Reconciling Normative and Behavioural Economics: a Critical Survey *

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Extended Abstract

Behavioural economics has originally been developed on empirical and theoretical grounds in order to improve our understanding of decision-making. But from the 1990s it sparks its interest in normative analysis by questioning the relevance of the preference satisfaction criterion of standard normative economics. Standard normative economics—whose archetype can be labelled as standard welfare economics—conventionally use preference satisfaction as a reliable proxy of well-being and assumes that individuals have coherent preferences. The satisfaction of individuals’ coherent preferences is then considered to be the proper normative criterion for evaluating their states of affairs. But if that assumption breaks down, the normative criterion of preference satisfaction is no more relevant to indicate individuals’ well-being. Numerous empirical findings document cases where individuals have incoherent preferences and some philosophical studies in economics provide solid arguments for the view that there is a gap between what individuals choose and what makes them better off. The problem of finding a normative approach consistent with the findings of behavioural economics has been recently labelled the ‘reconciliation problem’ (McQuillin and Sugden 2012) and is now a recognised research program that entails many different propositions about how to reconcile normative and behavioural economics.

Some contributions provide a brief review of the main normative approaches in behavioural economics (Loewenstein and Haisley 2008), a short

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symposium of the reconciliation problem (McQuillin and Sugden 2012), a non-exhaustive ‘one-to-one mapping’ between three theories of well-being and three different approaches in contemporary welfare economics (Angner 2016), a quick overview of several approaches in behavioural welfare economics (Infante, Lecouteux, and Sugden 2016, 6-10) and in ‘behavioural normative economics’ (Dold and Schubert 2018). There is however no existing survey that provides a most-exhaustive categorisation of the different normative approaches that have been proposed from the 1990s until now in the field of behavioural economics. This paper aims to fill this gap and to provide a critical examination of the strengths and weaknesses of each of those normative approaches regarding their ability of being powerful tools for normative analysis.

The survey categorises four classes of normative criteria. The experienced utility criterion (Kahneman, Wakker, and Sarin 1997) developed in Kahneman (2000a, 2000b; Kahneman et al. 2004; Kahneman and Knueger 2006) focuses on the measurement of individuals’ hedonic states in the lines of Bentham’s meaning of utility as pleasure/pain and in the lines of Edgeworth’s concretisation of an hedonometer. The true preference criterion (Bleichrodt, Pinto, and Wakker 2001; Thaler and Sunstein 2003; Camerer, Issacharoff, Loewenstein, O’donoghue, and Rabin 2003; Beshears, Choi, Laibson, and Madrian 2008; Loewenstein and Haisley 2008; Thaler and Sunstein 2009; Rubinstein and Salant 2012) focuses on the satisfaction of individuals’ preferences that are not distorted by cognitive biases. The choice-based criterion (Bernheim and Rangel 2007, 2008, 2009; Köszegi and Rabin 2007, 2008; Salant and Rubinstein 2008; Bernheim 2009; Dalton and Ghosal 2011, 2012; Manzini and Mariotti 2014; Bernheim 2016) is a subtle version of the true preference criterion as it suggests a compromise between the problem that actual choice (or revealed preferences) diverges from well-being and the possibility to nonetheless keep choice as a satisfactory proxy of well-being. The opportunity criterion (Sugden 2004) developed in Sugden (2007, 2010, 2017, 2018) focuses on individuals’ opportunities to choose, regardless what their preferences are.

The present survey proposes a critical examination of each normative criterion in the light of two fundamental requirements that a normative criterion should satisfy. The first is the generalisable requirement: the ability of a normative criterion to apply to a wide range of choice situations. The second is the ethical requirement: the ability of a normative criterion to ‘cut up the world’, i.e. to judge what situation is considered to be better over another regarding the intentions of individuals. This bidimensional perspec-
tive means that a good normative criterion is a criterion that is applicable to many choice situation (generalisation requirement) and entails what mostly matter to individuals (ethical requirement). The paper aims at evaluating each normative criterion regarding those two requirements. The proposed critical examination yields in enlightening the current deficiencies of each normative approach and in proposing paths for further research in order to overcome those deficiencies.

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**References**


