottom. “The [second] principle does not allow the rich to get richer at the expense of the poor.” (Wenar). Right economic policies are those consistent (inconsistent) with the two principles.

Rawls argued that if reasonable citizens choose behind this veil of ignorance, and were deciding whether to have a society based on his two principles or a society motivated by utilitarian principles, they would choose the former.12 (Rawls thought utilitarian principles were his main competition.) Rawl’s principle of morality is based on an agreed upon social contract, not on maximizing aggregate WB or preferences, as does Benthamite and preference utilitarianism.

Sen argues that the 19th and 20th century purge of ethics from economics was misguided, and, to be useful, economics must judge the gains of some against the losses of others. He argues that economics can and should propose criteria for interpersonal judgements. Sen, like Partha Dasgupta (1942-) has a particular interest in the WB of the poor in poor countries, and both propose a quality-of-life approach for identifying betterment. Sen equates betterment with what you do and achieve (are capable of and choose to do) and your unrealized capabilities (what you could do but choose not to do).13 Having more capabilities is good—you have more freedom/options.

Feeling happy is something you do that is of value but this feeling is not all of WB. Other aspects of WB are achieving or having the capacity to achieve a long life, enough to eat, knowing there will be enough to eat, and literacy. These, for Sen, are components of WB

11 Quoting Rawls directly, “First Principle: Each person has the same indefeasible claim to a fully adequate scheme of equal basic liberties, which scheme is compatible with the same scheme of liberties for all.” “Second Principle: Social and economic inequalities are to satisfy two conditions: a. They are to be attached to offices and positions open to all under conditions of fair equality of opportunity; b. They are to be to the greatest benefit of the least-advantaged members of society (the difference principle).” (Rawls 2001: 42-43)
12 His argument restrictively assumes that the citizens do not care about relative income and that citizens are risk neutral. Chapter 4 discussed data that shows people do care about their relative position.
13 This view of well-being goes back to Adam Smith and Karl Marx (Sen 1988)
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(intrinsic goods) even if they do not increase your emotional WB or life-satisfaction WB. And, what we have defined as emotional WB does not contribute to WB if it is inauthentic such as living in dire circumstances but happy because you were born with happy brain chemistry. Having happy brain chemistry is better than having depressed brain chemistry, but is does not imply more WB as Sen defines WB. And if you are in dire straits, happiness that results because the worse did not happen, when you expected it would, is not increased WB. For Sen, many of the components of WB are objective rather than subjective, so can be easily measured, or, at least, are easier to measure than emotional or life-satisfaction WB. Sen is also clear that fulfilling desires does not necessarily increase WB. He puts forth two reasons: we don’t always like what we desire, and the downtrodden of the world have such limited desires that fulfilling them will not increase their WB. Sen admits WB-reducing choices, rejecting the notion that choosing Path D over Path B necessarily means Path D is better for you. Sen’s conclusions are in step with recent developments in neuroscience on wanting versus liking discussed in Chapter X. Sen is neither a Benthamite nor a preference utilitarian.

Recently, Sen (2009), following in the step of John Rawls (Sen was a student of Rawls), proposed his own philosophy of social justice (The Idea of Justice). While Rawls laid out his conception of a just society—perfectly just (what Sen refers to as transcendental justice), Sen find that tack impractical for actual judgements in the real world and instead views justice as a continuum (“comparative justice”). The goal is not to make the world just, only less unjust. Sen equates justice with fairness, and while indicating there are different notions of fairness, he wants to judge fair from the perspective of the impartial, global observer who takes account of all the different points of view. In practical terms, the implications of Sen's approach is obvious when it comes to what most of us would consider to be a gross injustice (e.g. slavery and starvation), but how to use his theory to decide which of two states of injustice, but not extreme injustice, is more just is unclear. But that in a way is the point; there is often not a clear answer; he is outlining a process for deciding, not an answer.

For Dasgupta (Human Well-Being and the Natural Environment), a better society is a wealthier society, wealth broadly defined to include not just man-made capital, but also the natural-resource stock, the quality of the environment, education levels, knowledge, freedoms, and society's institutions. An action is right if it adds wealth because greater wealth leads to
greater aggregate human WB, an aggregate of the WBs of every citizen. For Dasgupta, social WB depends on both average WB and the how WB is distributed, and the poor have a larger claim to additions to the pie.

Dasgupta equates WB with a “well-lived life” (to achieve an admirable character, a successful family, warm friendships, a meaningful job, and a life free of coercion). (As Aristotle pointed out, without some wealth you can’t have a well-lived life.). Components of WB include human rights and that humans being should not be treated differently based on their “names, castes, or political or religious or ethnic affiliations”. Dasgupta, unlike a pure rights-theorist, feels that these rights need to be justified in terms of human flourishing, so are not absolute rights.

A problem is how to measure and weigh these different components of wealth, and doing this starts with identifying the properties of an acceptable index, the problem his book addresses. Dasgupta assumes that social WB is some aggregate of individual welfares and an individual's WB depends on both his material WB and his "ability to exercise various kinds of freedoms". Democracy, civil liberties and sustainability enhance welfare. Intergenerational WB is important, but threatened because we are using our natural resources too quickly.

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i Sources:

ii Sources:

iii Sources:
2. John Rawls (2001) Justice as Fairness: A Restatement, Erin Kelly (ed.), Cambridge, MA: Harvard University Press. Quoting from the publisher, “This book originated as lectures for a course on political philosophy that Rawls taught regularly at Harvard in the 1980s. In time the lectures became a restatement of his theory of justice as fairness, … As Rawls writes in the preface, the restatement presents ‘in one place an account of justice as fairness as I now see it, drawing on all [my previous] works.’”

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14 Dasgupta was an early arguer that income measures of wealth ignore our dependence on natural resources. He is an eminent natural-resource economist. He notes that he ignores animal welfare.


Epilogue: Do you make choices and, if so, has your choosing made you happy?

You have gotten to the end, suggesting you either have sympathy for the research and literature discussed, or you are one of us who can’t not finish a book. Either way—bravo and thanks.

I wonder why you and I do what we do, and what is accomplished in terms of self-betterment. A strong distinction is made between behavior and choice (chosen behaviors). I emphasize this distinction because the default is to assume that much of what we do, we first chose to do. Economists, for example, call their model of behavior Choice Theory, CT, not behavior theory. And, everyone desperately wants to believe that if they have an experience of choosing, it was that conscious, cognitive experience that determined why they did what they then did—we did it because we chose to do it. I propose one definition of a choice. The whole philosophical debate about free will comes down to two things: how to define a choice, and, given that definition, whether humans, and other animals, are capable of choice.

My objective has been to get you interested in the psychology, neuroscience, and philosophy of behavior and choice, and their implications, all against the backdrop of how economists think about behavior, provoking you to think about the premises of CT and where they came from, to question the theory’s ability to predict your behavior, and the behaviors of others (humans and other animals). And to cause you to contemplate the practical relevance of welfare economics, the predominant ethic of economics.

One aspect of CT has great predictive power—you can’t do what you can’t afford. In my Principles of Microeconomics course we discuss the budget constraint—you can’t consume a path of goods that costs more than you have to spend. This simple assumption generates the big prediction of CT: when price goes up demand goes down. In explanation, if a price increases, or your income falls, you can no longer afford the consumption path you were consuming so need to cut back. Unfortunately, economists do not explicitly consider other equally important

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1My conjecture is economicus, the imagined individual in CT, was born of the religious belief that man was created in the image of God, so rational and non-erring: the creators of CT were mostly devout Christians living in late 19th Century and early 20th Century England. Economicus could not be the product of evolution.

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constraints, constraints imposed by age, health, culture, skills, and obligations to friends and family. I suspect this happens because these constraints are fuzzy and difficult to mathematically model, so, rather than tackling the difficult job of modeling them, they get lumped into a hodgepodge called preferences. CT then assumes this ranking of paths is given and fixed, which in my view makes it your ultimate constraint. But when I say that, some of my colleagues look at me funny. Modern preferences are a hodgepodge of taste and constraint.

When I behave differently from you and the difference can’t be explained by the different constraints the two of us face, the difference is simply attributed to different preferences, but as George Stigler and Gary Becker noted in 1977, “No significant behavior has been illuminated by assumptions of differences in tastes.”—something that can explain everything explains nothing. The full range of constraints needs to be explicitly modeled, and to the extent tastes do differ, it is important to ask why and try to model why.

As I was taught, CT assumes that you will choose your most-preferred path subject to your constraints, or, said another way, maximize your utility subject to your constraints, but, as eluded to above, what “more preferred” means and includes is hard to say; it is not much discussed. One conjecture is that if path T is preferred to path D you associate more WB with T (more emotional WB or life-satisfaction WB). I discussed emotional WB (happiness) in depth, how our conception of it has changed over the ages, and discussed what makes you happy and unhappy, and for how long. Simply put, a big raise will make you happier, but not for long, unless the raise increases your income relative to your peers, and the gap persists. I discussed, in detail, the diverse literature on the relationship between income, consumption, emotional WB, and life-satisfaction WB—it’s complicated but generally speaking more money does not increase emotional WB in the longrun, unless you start critically poor.

It is difficult to separate CT and economic ethics from each other, because CT assumes you know what is best for you, and do, subject to your constraints, what is best for you. This, combined with the welfare-economic assumption that right/moral actions are actions that increase the WB of individuals (better them), implies that you should be free to pursue your own interests, as long as doing so does not hurt others. In contrast, welfare consequentialist who believes that humans often get it wrong, might advocate strong or weak paternalism (nudging).

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While most of us believe the effect on WB should be a factor in determining right from wrong, most of us are not welfare consequentialists who believe it should be the only factor.

Unbeknownst to many economists, many moral philosophers are not even welfarists—a surprise to many economists. Many modern moral philosophers adhere to a duty-based ethic, or a process ethic. The book includes a primer on moral philosophies. Many economists conflate welfare consequentialism and liberalism (more freedom is better) but more freedom being better than less only follows from welfare consequentialism if one assume we all behave in our own best interests, and doing so does not hurt others. Liberalism, in contrast, argues that freedom is good even if it allows you to make yourself worse off.

A century or so ago CT abandoned cardinal utility, and abandoned comparing utility across individuals. Because of this, welfare economics provides little guidance for those trying to parse right from wrong behaviors and policies. For example, welfare economics preaches that more efficient is better than less efficient, but as I tell my economics students, “Efficiency is like good sex; more is better except when it’s not.” Economic philosophers such as Amartya Sen and Partha Dasgupta argue that if economic ethics is to be more prescriptive it will need to embrace more criteria for judging than each individual’s perception of their own ordinal WB. Alternatively, economics could get out the business of claiming to be able to judge behaviors and policies, admitting that modern welfare economics has little ability to parse good and bad.

Research in psychology and behavioral economics (if you believe the research) indicates you don’t always behave in your best interests: people make mistakes—WB-reducing choices. The good news is these errors are often systematic, so predictable and avoidable. For example, when something significant happens, pleasure or misery results, but this emotional deviation typically wanes over time. Unfortunately we often don’t anticipate the feeling will wane, assuming incorrectly that the current feeling, be it happy or miserable, will maintain. For example, the new freshman (my kid) drops out of college after a week or two because she is anxious and incorrectly believes the anxiety will never abate. Or you buy a new car because you imagine the pleasure of having a new car will last, forgetting that it will soon be your old used car. Systematic mis-assessment of an action’s benefits and costs leads to WB-reducing choices. Being aware that you suffer from duration bias makes you less likely to err, but does not
guarantee it. You might want your friends, family, or government, to nudge you away from such mistakes. Duration bias should be taught in elementary school.

Most people, including most economists, believe that which alternative you experience is determined by your conscious experience of choosing that alternative. But this belief is not required to explain behavior. Basic CT is consistent with everything you do being determined by your subconscious, and the conscious experience of choosing only being window dressing. Basic CT only says you experience your highest-ranked feasible path. One could, of course, add the assumption that it was always the conscious choosing that got you there, but the evidence does not support this.

Substantial research in neuroscience and psychology indicates the conscious experience of choosing is something your conscious brain does to make your feel responsible for and accepting of what you then do (buy the new car, divorce the old guy, and go skiing). If the hypothesis is correct, or partially correct—my intellectual position—your conscious choosing has limited, influence on your behavior—and you are not consciously in charge of much—that said, you might be subconsciously in charge. But why would we experience conscious choosing if it is only window dressing. Maybe it is a critical component of our sense of self, maybe it makes you believe that other people are responsible for what they do, and so should be treated accordingly—execute the killer, reward the humanitarian.

Even though I intellectually believe my constant bouts of experiencing choosing have little influence on what I do, I stumble through life imagining/fantasizing that I do make conscious choices—I am drinking wine rather than beer because I chose wine. That is, I believe that which I think is false, having what some philosophers call involuntary fictionalism, specifically involuntary choice-fictionalism. I also believe I make few WB-reducing choices, even though the research suggests everyone makes a lot of errors that they do not recognize as errors—research I think is correct.

Sources are:

2 “Nudge” as in you are nudged towards the alternative that is in your best interests. The behavioral economist, Richard Thaler, and the Harvard law scholar, Cass Sunstein, have a well-known book on the topic, Nudge.

3 The philosopher William Irwin, a co-sufferer, calls it free-will fictionalism.
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