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BOOK REVIEW

The Community of Advantage: A Behavioral Economist's Defence of the Market, Robert Sugden. Oxford University Press, 2018, xxii + 320 pages.
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In his wide-ranging, intriguing and sophisticated new book, Robert Sugden uses important economic and philosophical insights in a powerful defence of markets. He combines a strong commitment to liberal principles with state-of-the-art empirical insights from behavioural economics to argue for his, quite often refreshing views. Sugden criticizes both conventional welfare economics and the newly hyped 'nudge' paternalism and argues that we need a radical transformation of the normative underpinnings of market functioning and government intervention. In this review, I will summarize the book's main points, summarize some of the main chapters and finish with a more critical note.

The scope of this book is broad and its ambitions are high. As in his other work, a lot of which returns here in some shape or another, Sugden combines the best of both economics and philosophy to get to the heart of a number of important questions. What is the role markets can and should play in light of widely recognized liberal principles? What are the implications of empirical insights from behavioural economists (and psychologists) for the role of markets? If people are not as rational as economists have often assumed and thus tend to make bad choices, does that justify paternalism? How exactly does the market's invisible hand work and what is the appropriate role for government regulation, again in light of recent findings from behavioural economics about individual beliefs, preferences and actions?

The core of Sugden's approach to these big questions is contractarian in nature. As Sugden explains in Chapter 3, his basic idea is to evaluate any societal institution, such as a market or some piece of legislation, by asking not 'whether aggregate welfare is maximized' but 'whether it is in the interest of the individual to accept the rules of that institution, on the condition that everyone else does the same' (14). While this idea has been around since Thomas Hobbes, Sugden relies most heavily on David Hume who states that just institutions are those that are 'highly conducive, or indeed absolutely prerequisite, both to the support of society, and the well-being of every individual' (Hume 1739-40/1978: 497, cited in Sugden, 36). Since everyone should gain from such institutions, the goal is to find interactions and arrangements that work to everyone's benefit and hence that are mutually advantageous.

The market, already labelled by John Stuart Mill (1871/1909: Book 3, Chapter 25, § 1) as a 'community of advantage', is the preeminent example of such an institution, argues Sugden (1). It offers its participants both opportunities and incentives to coordinate their behaviours in mutually beneficial ways. Sugden devotes the whole of Chapter 6 to developing a detailed account of the market's famous 'invisible hand', which departs in various ways from the standard narrative found in most economic textbooks. He goes against the widespread idea that the invisible hand is best captured in the fundamental theorems of welfare economics. The latter assume that market participants are rational and have 'integrated' (stable, consistent, context-independent) preferences and show how their interactions unintentionally maximize social welfare, understood as the satisfaction of those preferences. Now that empirical evidence casts doubt on the assumptions of rationality and integrated preferences, Sugden proposes to go back to Smith's original understanding of the invisible hand, in which market participants are simply looking for and grabbing opportunities for mutual advantage: 'what each person can expect from the market is a rich array of opportunities to transact with others on terms that those others are willing to accept' (109).

In contrast to the conventional, welfare economic justification of markets in terms of welfare maximization, Sugden assumes nothing about people's preferences (except that more money is always preferred). If people's preferences turn out to be unstable, endogenously formed and heavily context-dependent (and behavioural economists have shown they often are, for example when framing effects occur), neoclassical welfare economics is in trouble as it assumes stable, consistent and context-independent preferences. However, Sugden argues, we can drop these rationality assumptions and still see the market as providing opportunities for mutual advantage. As such, Sugden aims 'to identify more precisely the sense in which the market provides opportunity, and to explain how this property of markets can be seen as beneficial, even by people who do not act on integrated preferences' (110).

Sugden does this by showing that the competitive equilibria of (highly stylized models of) market economies provide participants with opportunity sets that satisfy his 'Strong Interactive Opportunity Criterion'. While he elaborates on this in the more formal passages of the book, he also provides a more basic, non-formal formulation of his 'Strong Market Opportunity Theorem'. In competitive markets, Sugden argues, 'each consumer is able to get whatever he wants and is willing to pay for, when he wants it and is willing to pay for it. The idea that profit-seeking traders might provide this kind of opportunity is hardly mysterious' (137). Well-functioning markets provide arbitrage opportunities: occasions for profit-making for individual traders that, when realized, are in the interest of society. Competitive markets are 'both money pumps and networks of mutually beneficial interactions' (139) in which profit-seeking arbitrageurs generate opportunities for consumers to get whatever they want (and hence are assumed to act on preferences without any rationality assumptions).

Sugden's contractarian defence of markets aligns with well-known liberal principles such as John Stuart Mill's idea that each individual can and should judge what he or she deems best (3). In Sugden's understanding of the market, after all, consumers and arbitrageurs are free to do as they please. Sugden combines this principled approach with the empirical evidence about cognitive heuristics and biases that often result in unstable and context-dependent

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preferences. His overall project is thus to reconcile normative economics (to what extent and why are markets desirable?) and behavioural economics (13).

This brings us to the more critical parts of Sugden's analysis, in which he strongly attacks what he calls 'the new consensus' of 'behavioural welfare economics' (53). This line of thinking, widely known as libertarian or 'nudge' paternalism, originates from the works of Cass Sunstein and Richard Thaler and takes evidence from behavioural economics to justify 'nudging' people: intervening in the choice architectures that people face in order to predictably influence their decisions. In some cases, so their argument goes, the ways in which choices are framed lead people to 'make pretty bad decisions – decisions they would not have made if they had paid full attention and possessed complete information, unlimited cognitive abilities, and complete self-control' (Thaler and Sunstein 2008: 5, cited in Sugden, 55). Deliberately changing these choice architectures can then help improve people's decisions and steer them towards what they would have chosen if they had paid attention, etc. Such cases involve what has lately become known as 'means paternalism' (Sunstein 2014; Le Grand and New 2015: 27).

According to Sugden in Chapter 4, this view is based on a psychologically implausible model of human decision-making, which assumes an 'inner rational agent' with 'true' or 'latent' preferences at the core and an outward shell that consists of psychological mechanisms (such as heuristics and biases) that tend to induce error. On the nudge approach, the criterion to evaluate people's decisions is whether they satisfy this hypothetical, ideal or idealized set of preferences that people are assumed to have (if they had paid attention, etc.). As Sugden shows, this set of preferences does not exist. Because, as a result, we have no way of finding out what people 'really' want, we should instead go with whether people *actually* (instead of *hypothetically*) prefer and choose.

In fact, Sugden raises this kind of criticism not only against Sunstein and Thaler's libertarian paternalism but also against neoclassical welfare economics, which too assumes rationality, identifies well-being as the satisfaction of idealized preferences and approaches the question of desirable institutions from an impartial 'view from nowhere' (Chapter 2). Both nudge enthusiasts and neoclassical economists see themselves as giving advice to a 'social planner' or 'benevolent autocrat' (19), who should aim to maximize societal well-being. Both take the following line of reasoning: '*If I were an impartially benevolent autocrat, this is what I would do*' (23, italics his).

In contrast, Sugden's contractarian recommendations address not some impartial, benevolent planner but each individual affected. Instead of arguing that some measure or institution – whether it is the market's price mechanism or a paternalist policy correcting individual 'judgement failures' – is desirable when and because it maximizes well-being, Sugden addresses 'individuals as the directors of their lives' (49) and how they themselves understand their own interests. In his contractarian approach, there is no room for (libertarian) paternalism as that always implies imposing a 'conception of what is good for people' (15). Framing the government's judgement as 'what the individual would have judged best if he or she were rational' is psychologically ungrounded and violates basic liberal precepts. When 'a morbidly obese stranger' orders 'a huge all-day breakfast as a mid-afternoon snack', Sugden believes it is none of his or the government's business to intervene: 'I am not a benevolent autocrat, nor the adviser to one. As a contractarian economist, I am not imagining myself in either of those roles. I am advising individuals about how to pursue their common interests, and paternalism has no place in such advice' (50).

Sugden's contractarian approach thus differs from the welfarist approach adopted by both nudge enthusiasts and neoclassical welfare economists. Since people are not always rational, preferences are not always integrated and inner rational agents do not exist, Sugden claims that we should let people themselves decide what is actually in their interest instead of letting someone else do so, based on all kinds of hypotheticals. Note that it is perfectly possible to join Sugden in his criticism of inner rational agents while still remaining welfarist, for example by understanding individual interest in terms of the satisfaction of 'actual preferences'.

In later chapters of the book, Sugden analyses what his approach implies for government regulation (Chapter 7), redistribution and social insurance (Chapter 8). His defence of the market does not justify some kind of minimal state. While markets are good at generating wealth in general, Sugden argues, they need to be flanked by redistribution and social insurance to 'guarantee that each individual has the opportunity to share in the increases in wealth that it makes possible' (202). Someone who receives huge rewards on the market, like Lionel Messi, can legitimately be taxed in order to 'sustain support for institutions from which he, together with everyone else, can expect to benefit' (203). Note again the contractarian nature of Sugden's approach: his institutional recommendations are addressing not a social planner but all citizens. Whatever mix of markets, regulations, redistributive measures and tax regimes one considers, the contractarian strategy is to show which institutional mix will likely benefit all those affected by it.

In Chapter 9, Sugden goes into 'the virtue-ethical critique of the market' (208), according to which markets rely on extrinsic motivation and instrumental valuation, which are at odds with and may even 'crowd out' valuable forms of intrinsic motivation and valuation. Relying on recent, mostly game-theoretic work on reciprocity, social preferences and social norms, Sugden argues that market transactions are not to be understood as somehow asocial. He develops what he calls the 'Market Game' to stress the reciprocal, norm-based and trusting intentions that drive market interactions: only if you trust your baker to reciprocate (and vice versa), will the two of you be able to engage in a mutually beneficial practice (230–1). Rather than opportunistically acting purely on self-interest, both you and your baker intend to achieve mutual benefit.

In Chapter 10, Sugden extends this analysis to show that 'market interactions are not fundamentally different from cooperative activities in many other spheres of social life'. To show how both market and non-market forms of cooperation can be guided by intentions for mutual benefit, Sugden relies on a theory of team reasoning, which he contrasts with more traditional 'social preference' theories. The Market Game but also the Public Goods, Trust and Ultimatum Game can be re-described. Players in those games do not so much intend to benefit others (at a personal cost), as social preference theories have it, but intend to engage in practices in which they and others (expect to) benefit.

As it goes with all excellent books on topics that one is passionate about, there are some things that I disagree with and remain unconvinced of. Especially given that the book is marketed for the way it challenges 'the growing consensus in favour of a more paternalistic approach of "nudging" people', I was slightly disappointed by the lack of engagement with authors who defend nudging and, in fact with the broader literature on the ethics of nudging. Sugden focuses exclusively on Sunstein and Thaler and similar approaches, such as 'asymmetric paternalism' or the 'behavioral welfare economics' developed by Douglas Bernheim and Antonio Rangel (2007, 2009). While Sugden rightly identifies aspects of those approaches that assume an inner rational agent, he does not situate his criticism within the debates that have followed in the past decade or so.

Some authors have made criticisms similar to those of Sugden. Gerd Gigerenzer (2015: 365), for example, has argued that 'libertarian paternalists do not try to overthrow Homo economicus (. . .) they rather uncritically accept the rules of axiomatic decision theory as the norm for all rational behavior, and blame mortals for not living up to this ideal'. Other authors have formulated different criticisms that are still relevant to Sugden's main concerns about liberty and governmental paternalism (Hausman and Welch 2010; Grüne-Yanoff 2012; Rebonato 2014). And still other authors have defended nudging for other than paternalist reasons. After all, smart interventions in people's choice architecture can be aimed at stimulating greener, safer and more prosocial behaviour as well, regardless of their impact on the well-being of nudgees.

That said, the most interesting discussion that Sugden fails to engage in is that with authors who justify nudges on paternalist grounds but without, I would claim, assuming an 'inner rational agent'. To illustrate such justifications, one can distinguish between the bigger, more controversial examples of nudging and the smaller, perhaps banal examples. The bigger cases involve situations where (the value of) well-being, personal safety or health arguably has more moral weight than (the value of) liberty. Sarah Conly (2013), for example, argues that governments may be justified in promoting health, regardless what people prefer actually or hypothetically (would) prefer. We simply do not need to assume an inner rational agent that wants to be healthy to see the value of health and the reasons why it might be desirable to promote it (for example, because it is a necessary condition for the ability to make free and autonomous choices in the long run). Paternalist nudges (or more coercive measures for that matter) can and have been justified on such grounds.

The smaller, rather banal cases are those in which choice architects – governments included – can safely assume what people want. There is nothing controversial about assuming that people approaching doors want to open them or that people in traffic do not want to crash in dangerous curves. Smart design of door handles and lines on roads facilitate people ending up where they want to end up. Again, none of this actually assumes an 'inner rational agent' with perfect information and stable, consistent and context-independent preferences. It simply assumes that people have priorities and values that can be safely assumed because they are uncontroversial, nearly universally shared and/or obviously motivating the use of a specific product or service.

Despite these (perhaps all too personal) reasons for disappointment, I think this book is essential reading to anyone who wants to get a grip on the role of markets in the age of behavioural economics. Sudgen, who is widely recognized amongst both economists and philosophers as a sharp mind with a keen eye for both formal proofs and broader reflection, definitely lives up to his reputation. In this book, he again combines the best of both disciplines and offers original and thought-provoking analyses of how markets function and which underlying liberal principles justify them.

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