

“the taste approach” GOVERNANCE BEYOND LIBERTARIAN paternalism

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Résumé

Le bien-être peut être promu de deux façons: en premier lieu, en changeant la quantité, la qualité et l'allocation des paniers de consommation (l'approche par les ressources) et en second lieu en influençant la façon selon laquelle les personnes profitent de leurs biens (l'approche par les goûts). La première approche est un ingrédient classique de l'analyse économique, alors que la seconde n'est pas encore conventionnellement intégrée dans l'analyse économique. L'article s'interroge sur le pourquoi de cette asymétrie en identifiant les gains de l'approche par les goûts. Si l'approche par les goûts est mise en œuvre avec succès, elle pourrait permettre aux individus d'augmenter leur bien-être mais aussi donner des solutions à certains enjeux actuels comme le développement soutenable ou la justice mondiale.

L'auteur argumente que des développements récents comme l'économie du bonheur (Happiness Economics, HE) et le paternalisme libertarien (Libertarian Paternalism, LP) peuvent tous deux être considérés comme des cas particuliers de l'approche par les ressources. Un troisième cas est également identifié: la formation de préférences peu coûteuses (Inexpensive

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Preference Formation, IPF). *Alors que le LP suggère qu'une « architecture » des choix devrait être mise en œuvre lorsque la rationalité échoue, IPF avance que la gouvernance dans certaines situations pourrait également améliorer les choix, même en l'absence d'échec de la rationalité.*

Mots clés : *goûts coûteux, paternalisme libertarien, économie du bonheur et du bien-être, développement durable, bien-être, formation des préférences*

Abstract

Well-being can be promoted in two ways. Firstly, by affecting the quantity, quality and allocation of bundles of consumption (the Resource Approach), and secondly, by influencing how people benefit from their goods (the Taste Approach). Whereas the former is considered an ingredient of economic analysis, the latter has conventionally not been included in that field. By identifying the gain the Taste Approach might yield, the article questions whether this asymmetry is justified. If successfully exercised, the Taste Approach might not only enable people to raise their well-being, but also provide solutions to a number of issues such as sustainable development and global justice.

The author argues that recently developed accounts such as *Happiness Economics* (HE) and *Libertarian Paternalism* (LP) both can be considered specifications of the Taste Approach. Furthermore a third specification is identified: *Inexpensive Preference Formation* (IPF). Whereas LP suggests that choice architecture should be exercised when rationality fails, IPF holds that governance in certain instances should improve choices also in absence of no such failure.

Keywords: Expensive tastes, Libertarian Paternalism, Happiness and Welfare Economics, sustainable development, well-being, preference formation

JEL Classification: B40, D63, I30

INTRODUCTION

Some people are more efficient than others in how they benefit from their bundles of goods. In philosophy this fact has been particularly addressed in the “Equality of What debate” over the last decades. There, these differences have been defined in terms of the expensiveness of tastes: “A person’s tastes are expensive in the required sense if and only if [...] they are such that it costs

more to provide that person than it costs to provide others with given levels of satisfaction or fulfillment”¹ [Cohen 2004].

Due to different understandings of the ideal of justice, egalitarians have disagreed about whether expensive tastes should be considered a handicap for which people should be economically compensated. Instead of pursuing this discussion, I will examine the attractiveness of another strategy for tackling expensive tastes: lowering them.

The motivation for raising this discussion stems from the following train of thought: Human well-being matters, and its enhancement should be one of the aims of policy making. Well-being can be promoted in two ways: Firstly, by affecting the amount, quality and allocation of the resources from which people benefit (“The Resource Approach”); and secondly, by exercising influence on the way in which people benefit from the resources that they dispose (“The Taste Approach”). The Resource Approach is conventionally considered a necessary ingredient of good governance, and is a central component in both Macro and Micro Economics. The Taste Approach, on the other hand, has for long not been integrated in these fields, and has consequently played a marginal role in areas of governance dominated by economists. Instead, preferences have been mainly considered exogenous and beyond governmental control and not as entities influenced by institutional design.

Insofar as taste formation could be controlled by policies, policy makers would gain an extra means to reach ends. However, utilization of this means would violate two standard assumptions of Welfare Economics: firstly, the empirical assumption of stable preferences; and secondly, the normative assumptions of consumer sovereignty: the economic agent should be considered the best judge of his own well-being. Thus, the question of whether utilization of this means is sensible requires both empirical investigation and normative discussion. Whereas relevant empirical research in Behavioral Economics and related fields like

1. As emphasized by Cohen [2004] the “technical” definition of “expensive taste” violates the ordinary meaning of the phrase.

neuroscience and evolutionary psychology has escalated rapidly the last decades, the normative discussion has not sufficiently taken place in mainstream Political Philosophy. This neglect can be exemplified by the expensive taste debate in luck egalitarian literature [Cohen 1989, 2004; Dworkin 2000]. It is striking that over thirty years it has been debated whether society is obliged to provide more to those with expensive tastes than to others, without discussing the alternative strategy of handling expensive tastes: cultivating less expensive ones.

Here, I investigate whether the asymmetry between the Taste and the Resource Approach is justified. If not, then to what extent and under which circumstances should promotion of well-being by the Taste Approach be considered a constituent of good governance? Approaching these questions, I will not only examine normative premises of the Taste Approach, but also discuss methodological positions associated by various specifications of this approach. Firstly, however, I will in section 1.1 present necessary terminology and clarify basic intuitions behind and attractive features of the Taste Approach. In Section 2, I examine two recently developed accounts which I consider as specifications of the Taste Approach: *Happiness Economics* and *Libertarian Paternalism* (LP). In Section 3, I construct and discuss a third specification of the Taste Approach, *Inexpensive Preference Formation*, which extends beyond LP.

1. THE BASIC IDEA

Presenting the Taste Approach, I use the terminology of tastes and their costs². Flipping, and slightly paraphrasing, Cohen's aforementioned definition of expensive tastes, we get that a person has low taste costs if and only if he needs less income than others

2. The "Equality of What" literature tends to discuss tastes in terms of their price. I, however, distinguish between high cost- and low cost tastes. For a discussion on terminology, see Otterholt [2005].

in order to reach some level of well-being³. The relationship (r) between Well-being (W), Costs of Tastes (C) and Income (I) can then be expressed by the following equations:

$$(r): W = I/C \text{ From (r) follows that: } (r^*): C = I/W$$

By increasing W by means of the Resource Approach, the state affects I. By increasing W by means of the Taste Approach, the state reduces C.

1.1. *Four attractive features*

Given that the global pool of resources is finite, the Taste Approach has several appealing features. Firstly, whereas the pool of resources of planet earth is not endless, it is not evident that potential level of W of its population has a corresponding upper limit. The Taste Approach is thus attractive insofar as well-being is good and worth pursuing, *ceteris paribus*. Secondly, the Taste Approach has the virtue that it could be compatible with enhancement of W in ways which does not need to violate the principle of sustainable development. By raising W by reducing C, W could be promoted without increasing the consumption of non-renewable resources and emissions of greenhouse gases. Thirdly, Taste Approach policies could be helpful in facilitating the abolishment of global poverty. In theory, W could be increased in non-affluent countries without a decrease in W in affluent countries, firstly by reducing C in non-affluent countries or alternatively/additionally by reducing C in both affluent countries and subsequently transfer resources to the non-affluent. The same principle could apply nationally, locally and intergenerationally.

Fourthly, the Taste Approach offers a framework which considers quality, quantity and allocation of human and material resources as variables that are functions of people's propensity,

3. Other factors than income (such as the presence of common goods) that the Resource Approach could be concerned with might also affect W. Presently, presenting the Taste and not the Resource Approach, I here for sake of simplicity refer to all these factors as income. This simplification does not mean that what is neglected is not considered as important.

firstly; to choose productive and well-being enhancing activities instead of unproductive and harmful ones, and secondly; their ability to enjoy these activities. The former factor, which determine the opportunity costs of people's tastes, I denote C_0 and the latter factor I denote C_E . The assumed relations between Taste Approach policies and its potential direct and indirect targets; C_0 , C_E , I , C_R (determined by a person's conversion rate between I and W) and finally, W , are identified below in *Figure 1*.

As it would be sensible to assess the impact of the Taste Approach suggested by this figure on aggregated level, C should not only be defined individually, but also collectively. Thus, C is low in a *collective sense* if and only if society needs less income than others in order to reach some level of W on aggregated level. A potentially efficient way of reducing C in its collective sense, would be to design Taste Approach policies that promote formation of positive externality producing preferences and restrict formation of negative externality producing preferences⁴.

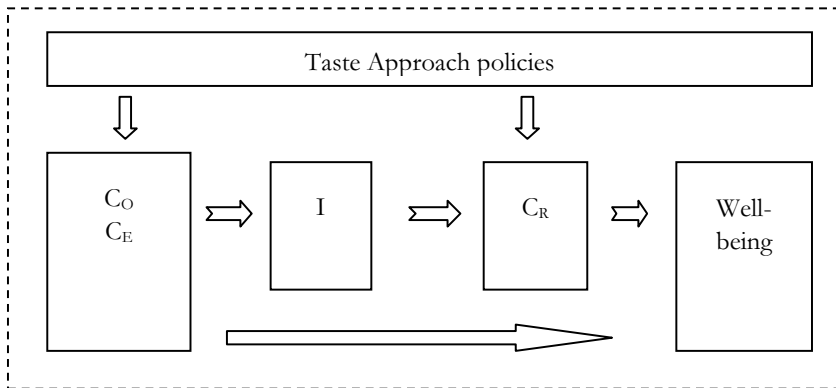


Figure 1

In sum, by considering the various specifications of C just identified as targets for policies, the Taste Approach has the virtue

4. An interesting group of examples would be problems related to collective action. By change people's pay-off structure through preference manipulation the Taste Approach avoid problems collective action challenges such as the Dilemma and the Tragedy of the Commons from emerging [Olson 1971].

that a number of social problems appearing irresolvable given people’s current nature and constitution seem to be avoidable.

1.2. *Normative framework*

Despite, the attractive features of the Taste Approach, it is an open question, firstly whether reduction of *C* is practically feasible, and secondly, whether it is normatively appealing. In the present context, practical hindrances apply on two levels: those who would use the Taste Approach and those affected by it. The latter level includes genetic and social factors restricting the extent to which *C* can be institutionally influenced⁵. Feasibility concerns on the former level includes the question of whether governance can be organized in ways which ensure that governors can be trusted with power the Taste Approach would assign to them.

In this article, I pursue these aspects only briefly. Instead, I primarily examine the normative appeal of the Taste Approach, and some methodological positions with which these premises are associated. The former matter hinges on five questions:

- (1) Which values are being promoted when the state reduces *C*?
- (2) How should these values be understood?
- (3) Which values are violated when the state reduces *C*?
- (4) How should these values be understood?
- (5) What is the relationship between the values identified in (1), (2), (3) and (4)?

Presently, I focus on (1) and (2), but also the remaining three will be illuminated. Below, I make some preliminary notes on all five. As far as (1) and (2) are concerned, it follows from (τ) that *W* increases when *C* falls. In principle, the Taste Approach could be consistent with any conception of *W*: mental state-, desire fulfillment-, substantive good- and capability theories [Griffin 1986]⁶. Here, I focus on the two first ones⁷.

5. In principle, the Taste Approach could involve both social and genetic engineering.

6. Here, the literature uses different names for nearly identical theories. For a presently relevant discussion see Otterholt [2005, p. 20-28].

According to mental state theories, W is determined by the quality of a person's mental state. These theories were long discredited by Nozick's thought experiment, the "Experience machine" [1974, p. 42] which suggests we do not (only) care about our experiences, but also about control and authenticity. Note, that the example only suggests that experiences is not the *only* that is important to us. The appearance of one black swan doesn't prove that there are no white ones.

According to desire theories, W consists in desire fulfillment⁸. Although desires are mental states, desire theories judge W not according to mental states, but according to the state of the world [Griffin 1986, p. 6] Thus, they escape Nozick's challenge [*ibid.*]. By discarding people's consciousness as a determinant of well-being, desire theories encounter other problems. For instance, it may seem implausible that the fulfillment of a desire makes a person better off if she is unaware of it [*ibid.*].

Let me now turn to make some preliminary notes concerning (3), (4) and (5). Assume that utilitarians were right that the overarching principle for governance is to maximize utility. Then, (3) and (4), would have no relevance, and (5) will be answered merely by reference to (1) and (2). Then, the question of whether the Resource or the Taste Approach should be exercised would simply be matter of efficiency.

Insisting that W matters, the Taste Approach takes the utilitarian perspective as point of departure. However, I do not assume that the classic utilitarian perspective on C necessarily provides the whole picture. Instead, (3) and (4) are taken into account. An important question then, is whether potential candidates of (3), such as rights and autonomy should be considered as side constraints or whether they could be traded off against gain in W [Nozick 1974, p. 31]. I return to this question in 3.2.

7. *Ibid.* [p. 24-27] shows how the Taste Approach also could be combined with substantive good theories.

8. As Rozati notices, it is common practice that the terms preferences and desires are used interchangeably in the literature on well-being [2006, p. 33]. I will here follow that practice and consider the value of preference satisfaction and desire fulfillment as identical.

2. HAPPINESS ECONOMICS AND LIBERTARIAN PATERNALISM

During the preceding decade, several accounts challenged the assumption that preferences should be taken as given variables. Below, I show that two of them, Libertarian Paternalism (LP) and Happiness Economics (HE), both can be considered specifications of the Taste Approach and examine their pros and cons with particular emphasis on their conceptions of W and their methodological merits.

2.1. *Happiness Economics and Taste Formation*

In 1974 Easterlin provided data suggesting that happiness at the national level does not increase with income, once basic needs are fulfilled (1974). Several later studies have supported this “paradox of affluence” [Oswald 1997; Frey and Stutzer 2002]. Others have questioned it [Hellevik 2008; Stevenson and Wolfers 2008]. A common denominator for all these studies, however, is that national happiness does not hinge solely on income. In mainstream Macro and Micro Economics this insight has mainly served as background knowledge, exercising marginal influence on the methodological framework of standard approaches.

Recently, however, happiness studies have been the object of considerable attention. This trend escalated particularly after the publication of Layard [2005]⁹. Layard asserts that Public Economics is on the right track when “(p)olicy instruments are set so as to maximize the sum of (cardinal) utilities” [2006, p. 31], but by referring to research from other social sciences that indicate that current economic and community policies affect happiness negatively through their effects firstly on social mobility and secondly on norms, he argues that by not accounting for these mechanisms conventional approaches fail to promote happiness [2006, p. 30-33].

Attacking the assumption that tastes should be considered as given, Layard asserts the assumption of taste-stability is false in two senses: “First, social factors can affect our ordinal preferences

9. Related contributions include Lane [2000], and Diener *et alii* [2009].

– our indifference curves. But secondly, they may also affect the cardinal happiness we get from a given consumption bundle” [2006, p. 30]. Therefore, Layard argues that policy makers must account for taste formation and his approach can thus be considered a specification of the Taste Approach [2006, p. 30]¹⁰.

Layard’s reference to indifference curves indicates that preference based approaches can be employed by HE. However, insisting on the importance of happiness, preference satisfaction would for Layard’s HE not be an account of well-being itself, but instead a proxy to well-being. As examples of addiction and compulsive action suggest, satisfaction of people’s (unconsidered) preferences can be a poor guide to happiness. However, if policy makers possess information about satisfaction of which preferences would promote the most happiness, they can attempt to design policies that ensure that people will develop happiness promoting preferences. Thus, HE would consider the costs of preferences as low if their satisfaction leads to high W conceived as happiness.

However, Layard’s points that when people’s indifference curves are optimal as far as happiness is concerned, people nevertheless vary in their cardinal utility from consumption (C_R) and production (C_E). These differences cannot be captured by a purely preference based approach, and we therefore have to turn to an experienced utility measure which could indicate these happiness variations.

As shown by Sugden and Kahneman [2005], there are many ways to evaluate policies according to experienced utility. Different approaches such as question forms and brain scans have their strengths and weaknesses in terms of cost and accuracy, and scholars disagree whether they are sufficiently robust to guide policy making. A second concern with relying on experienced utility measures solely, is that the Taste Approach then would require a major methodological shift by those who practice economics today. Implementing this change might be time consuming.

10. For instance, Layard argues that “To fight the constant escalation of wants, we should prohibit commercial advertising to children, as in Sweden” [Layard 2005, p. 234].

Since many of the areas where the Taste Approach could enlighten governance (global warming, health, financial regulation etc.) seem to require new solutions urgently, this is unfortunate. A final source of concern with HE is that by its insistence on returning to Benthamite reasoning it seems to be premised on a pure mental state theory of W [Layard 2003c, p. 16-20; 2005, p. 4-5]. As shown in section 1.2, the problem with relying on Benthamite utility maximization as far as the Taste Approach is concerned is that it in principle does not provide safeguards against violation of other desiderata, and thus this specification is potentially very politically controversial.

For these three reasons, I now turn to examine two preference based specifications of the Taste Approach: LP and IPF. However, despite here not pursuing HE any further, I do not mean that this approach is necessarily unsuitable for policy making. Firstly, insofar as desire fulfillment and promotion of positive mental states both can have intrinsic value (and W effectively is a pluralistic value), HE and preference based approaches can co-exist. Furthermore, the two approaches could be instrumentally valuable to one another. As explained above, desire fulfillment can be instrumental to happiness. Secondly, having balanced mental states might be a condition for desire fulfillment having normative force¹¹.

2.2. *Libertarian Paternalism and Taste Formation*

In Nudge [2008], Thaler and Sunstein argue that policy makers should use insights from Psychology and Behavioral Economics in order to improve people’s decisions affecting issues such as health,

11. Discussing the conditions for paternalistic interventions, Mill writes: “[...] when there is [...] only a danger of mischief, no one but the person himself can judge of the sufficiency of the motive which may prompt him to incur the risk unless he is [...] delirious, or in some state of excitement or absorption incompatible with using the full sense of the reflecting faculty, he ought, I conceive, to be only warned of the danger.” [Mill 1959, p. 95]. An upshot of this view is that disrespecting a person’s unconsidered desires might be legitimate when certain mental states disable a person from assessing risk soundly. By influencing people’s mental states the Taste Approach could prevent these situations from emerging.

wealth and happiness. Referring to research demonstrating the impact of mechanisms as framing, anchoring and status quo biases on choices, T&S argue that preferences are context dependent entities that should not (always) be considered as exogenous variables [2008, p. 23-37]. In this manner, T&S turn away the focus from the impact of I on W to addressing the potential gain in W which improvement of choice mechanisms determining C could yield. Thus, this approach can be considered as specification of the Taste Approach.

T&S admit their proposed policy making guidelines would be in some sense paternalistic, but argue that this form of paternalism, LP, neither involves punishment, physical use of force nor economic sanctions, and that this ensures that implementation of LP would not restrict the freedom of the decision makers [2008, p. 5]: instead of giving people who are about to act irrationally a “snap” (for instance by taxation or imprisonment) LP suggests that people should be *nudged* in directions which would make their lives better: “A nudge, as we will use the term, is any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding options or significantly changing economic incentives” [2008, p. 6].

T&S promise that LP is “liberty preserving” and paternalistic only in the sense that “it tries to influence choices in a way that will make choosers better off, *as judged by themselves*” [2008, p. 32, 5]. This promise, which I call the Liberty Promise, seems to render LP more politically uncontroversial than HE – at least amongst anti-paternalists.

However, it is dubious whether the Liberty Promise sits well with LP’s refute of what I call the Best Interest Claim, *i.e.* “that people always (usually?) make choices that are in their best interest” [2004, p. 175]. T&S criticizes anti-paternalists in Economics for being based on this claim, which is, T&S hold, a misconception that “is either tautological, and therefore uninteresting, or testable. We claim that it is testable and false – indeed obviously false.” [2004, p. 175].

Assuming that W should be determined by post-choice measures, it would be correct that the Best Interest Claim, is

testable – at least in principle. An example of a post-choice measure is experienced utility expressing hedonic experiences resulting “from acts of choice” [Kahneman and Sugden 2005, p. 167]. If this sort of conception of W were compatible with the Best Interest Claim, people would always have to display perfect affective forecasting. That assumption of perfect affective forecasting is indeed testable and not self-evidently true¹².

However, experienced utility being a subgroup of mental state theories of W , it is questionable whether this and other post-choice measures are compatible with LP’s Liberty Promise. For instance, we can assume that the policy makers believes that taking some drug would make Rob permanently happier. If Rob refutes taking the drug, the policy makers guided only by experienced utility measures, might might in their attempt to elevate W force Rob to take the drug¹³. Therefore, insofar as LP wants to commit to LP’s Liberty Promise, policy makers can not use experienced utility measures solely.

Let us therefore consider whether the Best Interest Claim could be tested by decision utility measures such as desire fulfillment theories. Below I present two ways in which this test could be undertaken and discuss whether the W criteria that the test is based on would violate the Liberty Promise. (In the section 3 I discuss a third criterion.)

Firstly, the Best Interest Claim could be tested by asking Rob prior to his decision has been made whether the quality of his choice conditions will enable him to make future decisions in his best interest. Rob might then respond that regardless of his best

12. Recall footnote 10 on Mill’s point that balanced mental states are crucial for good decision making. Consult also footnote 13 on “cooling-off periods” for arguments suggesting that a person’s mental state in the first place might limit his ability to make decisions that will optimize his mental state in the second place. This point is currently echoed by those who require “cooling off policies” due to the restricting effect of excitement on rationality [Thaler and Sunstein 2008, p. 250-251].

13. Admittedly, the unwillingly happiness induced Rob might approve of the inducement after the inducement has been carried out, viz at $(t+1)$. However, insofar as Rob disapproved of the inducement at $(t-1)$, it is dubious whether his endorsement at $(t+1)$ would be sufficient to render the inducement compatible with LP’s Liberty Promise.

effort, he would probably make better future decisions if he were about to face better choice conditions¹⁴. By taking Rob's own view seriously in this way and thus presumably improving this future decisions as understood by himself subjectively, this criterion for relating to the Best Interest Claim would not have to violate the Liberty Promise if the criterion served as a guideline for policy making.

Secondly, the Best Interest Claim can be tested without testing the state of Rob at $(t + 1)$ by examining whether the Rob at time (t) violates any basic rationality decision making principles. T&S distinguish between two systems of thinking – the Automatic System and the Reflective System [2008, p. 19]. Whereas the Reflective System is controlled, deductive and self-aware, the Automatic System is uncontrolled, associative, and unconscious. When Sunstein and Thaler suggest there should be exercised “choice architecture”, it mostly concerns cases where the Automatic System otherwise would have led people to make decisions they would not have approved of, if they had been in the Reflective mode.

It is not evident that policies nudging Rob at $(t + 1)$ in order to improve his rationality (t) would be compatible with LP's Liberty Promise. It could be argued that a libertarian conception of liberty would require that policy makers should not influence his decisions at all. By discarding Rob's decisions made by the Automatic system at (t) and making him act as he would have wanted being in his Reflective Mode at $(t - 1)$, it seems that Rob at (t) is not considered autonomous¹⁵. However, provided that a consent condition is satisfied, it is not evident that nudging Rob at (t) would violate (a libertarian understanding of) the Liberty Promise. Provided that the policy maker knows that Rob at $(t - 1)$ prefers acting rationally

14. Footnote between 10, 11 and 12 give examples of favorable and non-favorable choice conditions due to (in this sense) unfortunate mental states.

15. Thus, LP's distinction between the two systems of thinking echoes Berlin's distinction between higher and lower self which according to Berlin is important for those who endorse a positive conception of liberty [1969].

as a result of a nudge at (t) to acting irrationally and not being nudged, the Liberty Promise would arguably not be violated¹⁶.

The challenges for LP then, is firstly to efficiently identify the cases where this condition empirically holds and secondly to determine whether it is any cases ethically permissible for the policy makers to ignore this consent restriction. If it is permissible, then the view that a nudge and rationality is being preferred to irrationality and no nudge, could legitimately be used as an assumption in areas of governance where this condition usually holds, and thus function as measure of testing the Best Interest Claim.

3. BEYOND LIBERTARIAN PATERNALISM

Here, I examine a third specification of the Taste Approach: Inexpensive Preference Formation (IPF). Being a preference based theory, this specification can be considered a guideline for governance that extends and transcends LP.

3.1. *Inexpensive Preference Formation*

A third decision utility based criterion for testing the Best Interest Claim not addressed in 2.2 is based on the following premise: it is an upshot of desire fulfillment theories that W can be increased by developing “different basic desires that are easier to satisfy” [Arneson 2006, p. 12]. Based on this premise the Best

16. The merits of the Automatic system as a generator of good decisions should not be underestimated. Firstly, as the Automatic system is unconscious and automatic, it could be that its employment requires less energy than the Reflective System. Secondly, by making decisions by the Automatic System and not only by the Reflective System, Rob diversifies risk – insofar as deductive inferences made by the Reflective System are vulnerable of being systematically wrong in the case the premises from which conclusions are deduced are false. Thirdly, the Automatic system being associative, it is a source of inductively acquired information, firstly based on previous positive and negative experiences of Rob, and secondly, through evolutionary history of his ancestors. Note, however, that this does have to mean that this system as a generator of decisions is not improvable by LP’s nudges or other specifications of the Taste Approach. Rob fearing water due to inductively acquired associations from traumatic childhood experiences when he could not swim, should perhaps be reduced when he later has learned to swim.

Interest Claim can be tested by examining whether people make decisions based on desires that are as easy to satisfy as they possibly could have been.

The following example shows the logic behind this reasoning. Let us consider Dave's preferences for two goods: silver (S) and gold (G). Assume that (S) is less expensive than (G), and that Dave has a limited budget for these goods. Suppose that Dave at time (t) considers G as desirable and is neutral about S. By (t+1) his preferences have changed and he is now neutral about G and desires S. I indicating his income and P_G and P_S indicating the prices of G and S respectively, his demand functions (d_1) and (d_2) at (t) and (t+1) would then be as follows [Varian 1999, p. 81]:

$$(d_1): G = I/P_G$$

$$(d_2): S = I/P_S$$

Since $P_G > P_S$, Dave gets more of his desired consumption bundles at (t+1) than at (t), His indifference curves (indicated by the horizontal and vertical lines) and budget constraints (indicated by the diagonal lines) at (t) and (t+1) are indicated by Figure 2 and 3. Premised on basic decision theory principles, Dave's optimal choices in both instances have boundary optimums indicated by G^* and S^* in figure 1 and 2 respectively [Varian 1999, p. 76]. As S^* is further away from *origin* than G^* , the new preferences makes Dave better off at (t+1) than (t)¹⁷.

The increase in W has been caused not by a change of his budget line, but of his indifference curves. Thus, a standard for comparison of sets of preferences accounting for other factors than completeness, transitivity and reflexivity is identified. W increasing without I having increased, it follows from (r^*) that C effectively is lower at t_2 than at t_1 . The higher the potential gain in W is by adjusting preferences, the higher is C. Governance reducing C as here specified, increases W. Thus, a third specification of

17. Being premised on basic principles of decision theory this conclusion requires that Dave at both (t) and (t+1) has the capacity to choose optimally given his preferences and income and the prices for the two goods. In the case Dave at these moments does not possess these capacities, rationality enhancing nudges of LP can accompany what I below call IPF.

the Taste Approach is identified: The doctrine of Inexpensive Preference Formation (IPF).

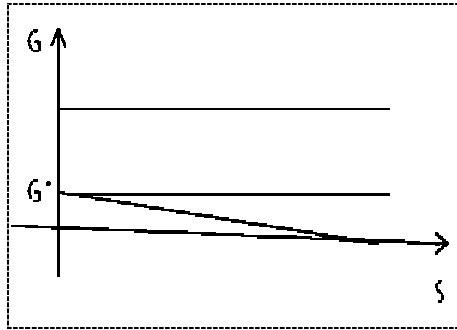


Figure 2: (t)

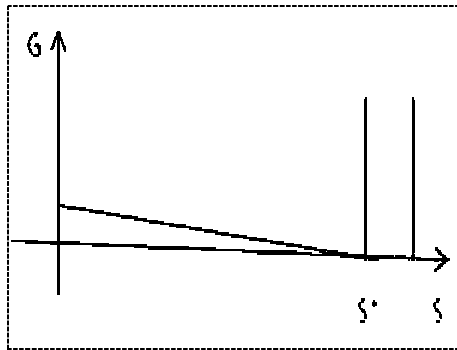


Figure 3: (t + 1)

According to IPF, policies should initiate choice architecture in cases when there is no “irrationality” as understood by LP. Dave making deductive decisions in his Reflective Mode at t_1 , must necessarily deduce choices from premises (desires) indicating the ends he wants to reach. Despite Dave’s reflective mode at (t) it is not unlikely that these desires at (t-1) have been influenced through context sensitive desire formation processes [Bornstein 1968; Zajonc 1968]. Based on the above definition of C, the Best Interest Claim can be tested by investigating whether the shape and slopes of Dave’s indifference curves at t could have been shaped in a more optimal way at (t-1).

3.2. *Two restrictions and their modifications*

The need for restrictive measures limiting the extent to which policy makers should develop inexpensive preferences amongst the citizens can be illustrated by the anecdote of the horseman who got depressed because his best horse had died – the one that he had schooled into not eating and who was now just about learning not to consume water. In order to help policy makers not to repeat these sort of mistakes, I here present two restrictions designed to prevent IPF from not being used unwisely: The Consent Requirement and the Pluralistic Well-being-Restriction.

Let us first examine whether IPF could be compatible with the Liberty Promise described in 2.2. Based on the arguments used in discussing the compatibility between rationality improving nudges and the Liberty Promise, it follows that IPF would only be consistent with the Liberty Promise if Dave's preference changes (provided that they are institutionally induced) from (t) to $(t+1)$ were authorized by Dave himself at $(t-1)$. This is a strict restriction of IPF and I do not here assume that this "Consent Requirement" *always* should block IPF. By the end of this section I propose that policy makers in certain circumstances face a trade-off between concerns to consent and libertarian liberty on the one hand and the gain achieved by reducing C on the other hand¹⁸.

A further complication concerning trade-offs between liberty and W is that the sensible policy maker should (as the anecdote taught us) not merely consider the impact of preference changes on the immediate gain in Dave's W understood as desire fulfillment, but also account for both short and long term effects, not only on future desire fulfillment, but also on W as determined by other sensible accounts. As suggested in 2.2 there is a possibility that W is a pluralistic notion which assigns intrinsic value both to

18. A problem with the Consent Requirement presented above is that can be practically challenging to control when there is consent for preference changes. I will here follow the discussion of this problem in 2.2 and suggest that policy makers could examine areas of governance where this condition *usually* holds. This proposal clearly being problematic from libertarian perspective, and I here provide no knock down argument that the libertarian worry is not groundless.

desire fulfillment, positive mental states and the development of one’s capabilities. Given that the relevant literature on *W* lacks indisputable arguments showing that only one of its theories is reasonable, it is a sound principle of governance to diversify risk and not put all the eggs in the same basket. Based on this pragmatic approach, I propose that policy makers should initiate IPF when the less resource demanding sets of preferences is approved of by other plausible accounts of *W*. Examples of such preferences could be preferences for engaging in productive and health promoting activities. Let me call this restriction the Pluralistic Well-being Restriction.

Having presented two restrictions, let me consider two ways in which these restrictions could be modified. Firstly, I suggest that the Consent Requirement should not block IPF policies, such as for instance provision of information about the benefit of simple living, provided the following requirement is not violated: Dave must be aware of what is going on and the information must be provided in a way that ensures that Dave has the opportunity to reflect about whether he should include the value of for instance simple living in his value system and autonomously form (first order) preferences for instance for jewelry or means of transport according to that value¹⁹. This modification of the Consent Requirement I call the Process Modification.

Those who would reject that Dave has the necessary cognitive capacities that this reflection process would require, have reasons to be correspondingly concerned about whether Dave has the necessary capacities to handle information from business advertisement and market players. Since commercial companies have no immediate economic incentive to provide information for goods for which they cannot charge, citizens of market economies will be exposed to information about commercial goods to a disproportionate extent. Thus, there seems to be an information-failure in the market for goods and activities that are *gratis*, like walking in

19. As argued by Mill, concerns to person’s best interests “are good reasons for remonstrating with him, or reasoning with him, or persuading him but not for compelling him or visiting him with any evil” [1859, p. 9].

public parks or engaging in voluntary work²⁰. This market failure can be corrected for in two ways. Either by banning advertisement altogether, or by providing information for public and other *gratis* goods. From the perspective of businesses it would be expected that the second solution would be perceived as the one which violates their liberties the least.

A potentially important gain in this context by correcting for this information failure at $(t-2)$, would be that the consequently better informed Dave would be likely to make better judgments when policy makers guided by the Consent Requirement asks him at $(t-1)$ whether he in order to reduce C at (t) prefers being nudged by means that he cannot autonomously control.

Whereas the Process Modification only modified the Consent Requirement and not the Pluralistic Well-being Restrictions, I now present a second modification which applies to both these restrictions of IPF. Recall from 1.1 that an essential factor in determining the conditions for Taste Approach policies being legitimate, hinges on whether arguments against Taste Approach policies should be considered as side constraints or as concerns that can be traded off against the gain that Taste Approach policies could yield. An interesting intermediate condition worth further investigation holds that the Consent Requirement and the Pluralistic Well-being Restriction are not as absolute side constraints, but instead conditional constraints that under particularly pressing circumstances would lose their status as side constraints and turn into concerns that should be traded against the gain that IPF and other Taste Approach policies could yield.

Provided that this is a sensible line of reasoning, it is a matter of judgment whether the current global situation with enormous inequalities, danger of global warming and mental and physical health problems should count as circumstances where the two restrictions should lose their status as side constraints. According to the recently launched Worldwatch Institute report “2010 State of the World – Transforming Cultures from Consumerism to

20. For further discussion of this information-failure see Otterholt [2005, p. 45-46].

Sustainability” our global circumstances in the current decade indeed seem to require measures that appear to correspond with extensive use of the Taste Approach. As it is argued under the subtitle “Cultivating Cultures of Sustainability” in the report chapter “The Rise and Fall of Consumer Cultures”: “Yes, altering a system’s rules (with legislation, for instance) can change a system too, but not fundamentally. These will typically produce only incremental changes. Today more systematic change is needed.” [Erik Assadourian 2010, p. 16]

CONCLUSION

In this article I have examined three specifications of the Taste Approach: HE, LP and IPF. Proposing a pragmatic approach to theories of W understood as a pluralistic notion, both HE, LP and IPF can be useful constituents in Taste Approach policy making. Whereas all the three specifications have their virtues, they must at the same time be used judiciously in the perspective of other normative concerns. HE should not neglect the value of autonomy, LP should relate critically to the assumption that everyone prefer to be nudged in order remove irrationalities, and IPF should be balanced against the “Consent Requirement” and the “Pluralistic Well-being Condition”.

In order to make decisions as efficiently as required by current circumstances of governance, HE, LP and IPF must be guided by clear methodological approaches. Of these three candidates as far as they currently are developed, LP gets the highest score on this particular aspect since all it lacks in order to be employed efficiently is a way to test the assumption that people would prefer a nudge in order to act rationally. Challenges for HE in this respect is firstly associated worries concerned with experienced utility measures, and secondly with the lack of (clear) normative self-restricting criteria for the promotion of happiness. Whilst IPF, on the other hand has two self-restricting criteria, the Consent Requirement and the Pluralistic Well-being Restriction, I have thus far not

provided clear procedures for how the policy makers should obtain the knowledge required by these restrictions.

In addition to these concerns, the Taste Approach faces several practical and normative challenges concerning models of governance with which various specifications of the Taste Approach could be compatible. Consider the following three models of governance that could affect taste formation:

- (1) Direct central governance exercised by governmental bodies at international, national and local level.
- (2) Indirect central governance through the strengthening of civil societies and private public partnership.
- (3) Indirect central governance through the facilitation of market institutions.

For the central governance skeptic the third model might be attractive. The question then, would be whether there exist markets facilitating optimization of C . Examples from the current market suggesting that there is a market for taste changes are the business of self-help books, coaching and perhaps also part of the cultural industry such as theatre and weekly magazines. By turning to suppliers who (according to the judgments of the consumers) would have positive impact on their taste formation, Dave himself would have a chance to influence his future taste formation. The extent to which this market succeeds should be accounted for by the policy maker who considers whether inexpensive tastes should be cultivated. Potential challenges with the market solution include the worry that those who most urgently need to adjust their tastes might not benefit from the market solution – firstly they might not afford it; or secondly, because failure of consumer sovereignty might not enable them to fully utilize these markets.

Not having investigated these empirical matters in this article, I give here no finite answers to the questions that they raise, but instead conclude that given the attractive features of the Taste Approach, these questions are worth further pursuit. Given the potential gain that Taste Approach policies might yield, reasons for *not* consulting the Taste Approach when policies are designed ought to be good if they are prevail. As argued by Mill: “Human beings owe to each other help to distinguish the better from the

worse and encouragement to choose the former and avoid the latter.” [1859, p. 74].

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