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As Broomean reasoning**

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# Savage's response to Allais as Broomean reasoning

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*Abstract:* Leonard Savage famously contravened his own theory when first confronting the Allais Paradox, but then convinced himself that he had made an error. We examine the formal structure of Savage's 'error-correcting' reasoning in the light of (i) behavioural economists' claims to identify the latent preferences of individuals who violate conventional rationality requirements and (ii) John Broome's critique of arguments which presuppose that rationality requirements can be achieved through reasoning. We argue that Savage's reasoning is not vulnerable to Broome's critique, but does not provide support for the view that behavioural scientists can identify and counteract errors in people's choices.

*Keywords:* Savage, Allais Paradox, Broome, rationality, reasoning, behavioural economics

*JEL codes:* B41, C18, D01, D81, D90

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One of the most famous incidents in the history of behavioural economics took place in Paris in May 1952.<sup>1</sup> The Centre National de la Recherche Scientifique (CNRS) was holding a symposium on ‘Foundations and applications of the theory of risk-bearing’. At the meeting, Leonard Savage presented the axiomatization of subjective expected utility theory that would form the core of *The Foundations of Statistics* (Savage, 1954) and become the canonical statement of the theory of rational individual choice. Maurice Allais presented an initial version of a critique of expected utility theory that would subsequently be published in *Econometrica* and become a founding text of behavioural economics (Allais, 1953). During a lunch break, Allais invited Savage to respond to two hypothetical decision ‘situations’ requiring choices between pairs of gambles. Taken together, Savage’s responses were inconsistent with ‘P2’, one of the fundamental axioms of his own theory. In *The Foundations of Statistics*, Savage refers to this episode and explains the inferences that he has drawn from it. He writes:

When the two situations were first presented, I immediately expressed preference for Gamble 1 as opposed to Gamble 2 and for Gamble 4 as opposed to Gamble 3 [thereby contravening P2], and I still feel an intuitive attraction to those preferences. But I have since accepted the following way of looking at the two situations...

He explains how, after looking at the situations in a particular way, he came to prefer Gamble 3 to Gamble 4, and concludes:

It seems to me that in reversing my preference between Gambles 3 and 4 I have corrected an error. (1954: 103)

Our paper examines the formal structure of the mental process by which, on Savage’s account, he comes to satisfy P2 and, in doing so, to correct an error. Despite the amount of attention that the interchange between Allais and Savage has already received, we believe that new insights can be gained by looking at Savage’s error-correcting reasoning in the light of recent developments in behavioural economics and cognitive science and in the philosophy of rationality and reasoning.

The idea that many frequently-observed contraventions of rational choice theory are the result of errors that the relevant decision makers would wish to correct is a common theme in current behavioural economics, and is often invoked to justify apparently paternalistic public policies, such as ‘nudging’ (Thaler and Sunstein, 2008). As Infante,

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<sup>1</sup> Our account of this event is based on Jallais and Pradier (2005), Moscati (2016) and Mongin (2018).

Lecouteux and Sugden (2016) have argued, this idea seems to presuppose the existence of some mode of error-free reasoning by which individuals can construct preferences that satisfy the axioms of rational choice theory. Behavioural economists' claims to be able to design policies that counteract error depend on there being a method by which an outside observer – the 'analyst', 'expert' or 'choice architect' – can identify mental operations that individuals in fact carry out but would wish to correct. Since standard versions of rational choice theory lack any model of reasoning processes, these presuppositions are difficult to assess.

In a major philosophical work that has received insufficient attention from economists and decision theorists, Broome (2013) examines the relationship between rationality and reasoning. Broome points out that many writers on rationality 'seem to think that they have finished their job when they have described requirements of rationality'. He suggests that these writers 'must believe that, starting from knowledge of a particular requirement, you can reason your way actively to satisfying that requirement' (2013: 208–209), and asks whether that belief is justified. His answer identifies serious problems in modes of (purported) reasoning that proceed from beliefs about what rationality requires. He proposes an account of 'rationality through reasoning' that can allow a person to arrive at mental states that satisfy certain kinds of rationality requirement without having any prior knowledge of the requirements themselves. He argues this account of reasoning is psychologically plausible, and that it can represent not only 'correct' reasoning, but also mental operations that 'seem right' to the person who carries them out.

Seen against the background of these intellectual developments, Savage's response to Allais is of great interest. The formal contribution of *The Foundations of Statistics* to rational choice theory is an analysis of coherence principles that apply to a person's preferences between 'acts' under uncertainty (represented as assignments of 'consequences' to 'states of the world'). Almost all the supporting argument is structured to justify those principles *as requirements of rationality*; there is no formal analysis of reasoning processes. To this extent, Savage falls into Broome's class of writers on rationality who seem to think it sufficient to describe requirements. But in reporting his considered response to Allais's challenge, Savage gives an informal description of how, by reasoning outside his axiomatic model, he came to satisfy one of its requirements and, in doing so, to correct an error.

Using the formalisation of Broome's account of reasoning presented by Dietrich, Staras and Sugden (2019), and drawing on the psychological distinction between the automatic mental processes of 'System 1' and the conscious reasoning processes of 'System

2' (Wason and Evans, 1975; Kahneman, 2003), we reconstruct Savage's informal reasoning as an explicit sequence of mental operations, in order to address two main issues. The first issue concerns the internal logic of Savage's reasoning. Is this reasoning vulnerable to Broome's objections? Does it make an illegitimate move from recognising some property of preferences as rationally required to being able to make oneself satisfy that requirement by reasoning? As we will show, the answer is 'No'. This raises the second issue, which concerns the concept of error-correction that behavioural economists use when justifying 'paternalistic' policies. Does Savage's mode of reasoning show the legitimacy of that concept?

The structure of our paper is as follows. In Section 1, we discuss how the concept of error has been used in behavioural economics. In Section 2, we examine how Savage uses his informally stated Sure-thing Principle in justifying P2 as a requirement of rationality. In Section 3, we look at Savage's account of how he violated P2 when he first faced Allais's situations, and at his explanation of the 'intuitive attraction' of the preferences he revealed in those decisions. In Section 4, we outline the main features of Broome's conceptual framework, as formalised by Dietrich et al. (2019). Section 5 presents our reconstruction of the reasoning by which Savage revised his preferences over Allais's gambles, thereby coming to satisfy P2. We show that this reasoning is *not* vulnerable to Broome's objections. In Section 6, we examine Savage's concept of error and contrast it with that used in behavioural economics. We argue that, although there is a coherent sense in which Savage corrects what he judges to be an error, this achievement does not provide support for the view that behavioural scientists can identify errors in people's choices that can be counteracted by suitably-designed interventions. Section 7 concludes.

## **1. The concept of error in behavioural economics**

The idea that violations of coherence principles of rational choice theory are errors appears in one of the earliest and most important contributions to what is now called 'behavioural economics' – the paper in which Kahneman and Tversky (1979) propose *prospect theory*. Kahneman and Tversky begin by presenting a variety of experimental results which 'appear to invalidate expected utility theory as a descriptive model' (p. 274). These results include an instance of the common consequence effect – the effect revealed in Savage's initial response to Allais's situations. They also include an instance of the closely related common ratio effect, which also featured in Allais's (1953) critique of expected utility theory. Kahneman and Tversky then propose prospect theory as an explanation of their experimental results. In

the final paragraph of this ‘Theory’ section, they summarise the differences between prospect theory and expected utility theory, and conclude:

These departures from expected utility theory must lead to normatively unacceptable consequences, such as inconsistencies, intransitivities, and violations of dominance. Such anomalies of preference are normally corrected by the decision maker when he realizes that his preferences are inconsistent, intransitive, or inadmissible. In many situations, however, the decision maker does not have the opportunity to discover that his preferences could violate decision rules that he wishes to obey. In these circumstances the anomalies implied by prospect theory are expected to occur.

Taken at face value, the ideas expressed in this passage are remarkably similar to those in Savage’s response to the common consequence effect. The phenomena that Kahneman and Tversky describe as ‘normatively unacceptable’ are violations of rationality requirements of expected utility theory. According to Kahneman and Tversky, a reasonable decision maker would wish to satisfy those requirements. The decision maker’s failure to do so in certain situations is a predictable consequence of human psychology, but it is also an error that he would want to correct, and *could* correct if (like Savage) he became aware that he was violating a rationality requirement. However, Kahneman and Tversky do not describe any process of reasoning that a decision maker might use to correct such errors. It is because Savage *does* describe such a process that his response to Allais’s challenge is so interesting.

From the first years of behavioural economics, the question of whether ‘anomalies’ (i.e., patterns of choice that violate standard rationality requirements) should be interpreted as errors has remained open. Some early psychologically-based alternatives to expected utility theory were explicitly presented as challenges to the normative status of that theory (e.g., Allais’s 1979 moments-of-utility model, and Loomes and Sugden’s 1982 regret theory). There is a continuing strand of literature in which non-standard choice models are advanced with a claim of capturing aspects of rationality that standard theory ignores (e.g., the heuristic-based theory of Gigerenzer et al., 1999, and the reason-based theory of Dietrich and List, 2016). Kahneman himself has sometimes resisted the ‘error’ interpretation of anomalies when it has been used by critics of his research programme (e.g., Kahneman, 1996). It is perhaps possible to read the passage we have quoted as a tactical concession made by empirical psychologists who were launching a bold attack on received economic theory and who, at the time, were not particularly concerned with normative issues.

However, questions about error have become more significant since the early 2000s, when behavioural economists began to consider the normative implications of their findings, and to propose public policies based on ‘behavioural insights’. Much recent work in normative behavioural economics is premised on the assumption that (as Thaler and Sunstein put it in their book *Nudge*) ‘individuals make pretty bad decisions – decisions that they would not have made if they had paid full attention and possessed complete information, unlimited cognitive abilities, and complete self-control’. Much of the evidence that is presented in support of this assumption takes the form of violations of conventional rationality requirements. Public policy, it is argued, should be designed to counter individuals’ tendency to make bad decisions. Crucially, its aim should be to ‘make choosers better off, *as judged by themselves*’ (Thaler and Sunstein, 2008: 5; italics in original). Or, as Thaler (2015: 326) puts it, he and Sunstein ‘just want to reduce what people would themselves call errors’. The implication is that an individual’s judgements about what makes her better off are expressed in the choices she herself would make in the absence of, or after correcting for, errors induced by inadequate attention, information, cognitive ability and self-control. By abstracting from the effects of these errors on observable choice behaviour, analysts can reconstruct individuals’ *latent* (or ‘underlying’ or ‘true’) preferences.

If latent preferences satisfy standard rationality conditions (which is not self-evident), the satisfaction of latent preferences can be used as a criterion for guiding public policy. The fundamental hypothesis that violations of rationality requirements result from interactions between error-inducing psychological processes and coherent latent preferences and beliefs appears also in many other contributions to normative behavioural economics (e.g., Bleichrodt, Pinto-Prades and Wakker, 2001; Camerer et al., 2004; Köszegi and Rabin, 2007; Bershears et al., 2008; Salant and Rubinstein, 2008; Manzini and Mariotti, 2012).

A related approach to normative behavioural economics, proposed by Bernheim and Rangel (2009) and Bernheim (2016), accepts as data only preferences that have been revealed in an individual’s choice behaviour. However, data from decision situations in which the decision-maker ‘incorrectly perceives the choice set’ are ignored (Bernheim and Rangel, 2009: 83). Thus, individuals are assumed not to make errors about their own subjective preferences about outcomes, but the effects of errors *of belief* are screened out of choice data. By characterising common anomalies as resulting from psychologically induced misperceptions about choice sets, and by treating the real properties of choice sets as



objective facts, Bernheim and Rangel can claim to have a method for retrieving the subjective preferences of individuals whose choices contravene rationality requirements.

Some writers represent the relationship between error and latent preference in terms of the ‘System 1/ System 2’ classification of mental processes proposed by Wason and Evans (1975) and developed by Kahneman (2003). System 1 is fast and automatic, and generates impressions, intuitions, feelings and impulses. System 2 is slow and under conscious control; using it is effortful. Operating on the outputs of System 1, System 2 constructs explicit thoughts in an orderly way. The distinction between the two systems is used by Thaler and Sunstein (2008: 19–39) as a way of organising behavioural findings, and is the central theme of Kahneman’s (2011) overview of his contributions to psychology and behavioural economics. In both cases, the suggestion is that the automatic processes of System 1 are liable to induce unconsidered preferences and judgements that are systematically biased, and that the conscious reasoning processes of System 2 are capable of correcting these biases. This idea is stated more explicitly by Kahneman and Sunstein (2006: 92) in a discussion of the psychology of moral intuitions: ‘System 1 quickly proposes intuitive answers to judgment problems as they arise, and System 2 monitors the quality of these proposals, which it may endorse, correct, or override’. However, little is said about the form that System 2 reasoning might take, or about the limitations it might have.

For our purposes in this paper, it is not necessary to go further into to the varied theoretical and philosophical underpinnings of these analyses of error.<sup>2</sup> It is sufficient to note that what they have in common reflects the fact that they have been developed in response to a common problem. That problem is of adapting conventional welfare economics, based as it is on the criterion of preference-satisfaction, to empirical findings that show that individuals’ revealed preferences are often highly sensitive to features of decision situations that seem to have no relevance for welfare. By reconceptualising preference-satisfaction in terms of latent rather than revealed preferences, economists can continue to use much of the formal apparatus of traditional welfare economics. By defining a person’s latent preferences as the preferences she would reveal in the absence of error, they can continue to uphold the principle of respecting each person’s judgements about her own good – the idea that is expressed in the ‘as judged by themselves’ clause that is now widely used by behavioural economists. And if psychology can supply an empirical theory of error, economists can

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<sup>2</sup> These underpinnings are examined in more detail by Infante et al. (2016).

continue to infer welfare-relevant preferences from observable choices. Following Infante et al. (2016), we will use the term *behavioural welfare economics* for all forms of normative economics with these features.

It is crucial to the methodology of behavioural welfare economics that, in the process of retrieving an individual's latent preferences, the 'errors' that are screened out are *errors according to that individual's own standards* – in Thaler's expression, 'what people would themselves call errors'. If policy interventions are to be directed at people in general (rather tailored to the needs of specific individuals), the concept of error must be intersubjective – error according to standards that almost everyone accepts. Thaler and Sunstein make the implicit claim that failures of attention, information, cognitive ability and self-control fall into this category. It is also crucial to distinguish between this concept of error and the violation of rationality conditions. For example, suppose that everyone agrees with Kahneman and Tversky that intransitivities of preference are normatively unacceptable. Now imagine a person who chooses  $x$  from  $\{x, y\}$ ,  $y$  from  $\{y, z\}$  and  $z$  from  $\{x, z\}$ . If we are to attribute transitive latent preferences to this person, and if we assume that choices reveal strict preferences, at least one of the three revealed preferences must be 'corrected'. But a behavioural welfare economist needs to know *which* preference to correct. That requires the identification of an error of mental processing in the formation of a *specific* preference. Identifying the violation of a rationality requirement is not enough.

A different way of thinking about error is proposed by Gilboa (2010: 3–4). Gilboa's starting point is not the problem of providing policy guidance; it is that of assessing the normative status of rational choice theory in the light of the empirical findings of behavioural economics. Expressing apparent regret that 'phenomenally elegant classical decision theory' has proved to be so easily disconfirmed in simple experiments like Kahneman and Tversky's, Gilboa asks what we (presumably, decision theorists) should do. He considers two alternative approaches. One, which he characterises as the methodology of descriptive behavioural economics, is to bring the theory closer to reality by incorporating the inelegant psychological factors that explain observed violations of the classical theory. The alternative approach is 'to go out and preach our classical theories, that is, to use them as normative ones', thus trying to 'bring reality closer to the theory'. According to Gilboa's definition, 'a mode of behaviour is rational for a given decision maker if, when confronted with the analysis of her behavior, the decision maker does not wish to change it' (2010: 3). By 'the analysis', Gilboa seems to mean a theoretical analysis that uses the principles of classical

decision theory. (Remember that his imagined audience is of people who can be urged to go out and preach that particular theory.) Then:

If decision makers become convinced once the theory has been explained to them and they then wish to change their choices (that is, if their choices were irrational to them), we may declare the classical theory successful as a normative one. It would indeed be reasonable to preach the classical theory and help decision makers make better (as judged by themselves) decisions. (2010: 4)

Gilboa does not presuppose that it is rational for people to conform to the requirements of classical decision theory. Rather, the test of whether that theory is rational is whether it can be preached successfully. But if in fact the theory *can* be preached successfully, Gilboa treats violations of it as errors, as judged by the decision makers themselves. He does not explain the mode of reasoning by which individuals correct these errors, but the implication is that some mode of reasoning with this error-correcting effect can be activated by another person's 'preaching'.<sup>3</sup>

If, for whatever reason, one entertains the idea that violations of rationality requirements are evidence of errors that decision makers can recognise as such and can correct by reasoning, Savage's response to Allais is a natural place to look for clues about how such reasoning could work.

## **2. The Sure-thing Principle and Savage's P2 axiom**

Savage's (1954) axiomatization of subjective expected utility theory (SEUT) is one of the greatest achievements of decision theory. His contribution is to show that the whole structure of SEUT is implied by a small set of axioms, formulated in a remarkably frugal theoretical framework and using only concepts that can be observed in choice behaviour. As an explanation of the value of an axiomatic approach, he draws an analogy with logic and says: '[T]he main use I would make of [my axioms] is normative, to police my own decisions for consistency and, where possible, to make complicated decisions depend on simpler ones' (1954: 20).

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<sup>3</sup> For this empirical test of the rationality of a theory to be well defined, Gilboa needs an operational definition or construct of 'wishing to change' a choice. We are assuming that the definition is in terms of decision-making behaviour (e.g., the person has made a provisional choice, but revises it after being preached to). But one might use a definition that would allow the person to continue to behave as before, but after being preached to, wishes that she chose differently. We do not need to resolve this issue.

Savage works in a theoretical framework whose primitives are *states* (of the world), *consequences*, *acts* (i.e., assignments of consequences to states), and (strict) *preferences*. Sets of states are *events*. A person's preferences are described by a binary relation  $\leq$  among acts. If  $f$  and  $g$  are acts,  $g \leq f$  is interpreted as 'g is not preferred to f' or, equivalently, as 'f is preferred or indifferent to g'. The two interpretations are equivalent because Savage excludes the possibility of non-comparability.<sup>4</sup> Formally, (strict) preference for  $f$  over  $g$  is defined as the negation of  $f \leq g$ ; indifference between  $f$  and  $g$  is defined as the conjunction of  $g \leq f$  and  $f \leq g$ . Savage's P1 axiom requires that  $\leq$  satisfies completeness (i.e., for all acts  $f$  and  $g$ ,  $f \leq g$  or  $g \leq f$ ) and transitivity (i.e., for all acts  $f$ ,  $g$  and  $h$ ,  $[f \leq g \wedge g \leq h] \Rightarrow f \leq h$ ).

Given the assumption that P1 holds, Savage's formalism is equivalent to the modern one, since  $g \leq f$  is equivalent to  $f \succcurlyeq g$  for a standard (complete and transitive) relation  $\succcurlyeq$  of weak preference. However, Savage's use of strict preference as a primitive reflects his determination to build his theory on observable concepts: 'I think it of great importance that preference, and indifference, between  $f$  and  $g$  be determined, at least in principle, by decisions between acts and not by response to introspective questions'. Elucidating the proposition that a person prefers  $f$  to  $g$ , he says: 'Loosely speaking, what this means is that if he were required to decide between  $f$  and  $g$ , no other acts being available, he would decide on  $f$ ' (1954: 17). 'Loosely speaking' and 'at least in principle' hint at a tension between two of Savage's aims. On the one hand, he wants to develop a theory of decision that is open to empirical falsification by observable behaviour – not because he expects that its predictions will always be confirmed, but as what he sees as good scientific practice (1954: 20). On the other, he wants to provide normative justifications for specific principles of rational choice. Those justifications are addressed to actual human beings. He is telling his readers that they are required by principles of rationality to act *like* the abstract agents in his theory. In explaining why this is so, he quite properly steps outside his parsimonious behaviourist interpretations and appeals to the reader's mental experience.<sup>5</sup> In doing so, he effectively interprets his theory – with formal constructs such as preferences, conditional preferences, probabilities,

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<sup>4</sup> Savage recognises that in reality there can also be 'introspective sensations of indecision or vacillation' but, on grounds of parsimony, does not represent this possibility in his model (1954: 17–21).

<sup>5</sup> If Savage had wanted to avoid *all* use of mentalistic concepts, he might have tried to justify his axioms on instrumental grounds, for example by using money pump arguments. In the light of Cubitt and Sugden's (2001) demonstration of the general invalidity of money pump arguments, we think that he made a wise choice.

and utilities – *as a representation of* a richer world that includes mental states as well as behaviour.

Our paper is primarily concerned with Savage’s second axiom, P2. Using the definition that two acts  $f$  and  $g$  agree in an event  $E$  if, for all states  $s \in E$ ,  $f(s) = g(s)$ , and using  $\Omega$  to denote the set of all states of the world, we can write this postulate as:

*Savage’s P2.* If acts  $f, g, f', g'$  and event  $E$  are such that:

- (1) in  $\Omega \setminus E$ ,  $f$  agrees with  $g$ , and  $f'$  agrees with  $g'$ ,
  - (2) in  $E$ ,  $f$  agrees with  $f'$ , and  $g$  agrees with  $g'$ ,
  - (3)  $g \leq f$ ;
- then  $g' \leq f'$ .

To see the intuition behind P2, suppose that (1) and (2) hold. Given (1), it seems that the preference ranking of  $f$  relative to  $g$ , and also the preference ranking of  $f'$  relative to  $g'$ , should rationally depend only on the consequences of the relevant acts in  $E$ . But given (2), these consequences are the same for  $f$  as for  $f'$ , and the same for  $g$  as for  $g'$ . Thus, the ranking of  $f$  relative to  $g$  should be the same as the ranking of  $f'$  relative to  $g'$ .

As a preliminary to stating this axiom, Savage presents the *Sure-thing Principle*:

If the person would not prefer  $f$  to  $g$ , either knowing that the event  $B$  obtained, or knowing that the event  $\sim B$  [i.e., the complement of  $B$ ] obtained, then he does not prefer  $f$  to  $g$ . Moreover (provided he does not regard  $B$  as virtually impossible) if he would definitely prefer  $g$  to  $f$ , knowing that  $B$  obtained, and if he would not prefer  $f$  to  $g$ , knowing that  $B$  did not obtain, then he definitely prefers  $g$  to  $f$ . (1954: 21–22)

Savage’s illustration is the case of a businessman who is deciding whether to buy a piece of property. The outcome of that decision may depend on whether the upcoming US presidential election is won by the Republican candidate or by the Democrat (there are no others). The businessman ‘finds’ or ‘decides’ (Savage uses both expressions) that he would buy if he knew the Republican would win, and also that he would buy if he knew the Democrat would win. ‘On the basis of’ the Sure-thing Principle, he decides that, despite not knowing who will win, he should buy. Savage says of this principle: ‘except possibly for the assumption of simple ordering [i.e., P1], I know of no other extralogical principle governing decisions that finds such ready acceptance’ (1954: 21). Of course, this claim would be disputed by many modern theorists (and it had already been challenged by Allais when Savage was writing).

But our concern here is with the role of the Sure-thing Principle in Savage’s reasoning, not with its normative force.

It is important to recognise that the Sure-thing Principle, as stated by Savage, is not the same thing as P2; rather, it serves as part of his *justification* of that axiom. One difference is that the Sure-thing Principle, unlike P2, is a principle of what decision theorists would now call ‘event-wise dominance’. More importantly, and as Savage (1954: 22) notes explicitly, the Sure-thing Principle refers to two concepts that are not defined in terms of his primitives.

The first of these concepts is ‘knowing that’ some event obtains. To a careful reader of *The Foundations of Statistics*, it will become clear that ‘not preferring  $f$  to  $g$ , knowing that  $B$  obtains’ is the informal counterpart of the ternary relation  $f \leq g$  given  $B$  that Savage (1954: 22) defines within his formal system. But that definition depends on the assumption that P2 holds,<sup>6</sup> an assumption that Savage cannot make when using the Sure-thing Principle to explain or justify P2. The second such concept is that of an event regarded as ‘virtually impossible’. This also has a formal counterpart definable in Savage’s framework, namely a *null event* (which becomes a zero-probability event if preferences have an expected-utility representation). But once again the formal concept (here, null event) or its interpretation in terms of the informal concept (here, virtually impossible event) hinges on assuming P2. For Savage, the Sure-thing Principle is a pre-theoretic principle that is self-evident to ordinarily intelligent persons unfamiliar with decision theory. He describes it as ‘a loose [principle] that suggests certain formal postulates well articulated with [i.e., connected to] P1’ (1954: 22). P2 is one of the postulates suggested by this Principle.

### 3. Savage’s initial response to Allais’s situations

Savage (1954: 101–103) asks his readers to consider an example of two decision situations. Initially, he describes these situations as they were presented to him by Allais, but with prizes in US dollars.<sup>7</sup> This presentation is shown in Table 1.

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<sup>6</sup> Here we are referring to the definition of  $f \leq g$  given  $B$  in the main text of *Foundations of Statistics*. In the endpapers of that book, Savage gives an alternative and more complicated definition that is independent of P2; P2 is then stated as the condition that, for all  $f, g$  and  $B$ , either  $f \leq g$  given  $B$  or  $g \leq f$  given  $B$ .

<sup>7</sup> For approximate 2020 equivalents, multiply the dollar amounts by 10.

**Table 1: The decision situations as presented by Allais**

*Situation 1: Choose between*

Gamble 1. \$500,000 with probability 1; and

Gamble 2. \$2,500,000 with probability 0.1,  
\$500,000 with probability 0.89,  
status quo with probability 0.01.

*Situation 2: Choose between*

Gamble 3. \$500,000 with probability 0.11  
status quo with probability 0.89; and

Gamble 4. \$2,500,000 with probability 0.1,  
status quo with probability 0.9.

Savage conjectures that many of his readers will prefer Gamble 1 to Gamble 2 and prefer Gamble 4 to Gamble 3, and that, for almost everyone, there will be some variant of the example that will induce preferences of this kind. These were the preferences that he expressed when first shown the two situations, and he still feels an intuitive attraction to them. Savage offers a psychologically plausible explanation for this phenomenon:

Many people prefer Gamble 1 to Gamble 2, because, speaking qualitatively, they do not find the chance of receiving a *very* large fortune in place of receiving a large fortune outright adequate compensation for even a small risk of being left in the status quo. Many of the same people prefer Gamble 4 to Gamble 3; because, speaking qualitatively, the chance of winning is nearly the same in both gambles, so the one with the much larger prize seems preferable.

Table 2 is one way of representing this understanding of the two situations. The language in which chances and outcomes are described is imprecise, but it is natural and intuitive.

**Table 2: Savage’s initial mental representation of the decision situations**

*Situation 1:*

Gamble 1

certain
large prize

Gamble 2

unlikely	likely	very unlikely
very large prize	large prize	status quo

*Situation 2:*

Gamble 3

unlikely	likely
large prize	status quo

Gamble 4

unlikely	likely
very large prize	status quo

The Allais Paradox preferences revealed by Savage are jointly inconsistent with SEUT. Savage demonstrates this fact algebraically, by treating the utilities of the three relevant consequences as unknown variables and showing that those preferences are not consistent with any combination of values of those variables. At this initial stage, he does not try to identify which of his axioms he has contravened, presumably because Allais presented the situations in a form that does not have a unique translation into the state/ consequence structure in which Savage's axioms are formulated. Nevertheless, since those axioms jointly imply SEUT, the algebraic analysis is sufficient to establish that he has contravened at least one of them.

Savage finds it unsettling that his preferences are inconsistent with a theory that he has defended as normative:

In general, a person who has tentatively accepted a normative theory must conscientiously study situations in which the theory seems to lead him astray; he must decide for each by reflection – deduction will typically be of little relevance – whether to retain his initial impression of the situation or to accept the implications of the theory for it. (1954: 102)

Notice that, faced with the question of whether he personally accepts a normative implication of his theory, Savage switches from theoretical reasoning to 'reflection'. As long as he is merely policing his decisions for consistency with a given set of axiomatic requirements, he has no need to engage in introspection: he needs only to observe his own decisions and to



investigate their properties. But now he is asking whether he still accepts that his axioms are justified as requirements of rationality. He needs to switch to a mode of reasoning that can accommodate the pre-theoretic concepts that are invoked by the Sure-thing Principle. It is at this point in a reconstruction of Savage's reasoning that a Broomean theoretical framework becomes useful.

#### 4. A Broomean model of rationality and reasoning

Broome (2013) asks whether rationality requirements, such as those encapsulated in the axioms of decision theory, can be achieved by reasoning. He expresses surprise that many writers on rationality seem to assume that, if a person comes to believe that some specific principle is a requirement of rationality, she is thereby able to reason her way to satisfying that requirement. In questioning this assumption, he develops an account of a person's 'mental states', seen as intentional states (i.e., states that are directed towards something). Mental states are the basis of Broome's concepts of both rationality and reasoning. We will now formalize the fundamental features of his approach following Dietrich et al. (2019), and explain why, for Broome, achieving rationality through reasoning is not straightforward.<sup>8</sup>

At any given time, an individual (in Broome's language, 'you') has a set of *mental states*. A mental state is an attitude that you hold towards something (the *content* of that attitude). The simplest kind of mental state is a pair  $(p, a)$  where  $p$ , the content, is a proposition and  $a$  is an *attitude type* that it is possible to hold towards  $p$ . For example,  $(q, \textit{belief})$  is the mental state of believing that  $q$  is the case;  $(I \textit{ do } x, \textit{intention})$  is the mental state of intending to do  $x$ .<sup>9</sup> There are also mental states whose attitude types are held towards ordered pairs of propositions. For example,  $(I \textit{ get } x, I \textit{ get } y, \textit{preference})$ , which we abbreviate to  $(x, y, \succ)$ , is the mental state of strictly preferring getting  $x$  to getting  $y$ ;  $(I \textit{ get } x, I \textit{ get } y, \textit{indifference})$  or  $(x, y, \sim)$  is the mental state of being indifferent between getting  $x$  and getting  $y$ .<sup>10</sup> Formally, there is a set  $A$  of attitude types, such that each type  $a$  has a *domain*  $D_a$  of

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<sup>8</sup> For brevity, we will not provide full textual support for the claim that this model is faithful to Broome's intentions. For that, see Dietrich et al. (2019).

<sup>9</sup> The attitude type *intention* is important in a Broomean version of decision theory, because intentions are mental states that can cause deliberate action, and actions are not themselves mental states. In a Broomean model, there are requirements that link intentions to preferences, rather than requirements linking choices to preferences (Dietrich et al., 2019).

<sup>10</sup> In our model, the propositions that make up the content of a preference attitude refer to consequences of actions ('I get  $x$ '), not to the actions themselves (e.g., 'I do  $x$ '). This allows a better

*objects* (i.e., propositions that can feature in the content of that type of attitude) and a number  $n_a \geq 1$  of *places* (i.e., the number of objects that make up that content). For example, *preference* is a two-place attitude type whose domain is the set of possible *I get ...* propositions. Let  $M$  be the set of all possible mental states, formally the set of all  $(x_1, \dots, x_n, a)$  such that  $a$  is an attitude type in  $A$ ,  $n$  is  $a$ 's number of places, and  $x_1, \dots, x_n$ , are objects in the domain  $D_a$ . At any given time, you have a set of mental states  $C \subseteq M$ , called a (*mental*) *constitution*.

A *requirement* is a condition on your constitution, and hence restricts the mental states that you can hold at the same time. Formally, it identifies a 'permissible' subset of the set  $2^M$  of all possible constitutions. Constitutions in this subset *satisfy* the requirement; the others *violate* it. Our concern is with requirements that are interpreted (perhaps by some particular theory) as requirements of *rationality*. An example is the principle that strict preferences are transitive. It can be written as a schema of rationality requirements: for any triple of options  $x, y, z$ , there is the requirement that  $[(x, y, \succ) \in C \wedge (y, z, \succ) \in C] \Rightarrow (x, z, \succ) \in C$ . Here and elsewhere, we specify a requirement by stating a condition on the constitution, with the understanding that, *formally*, the requirement is the set of constitutions satisfying that condition.<sup>11</sup> Notice that what is required is the conditional 'If  $x$  is preferred to  $y$  and  $y$  is preferred to  $z$ , then  $x$  is preferred to  $z$ '. The 'wide-scope' statement that rationality requires the whole conditional is not equivalent to the 'narrow-scope' statement that *if*  $x$  is preferred to  $y$  and  $y$  is preferred to  $z$ , *then rationality requires that*  $x$  is preferred to  $z$ . Broome (2013: 31–34) argues that rationality requirements have wide scope. Although this general claim has been questioned (e.g., by Kolodny, 2005), it is uncontroversial that the rationality requirements *found in decision theory* have wide scope.

Rationality, as understood by Broome (2013: 152), 'requires your mental states to be properly related to one another'. It has nothing to say about how mental states come into or go out of existence. In contrast, *reasoning* is a causal psychological process that can create new mental states. It is an activity under your conscious control. Thus, in terms of the System 1/ System 2 distinction, reasoning is a System 2 operation. It is important to recognise that

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fit with Savage's framework: a Savage 'act' is a description of the (state-conditional) *consequences* of taking some action (i.e., what you get if you take it).

<sup>11</sup> A (less Broomean, but more classically choice-theoretic) alternative would have been to regard transitivity as a single rationality requirement that begins by a 'for all' quantification over triples of alternatives.

reasoning is not the only mental process that can create mental states; mental states can be created (and also eliminated) by the automatic psychological processes of System 1.

Broome (2013: 234) describes reasoning as ‘a rule-governed operation on the contents of your conscious attitudes’. Your mental experience of reasoning consists in calling to mind a set of premise-attitudes and then finding (in a way that can be expressed as ‘So ...’) that some conclusion-attitude follows from them. In ‘calling an attitude to mind’, you bring its content into your conscious mind in a way that allows you to use it in reasoning (2013: 222–224). The implication is that, at any given time, your conscious attitudes make up a subset of the (probably much larger) set of mental states that you have already formed and are *capable of calling to mind*.<sup>12</sup> The latter set is your constitution. The sense of ‘following from’ is that of (implicitly or explicitly) being guided by some rule, in a way that ‘seems right to you’ (2013: 237–8). For a mental process to be reasoning, it is not necessary that you are consciously aware of the rule you are following; your acceptance of the conclusion and your sense that it follows from the premises is ‘sufficient endorsement of the rule’, which does not require awareness of the rule, or indeed of the concept of a rule (2013: 233). It will be convenient to apply the concept of *seeming right* to rules whose individual applications seem right to you; but, strictly speaking, what seems right to you is the mental process and not the rule itself. Formally, a *reasoning rule* is a pair  $(P, m)$  where  $P \subseteq M$  is a set of *premise* mental states and  $m \in M$  is a *conclusion* mental state.<sup>13</sup> (Analogously with our treatment of requirements, we sometimes use the term ‘rule’ as a shorthand for ‘schema of rules’, by treating  $P$  and  $m$  as variables or parameters of a schema.) Intuitively, if the rule  $(P, m)$  seems right to you, and if all its premise states are already in your constitution, you can call to mind the contents of those states in a way that causes you to hold the mental state  $m$ . In calling these contents to mind, you are conscious of the attitudes that you hold towards those contents (otherwise, you could not have known that the rule you were using was applicable to the case), but your reasoning is about *the contents* of your attitudes, not about *your attitudes*.

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<sup>12</sup> By this, we mean that each of these mental states is individually capable of being called to mind, not that any set of them can be called to mind simultaneously.

<sup>13</sup> We follow Dietrich et al. (2019) in defining a reasoning rule in terms of the mental states that supply you with premises and the mental state that you form by applying the rule. Broome (2013: 267–287) prefers to define a reasoning rule in terms of the premises and conclusion themselves, which are marked contents rather than mental states. The two approaches are formally equivalent if, as we assume, there is a one-to-one relationship between mental states (i.e., attitudes as facts of psychology) and marked contents (i.e., your internal view of those attitudes).

For example, suppose the rule  $(\{(x, y, \succ), (y, z, \succ)\}, (x, z, \succ))$  seems right to you, and that you already have the mental states  $(x, y, \succ)$  and  $(y, z, \succ)$ . Then you can reason in a way that you can put into words as: ‘Rather  $x$  than  $y$ . Rather  $y$  than  $z$ . So, rather  $x$  than  $z$ ’.

Following Broome, in your internal language you use an expression like ‘Rather  $x$  than  $y$ ’ to express in words the *marked content* of  $(x, y, \succ)$ , i.e., the content  $(x, y)$  marked by the attitude type of preference. Similarly, you internally express the marked content of  $(x, y, \sim)$  as ‘Just as well  $x$  as  $y$ ’. The ‘rather-than’ and the ‘just-as-well-as’ are linguistic markers for preference and indifference, respectively. Beliefs are special mental states in that they need no linguistic marker: our internal language expresses the marked content of  $(It\ rains, belief)$  simply as ‘It rains’, without explicit linguistic marker. In that sense, belief is the default type of attitude.

Following Broome, ‘Rather  $x$  than  $y$ ’ is crucially distinct from ‘I prefer  $x$  to  $y$ ’. The latter expresses the marked content of the *second order* mental state  $(I\ prefer\ x\ to\ y, belief)$ .<sup>14</sup> (A mental state of yours is second-order if its content refers to one or more of your own mental states.)

Since our paper is concerned with whether errors can be corrected by reasoning, it is important to consider the possibility of erroneous reasoning. Broome (2013: 232–234, 237–240) distinguishes between two concepts of error in reasoning. The first concept applies when you have a ‘steady disposition’ for a certain rule to seem right to you, but you make a mistake in trying to follow it. For example, you might try to follow the rules of arithmetic in adding 11,866 to 14,977, but make an arithmetic error. The mental process that leads to the conclusion ‘So, the sum is 26,853’ seems right to you at the time, and therefore counts as reasoning, but it involves a mistake according to your own standards of rightness. The second concept presupposes some universal or intersubjective standard by which reasoning rules can be categorised as correct or incorrect. For example, suppose you reason: ‘All  $X$ s are  $Y$ s; this object is a  $Y$ ; so, it is an  $X$ ’. If you have a steady disposition for this kind of reasoning to seem right to you, you have not made the first type of mistake, but Broome would say that the rule you are following is *incorrect* (even though, in following it, you are reasoning). As we explained in Section 1, the concept of error used in behavioural welfare economics is defined

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<sup>14</sup> This distinction highlights a distinctive feature of Broome’s model: it can represent reasoning *in* multiple attitudes (preference, indifference, intention, belief, and so on) as well as reasoning *about* such attitudes. Most formal models of reasoning are implicitly restricted to reasoning *in beliefs*; other attitudes appear only as the content of beliefs (e.g., *the belief that I prefer  $x$  to  $y$* , or *the belief that I ought to intend  $z$* ).

in relation to the standards of the individual who is supposed to have made the error. We therefore focus on the first type of error.

We now have the resources to explain some of the difficulties involved in trying to reason from a belief in a rationality requirement to the satisfaction of that requirement.

The most obvious difficulty is that accepting a rationality requirement does not imply accepting a reasoning rule by which you can achieve that requirement. A reasoning rule may indeed be a means by which a rationality requirement can be achieved, but for that rule to be a rule *for you* – and thereby to be a rule that you can use – it must seem right to you. That is, the ‘So...’ that links the premise attitudes to the conclusion attitude must correspond with a genuine subjective sense that the conclusion follows from the premise. Believing that a rule is a means to some desirable end does not necessarily make the rule seem right. More fundamentally, there is nothing in Broome’s model that allows you to reason towards having any specific rule *r*. Since ‘*r* is a rule for me’ expresses a proposition, it cannot be a mental state in itself; it can only be the *content* of some mental state, such as belief or intention. Believing or intending that *r* is a rule for you is not the same thing as the rule seeming right to you.

One way of overcoming this difficulty might be to assume that you have some general second-order *enkratic* rule (strictly, a schema of such rules) that allows you to reason directly from the belief in the requirement to have a certain mental state to the intention to have it. For example, you might have the rule ( $\{(it\ is\ a\ requirement\ of\ rationality\ that\ m\ is\ in\ my\ constitution,\ belief)\}, (m\ is\ in\ my\ constitution,\ intention)\}$ ) where *m* is any mental state. But this gives rise to two new problems. First, the requirements of decision theory typically have an *If ..., then ...* structure; they do not pick out individual mental states that you are unconditionally required to have. Second, having a certain mental state *m* arguably can be the content of an intention only if there is some psychological mechanism by which you can bring about *m* by a conscious mental act. For many attitude types, there is no direct mechanism of this kind. Broome (2013: 212–213) argues that this is no such mechanism for beliefs: ‘you cannot directly bring yourself to believe *p* by intending to believe *p*’. Whether the same is true for preferences is less clear. Broome’s (2006) inclination is to think there is no direct mechanism if preferences are interpreted as beliefs about betterness (the interpretation he favours) or as comparative desires. However, he also considers (but dismisses as ‘artificial’) a concept of ‘broad preference’, according to which to prefer *x* to *y* is to be in a mental state that would typically cause you to choose *x* if the only available options

were  $x$  and  $y$ . Arguably, this concept is compatible with Savage’s behaviouristic interpretation of preference. Broome suggests that because some kinds of broad preference *are* intentions, it may be possible to reason directly from a belief that some broad preference is rationally required towards having that preference.

It is significant that the foregoing arguments are about *directly* bringing yourself to have particular mental states. Broome (2013: 213) recognises that in some circumstances you may be able to deliberately activate psychological mechanisms that will then cause you to form certain attitudes, but notes that such indirect processes are not reasoning. His examples of indirect processes are (in his words) ‘exotic’ – ‘enlisting the help of a hypnotist’, ‘undertaking a programme of self-persuasion’, and ‘in science fiction, [taking] a pill’. But there are everyday examples too. If you choose to browse in an up-market department store rather than a discount supermarket, you will expose yourself to psychological cues that activate desires for luxury goods. We will say more about such indirect processes later.

Yet another difficulty is that rationality requirements can have a different *If ... then ...* structure: one in which either the antecedent or the consequent (or both) is a proposition about the absence of mental states. For example,  $[(x, y, f) \notin C \wedge (x, y, \sim) \notin C] \Rightarrow (y, x, \succ) \in C$  is a requirement of completeness of preferences, and  $[(x, y, \succ) \in C \wedge (y, z, \succ) \in C] \Rightarrow (z, x, \succ) \notin C$  is a requirement of acyclicity of preference. But reasoning, as represented by Broome, cannot start from premises about the absence of mental states, nor can it end with a conclusion about such an absence. In Dietrich et al.’s (2019) terminology, P2 and the Sure-thing Principle are *closedness requirements* (prescribing presences of mental states given presences of mental states), preference completeness is a *completeness requirement* (prescribing presences given absences), and preference acyclicity is a *consistency requirement* (prescribing absences given presences).<sup>15</sup> Broome (2013: 279–280) recognises that, although consistency requirements are essential to theories of rationality, they cannot be achieved by explicit reasoning.<sup>16</sup> He argues that they are normally achieved by automatic

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<sup>15</sup> More precisely, P2, the Sure-thing Principle, preference completeness and preference acyclicity are *schemas of closedness, completeness and consistency requirements, respectively*. For instance, preference acyclicity contains a separate consistency requirement for each triple of options  $x, y, z$ .

<sup>16</sup> Following Dietrich et al. (2019), a reasoning rule  $r$  (respectively: a set  $S$  of reasoning rules) *achieves* a rationality requirement  $R$  if the following is true for every constitution  $C$ : starting from  $C$ , application of  $r$  (respectively: repeated application of rules from  $S$ ) produces a constitution  $C'$  that satisfies  $R$ . Dietrich et al. derive an almost equally negative result about the possibility of achieving

psychological processes, but says little about what those processes might be. Sections 5 and 6 discuss this issue.

## 5. A Broomean representation of Savage's 'reflections'

Our objective in this section is to reconstruct the mental process by which Savage arrived at preferences over Allais's situations that were consistent with P2, and to assess this in the light of Broome's catalogue of the difficulties of achieving rationality through reasoning. We first give representations (within Dietrich et al.'s Broomean framework) of the mental states, rationality requirements and reasoning rules that feature in Savage's argument. Recall from Section 3 that, viewed in relation to Savage's formal decision theory, the reasoning that we need to reconstruct is pre-theoretic and introspective. For our purposes, it is sufficient to represent those concepts that are relevant to that reasoning.

We can define states of the world, events, consequences and acts as in Savage's theory. It would be natural to represent Savage's concepts of preference and indifference between acts as attitude types in  $A$ , as in Section 4. However, our reconstruction of Savage's pre-theoretic reasoning requires some other attitudes. Specifically, we need to represent two concepts that are not among Savage's formal primitives – 'is not virtually impossible' and 'preferring ... knowing that ...' (see Section 2 above). It turns out to be convenient to represent ordinary preference and indifference using the second of these concepts.

The first concept is simpler to deal with. We define an attitude type of *partial belief*, using that term as a shorthand for 'belief that is *at least* partial'. The domain of this attitude type is the set of propositions of the form ' $E$  obtains' (which we abbreviate to ' $E$ '), where  $E$  is an event. The marked content of  $(E, \textit{partial belief})$  is expressed by 'Maybe  $E$ '. This is our first-order Broomean representation of the attitude that Savage expresses as 'not regarding  $E$  as virtually impossible'.

The second concept is more difficult, because its intended meaning is not immediately obvious. Take the case of the businessman who would prefer buying ( $f$ ) to not buying ( $g$ ) if he knew that the Republican would win an election that has yet to take place. It is clear that this is a preference held at a time when the businessman does not know the election result: it is not a second-order belief about what he *will* prefer at a future date, if and when he knows

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completeness requirements by reasoning, but show that all closedness requirements are achievable by reasoning.

that the Republican has won. It is not the material conditional ‘If I know the Republican will win, then I prefer  $f$  to  $g$ ’, since the antecedent of that conditional is false. But nor is it the counterfactual conditional ‘Were I to know that the Republican would win, I would prefer  $f$  to  $g$ ’. Knowing the result of an election before it takes place is a peculiar counterfactual. (The closest possible world with this property might be one in which the businessman is a party to the rigging of a Presidential election, and in which his attitude to buying property could be very different.<sup>17</sup>) We suggest that Savage’s intention is best represented in terms of a primitive first-order attitude that can be expressed as ‘On the assumption that the Republican will win, I prefer  $f$  to  $g$ ’.

We formalise this idea using two further attitude types. For each event  $E \subseteq \Omega$ , we define the two-place attitude types *E*-conditional preference, denoted  $f \succ_E$ , and *E*-conditional indifference, denoted  $\sim_E$ . The domain of each of these attitude types is the set of propositions of the form ‘I get  $f$ ’ (which we abbreviate to ‘ $f$ ’) where  $f$  is an act. The mental state  $(f, g, \succ_E)$  is the attitude of strictly preferring  $f$  to  $g$ , on the assumption that  $E$  obtains. The marked content of this attitude is expressed by ‘Assuming  $E$ , rather  $f$  than  $g$ ’. The mental state  $(f, g, \sim_E)$  is the attitude of being indifferent between  $f$  and  $g$ , on the assumption that  $E$  obtains; its marked content is expressed by ‘Assuming  $E$ , just as well  $f$  as  $g$ ’. Ordinary preference and indifference between acts are identified with preference and indifference given the tautological event  $\Omega$ , i.e.,  $f \succ_\Omega$  and  $\sim_\Omega$ , respectively. The marked contents of  $(f, g, \succ_\Omega)$  and  $(f, g, \sim_\Omega)$  can be expressed simply as ‘Rather  $f$  than  $g$ ’ and ‘Just as well  $f$  as  $g$ ’. For example, consider Savage’s businessman. Let  $E$  be the event that the election is won by the Republican. According to Savage, the businessman has the initial mental states  $(f, g, \succ_E)$  and  $(f, g, \succ_{\Omega E})$ , and forms the new mental state  $(f, g, \succ_\Omega)$ .

Why do we use two attitude types to express ordinary preference and indifference, rather than a single attitude type that corresponds with weak preference (as in standard decision theory) or with Savage’s formal relation  $\leq$ ? Reducing preference and indifference to either of those single relations would be mathematically convenient, but the resulting relation would not correspond with a psychologically natural attitude. That would be inappropriate for a model of introspective reasoning. Savage (1954: 17) hints at this thought when he says that,

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<sup>17</sup> Here we are following Lewis’s (1973) analysis of counterfactuals in terms of similarity relations between ‘possible worlds’.



for the purposes of a ‘postulational treatment of the relationships of preference and indifference’, using the relation  $\leq$  is ‘technically convenient’.

For our reconstruction of Savage’s response to Allais, the only rationality requirements we need to consider are instances of the following schemas, whose variables are two acts and an event, respectively denoted  $f, g$  and  $E$  (despite the fixed meanings we sometimes give to these symbols):

*Asymmetry of preference (AP):*  $(f, g, \succ_E) \in C \Rightarrow (g, f, \succ_E) \notin C$ .

*Sure-thing Principle (for combining preference and indifference) (STP):*  $[(f, g, \succ_E) \in C \wedge (f, g, \sim_{\Omega E}) \in C \wedge (E, \text{partial belief}) \in C] \Rightarrow (f, g, \succ_{\Omega}) \in C$ .

AP is a schema of consistency requirements; STP is a schema of closeness requirements. We take these requirements to be ones that Savage believes to be self-evident to ordinarily intelligent persons.<sup>18</sup> It might be objected that AP is a conceptual necessity rather than a rationality requirement. Indeed, Savage (1954:17) argues that *in his formal theory* ‘the very meaning’ of preference in terms of pairwise choice implies that a person cannot simultaneously prefer  $f$  to  $g$  and  $g$  to  $f$ . But remember that we are now reconstructing Savage’s pre-theoretic and introspective concept of preference: what is at issue is what counts as order in the mind. Arguably, it is not psychologically possible for two directly contradictory mental states such as  $(f, g, \succ_E)$  and  $(g, f, \succ_E)$  to be in your *conscious* mind simultaneously. But it seems entirely possible for your *constitution* to contain two such mental states.

The only reasoning rules we need to consider are instances of the following schema, which has as variables two acts and an event, denoted by  $f, g$  and  $E$  (despite the fixed meanings of  $f, g$  and  $E$  elsewhere):

*Sure-thing Rule (for combining preference and indifference):*  $(\{(f, g, \succ_E), (f, g, \sim_{\Omega E}), (E, \text{partial belief})\}, (f, g, \succ_{\Omega}))$ .

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<sup>18</sup> They are not the only requirements with this status. Others include symmetry of indifference, incompatibility between preference and indifference, the Sure-thing Principle for combining preference and preference, the Sure-thing Principle for combining indifference and indifference, and various transitivity conditions for preference and indifference.

Notice that to every instance of the rationality requirement STP, there corresponds an instance of the Sure-thing Rule that achieves it.<sup>19</sup> It is surely uncontroversial that these rules seem right to Savage, and hence can be used by him.

How did Savage reason? Savage (1954: 103) tells us that, upon reflection, he has ‘accepted the following way of looking at the two situations, which amounts to repeated use of the sure-thing principle’.<sup>20</sup> He explains this way of looking by saying that ‘one way in which Gambles 1–4 could be realized’ is by a lottery with 100 tickets and the prizes specified in Table 3. (We have added the notation  $f, g, f'$  and  $g'$  for Gambles 1, 2, 3 and 4 respectively.) The claim that this lottery implements exactly the gambles in Allais’s situations depends on the unproblematic assumption that each of the 100 tickets has the same subjective probability of being drawn. We will call this representation of the gambles the *state/consequence frame*.

**Table 3: The decision situations as finally represented by Savage**

		Ticket number		
		1	2–11	12–100
<i>Situation 1:</i>	Gamble 1 ( $f$ )	\$500,000	\$500,000	\$500,000
	Gamble 2 ( $g$ )	\$0	\$2,500,000	\$500,000
<i>Situation 2:</i>	Gamble 3 ( $f'$ )	\$500,000	\$500,000	\$0
	Gamble 4 ( $g'$ )	\$0	\$2,500,000	\$0

Table 3 reveals the theoretical relationship between the Allais Paradox and Savage’s P2 axiom. The table can be read as a matrix in which rows represent acts, columns represent states, and cells contain consequences. Let  $\Omega = \{1, \dots, 100\}$  be the set of states, defined by which ticket number is drawn, and define the event  $E = \{1, \dots, 11\}$ . Table 3 tells us that in  $E$ ,  $f$  agrees with  $f'$ , and  $g$  agrees with  $g'$ , while in  $\Omega \setminus E$ ,  $f$  agrees with  $g$ , and  $f'$  agrees with  $g'$ .

<sup>19</sup> This correspondence is closely related to the formal result about achieving closedness requirements referenced in footnote 16.

<sup>20</sup> As Savage does not make an explicit distinction between rationality requirements and reasoning rules, it is difficult to assess whether, in ‘looking at’ the situations, what is to be repeatedly used is the Sure-thing Principle as a rationality requirement, a corresponding reasoning rule, or some combination of the two. We try to clarify this in our reconstruction.

According to P2,  $f \leq g \Leftrightarrow f' \leq g'$  in Savage's notation, and hence  $(f, g, \succ_{\Omega}) \in C \Leftrightarrow (f', g', \succ_{\Omega}) \in C$  in ours. Thus, Savage's initial preferences violate P2. This conclusion gives a more precise identification of *how* those preferences contravene Savage's theory, but he still has to decide whether to reject P2 or change his preferences.

Savage's reasoning within the state/consequence frame is as follows (we have separated this quotation into numbered passages for easier reference):

[1] Now, if one of the tickets numbered from 12 through 100 is drawn, it will not matter, in either situation, which gamble I choose. [2] I therefore focus on the possibility that one of the tickets numbered from 1 through 11 will be drawn, in which case Situations 1 and 2 are exactly parallel. [3] The subsidiary decision depends in both situations on whether I would sell an outright gift of \$500,000 for a 10-to-1 chance to win \$2,500,000 – a conclusion that I think has a claim to universality, or objectivity. [4] Finally, consulting my purely personal taste, I find that I would prefer the gift of \$500,000 [5] and, accordingly, that I prefer Gamble 1 to Gamble 2 and (contrary to my initial reaction) Gamble 3 to Gamble 4. (1954: 103)

Table 4 represents Savage's new understanding of the decision problems, expressed in the kind of intuitive language we used in Table 2. On this new description, the two decision problems coincide; the description suppresses the difference.<sup>21</sup> The asterisk is a placeholder for 'whatever happens, assuming one of tickets 12–100 is drawn', which (within a given situation) is the same for both options. The relevant choice is about what happens, assuming one of tickets 1–11 is drawn.

**Table 4: Savage's final mental representation of both decision situations**

*Choose between:*

Gamble 1/Gamble 3

ticket 1, ..., 11 drawn	ticket 12, ..., 100 drawn
certain	*
large prize	

<sup>21</sup> In terms of Dietrich and List's (2016) reason-based model, in the new frame the acts  $f$  and  $f'$  have the same salient properties, as do  $g$  and  $g'$ , whereas in the old frame the salient properties differ.

ticket 1, ..., 11 drawn		ticket 12, ..., 100 drawn
likely	unlikely	*
very large prize	status quo	

We reconstruct Savage’s reasoning as a four-stage process, focusing on his reasoning about  $f$  and  $g'$  (the acts for which he ‘corrects’ his preference).

*Stage 1 (carry-over of automatic processing in the probability distribution frame).* Responding to Allais’s situations, when presented as in Table 1 (the *probability distribution frame*), Savage formed attitudes of strict preference for Gamble 1 over Gamble 2, and for Gamble 4 over Gamble 3. We are told that these mental states were formed as ‘immediate express[ions]’ of preference, based on ‘intuitive attraction’ (Savage, 1954: 103). We interpret this as System 1 mental processing, activated by the cues of the probability distribution framing.<sup>22</sup> Since Savage sees  $f, g, f'$  and  $g'$  as *realisations of* Gambles 1, 2, 3 and 4 respectively, he brings these initial preferences to the new frame. At this stage, his constitution takes the form

$$C = \{(f, g, \succ_{\Omega}), (g', f', \succ_{\Omega}), \dots\},$$

where ‘...’ stands for other attitudes, including preferences relative to other acts, beliefs, intentions, etc.

*Stage 2 (automatic processing in the state/consequence frame).* In ‘focusing on the possibility that’ one of the tickets 1–11 is drawn (event  $E$ ), he engages in conditional considerations. Assuming  $E, f$  gives \$500,000 for sure, while  $g$  gives \$2,500,000 with a ten-to-one chance. Consulting his ‘purely personal taste’, he *finds that*, assuming  $E$ , he prefers  $f'$  to  $g'$  (passage [4]): he comes to have the attitude  $(f', g', \succ_E)$ . This attitude is not produced by conscious reasoning; it can be conceptualised as an outcome of the automatic processes of System 1, acting on the cues provided by the state/consequence framing. Assuming instead that one of the last eighty-nine tickets is drawn (event  $\Omega \setminus E$ ), he realises that the acts  $f'$  and  $g'$

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<sup>22</sup> This is our understanding of how *Savage* came to have these preferences. The existence of non-standard rational choice theories that explain the common consequence effect (e.g., Allais 1979) suggests that other people might come to the same preferences by processes in which System 1 operations are supplemented by explicit reasoning.

yield the same payoff (\$500,000), and finds himself having a conditional indifference, formally the mental state  $(f', g', \sim_{\Omega \setminus E})$ . Recognising that  $E$  is a real possibility, he also forms the attitude  $(E, \textit{partial belief})$ . As the mental states  $(f', g', \sim_{\Omega \setminus E})$  and  $(E, \textit{partial belief})$  are so natural, we treat them as System 1 outputs. But they might instead have been generated through reasoning from more basic attitudes.<sup>23</sup> Savage's constitution now takes the form:

$$C = \{(f, g, \succ_{\Omega}), (g', f', \succ_{\Omega}), (f', g', \succ_E), (f', g', \sim_{\Omega \setminus E}), (E, \textit{partial belief}), \dots\}.$$

*Stage 3 (reasoning)*. In our reconstruction of passage [5], Savage uses the Sure-thing Rule to reason from  $\{(f', g', \succ_E), (f', g', \sim_{\Omega \setminus E}), (E, \textit{partial belief})\}$  to  $(f', g', \succ_{\Omega})$ . Spelt out using marked contents, here is his reasoning:

Assuming  $E$ , rather  $f'$  than  $g'$ .

Assuming not  $E$ , just as well  $f'$  as  $g'$ .

Maybe  $E$ .

So, rather  $f'$  than  $g'$ .

Savage's constitution now takes the form:

$$C = \{(f, g, \succ_{\Omega}), (g', f', \succ_{\Omega}), (f', g', \succ_E), (f', g', \sim_{\Omega \setminus E}), (E, \textit{partial belief}), \succ_{\Omega}), (f', g', \succ_{\Omega}), \dots\}.$$

Stages 2 to 3 can be repeated for  $f$  and  $g$ . Stage 2 would add  $(f, g, \succ_E)$  and  $(f, g, \sim_{\Omega \setminus E})$  to Savage's constitution and 'confirm' (i.e., repeat the formation of)  $(E, \textit{partial belief}), \succ_{\Omega})$ . Stage 3 would confirm  $(f, g, \succ_{\Omega})$ . Savage's constitution now satisfies the relevant instances of STP.

*Stage 4 (Disappearance of an attitude)*. If, as our reconstruction assumes, Savage's constitution still contains his original preference  $(g', f', \succ_{\Omega})$ , that constitution now violates an instance of the rationality requirement AP. Recall that in his account of his reasoning, Savage describes his reaching the conclusion  $(f', g', \succ_{\Omega})$  as 'reversing my preference between Gambles 3 and 4'; but the *reversal* of the original preference requires the extinction of a

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<sup>23</sup> One might specify a rationality requirement of being conditionally indifferent between acts believed to conditionally agree, and a corresponding reasoning rule by which Savage could reason from  $(f' \textit{ agrees with } g' \textit{ in } \Omega \setminus E, \textit{ belief})$  towards the state  $(f, g, \sim_{\Omega \setminus E})$ . Using an attitude type of *equally strong belief*, one might specify rules by which Savage could reason from the symmetry of the 100 single-state events towards equally strong belief in each of them, and from that towards  $(E, \textit{partial belief})$ .

mental state as well as the formation of a replacement. In a Broomean model, reasoning cannot eliminate any mental state. By what process does  $(g', f', \succ_{\Omega})$  disappear?

Savage answers an analogous question early in *The Foundations of Statistics*. He is responding to an imagined critic who challenges the analogy between his axioms and principles of logic (see Section 2 above). Savage concedes that he cannot ‘controvert’ the critic; he can only offer introspection:

I would, in particular, tell him that, when it is explicitly brought to my attention that I have shown a preference for  $f$  as compared with  $g$ , for  $g$  as compared with  $h$ , and for  $h$  as compared with  $f$ , I feel uncomfortable in much the same way as when it is brought to my attention that some of my beliefs are logically contradictory. Whenever I examine such a triple of preferences on my own part, I find that it is not at all difficult to reverse one of them. In fact, I find on contemplating the three alleged preferences side by side that at least one of them is not a preference at all, at any rate not any more.’ (1954: 21)

In the Allais Paradox case, it comes to Savage’s attention that he has arrived at a preference for  $g'$  over  $f'$  (in Stage 1) and at a preference for  $f'$  over  $g'$  (in Stage 3). It is natural to suppose that he would feel at least as uncomfortable about this anomaly as about the anomaly in the cited passage, and that the nature of the discomfort would be much the same. We therefore assume that Savage’s responses to the two cases are similar. That is, on contemplating the preferences  $(f', g', \succ_{\Omega})$  and  $(g', f', \succ_{\Omega})$  side by side, he finds that  $(g', f', \succ_{\Omega})$  is not really or no longer a preference. The absence of this preference is not the conclusion of explicit reasoning; it is the result of an automatic mental process. As a conscious agent, Savage merely observes that a preference has disappeared.<sup>24</sup>

One might ask why, as a matter of empirical psychology, the preference that disappears is  $(g', f', \succ_{\Omega})$  and not  $(f', g', \succ_{\Omega})$ . We will return to this question in Section 6. For the moment, it is sufficient to note the implausibility of assuming that the relevant difference between the two preferences is that  $(f', g', \succ_{\Omega})$  was formed as the conclusion of a reasoning rule, while  $(g', f', \succ_{\Omega})$  was an output of automatic processing. The conclusion of a reasoning

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<sup>24</sup> On an alternative reconstruction of Savage’s reasoning, his automatically-created preference for Gamble 4 over Gamble 3 is not ‘refreshed’ when he is thinking in the state/consequence frame, and so might disappear even before  $(f', g', \succ_{\Omega})$  is formed. Our conclusions do not depend on when the ‘erroneous’ preference disappears.

rule is no more secure than the premises from which it was derived, and  $(f', g', \succ_{\Omega})$  was derived from premises that included the automatically-produced  $(f', g', \succ_E)$ .

We can now answer the first main question addressed by our paper: Is Savage's response to Allais's challenge vulnerable to Broome's critique? Our answer is 'No'. Taken altogether, Savage's account is remarkably consistent with Broome's account of reasoning towards rationality. We emphasize three points of convergence.

First, unlike the 'writers on rationality' that Broome criticises, Savage does not think he has finished his job when he has justified P2 as a requirement of rationality: he also makes a serious attempt to explain how someone might come to satisfy that requirement.

Second, Savage does not reason from the belief that either P2 or the Sure-thing Principle is justified. His reasoning at the crucial Stage 3 is first-order, using a reasoning rule (the Sure-thing *Rule*) rather than referring to a rationality requirement. And, as Broome finds important, this rule seems right to Savage, just as it will seem right to many readers of *The Foundations of Statistics*.

Third, Savage does not explain the disappearance of attitudes through explicit reasoning, in line with Broome's rejection of reasoning towards absences. In particular, he does not claim that preferences can disappear by reasoning from the belief that preferences should be consistent (which would be second-order reasoning). Instead, automatic processes extinguish preferences, or perhaps fail to refresh them and so allow their decay.

## **6. Did Savage correct an error?**

We now turn to our second main question: Does Savage's mode of reasoning show the legitimacy of the concept of error-correction that is used in behavioural economics? We begin by asking what Savage means when he says that his reasoning corrects an error in his initial preferences.

Savage admits ambivalence about this claim. Concluding his discussion of Allais's situations, he says:

It seems to me that in reversing my preference between Gambles 3 and 4 I have corrected an error. There is, of course, an important sense in which preferences, being entirely subjective, cannot be in error; but in a different, more subtle sense they can be. (1954: 103)

His only explanation of this sense is the following example:

Let me illustrate with a simple example containing no reference to uncertainty. A man buying a car for \$2,134.56 is tempted to order it with a radio installed, which will bring the total price to \$2,228.41, feeling that the difference is trifling. But, when he reflects that, if he already had the car, he certainly would not spend \$93.85 for a radio for it, he realizes that he has made an error. (1954: 103)

Notice that what Savage is calling an ‘error’ is the man’s initial inclination to pay \$93.95 for the radio, not the inconsistency between his preference for buying the radio as an optional extra and his preference for not buying it as a stand-alone purchase. Similarly, the ‘error’ that Savage corrects when he reflects on Allais’s situations is that of preferring Gamble 4 to Gamble 3, not his violation of P2. Of course, Savage views that violation as *irrational* (as, presumably, he views the inconsistency in the car-buyer’s preferences); but he achieves rationality by correcting a *specific* preference.

The anomalous preferences of the man buying the car are indeed analogous with the Allais Paradox, but this example does not take us much further in understanding what Savage means by ‘error’. Plausibly, both anomalies reflect the psychological mechanism of *diminishing sensitivity* (Kahneman and Tversky, 1979). If you are thinking about the possibility of missing out on a large fortune, the difference between probabilities of 0.90 and 0.89 seems less significant than the difference between 0.01 and zero. The probability distribution framing of the choice between Gambles 3 and 4 prompts you to compare 0.90 and 0.89; the state/consequence framing prompts you to compare 0.01 and zero. Similarly, if you are thinking about buying a car radio, the difference between spending \$2,228.41 and spending \$2,135.56 seems less significant than the difference between spending \$93.95 and spending nothing. If the radio is framed as an optional extra, you are prompted to make the first comparison; if it is framed as a stand-alone purchase, you are prompted to make the second. But in neither case does Savage explain what makes one comparison erroneous and the other correct.<sup>25</sup>

Nevertheless, it seems clear that, in some psychologically meaningful sense of the term, Savage *endorses* the preference that he calls correct,  $(f', g', \succ_{\Omega})$ , and not the one that he

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<sup>25</sup> Savage’s intuition seems to be that, in the car radio case, diminishing sensitivity to gains and losses of money is an expression of under-sensitivity at relatively large money amounts. But an opposite intuition (i.e., over-sensitivity at relatively small amounts) is often invoked in explaining the very high degrees of risk aversion found in experiments investigating preferences over small-stake lotteries (e.g., Rabin, 2000). On a fully subjectivist view, diminishing sensitivity is an operational concept, but under- and over-sensitivity are not.



calls an error,  $(g', f', \succ_{\Omega})$ . He is telling us that, having reflected on the matter, he now *approves of* or *identifies with* the preference for Gamble 3 over Gamble 4, even when he is thinking about Allais's situations in the probability distribution frame and even when his System 1 is reacting to that frame by producing a preference for Gamble 4 (the 'intuitive attraction'). How this idea is best represented in a Broomean framework is a difficult question. There is perhaps a parallel with Broome's concept of your 'endorsement' of a conclusion reached by following a reasoning rule, as discussed in Section 4. Each of these concepts involves some sense of 'seeming right to you'. In principle, each might be understood as an intentional attitude that you can hold towards a preference (in one case) or the reaching of a conclusion (in the other). It is notable, however, that Broome never treats a seeming-right attitude either as a premise of, or as the conclusion of, a reasoning rule. Similarly, in our reconstruction of Savage's reasoning, the attitude of preference-endorsement does not feature in any *reasoning rule* used by Savage. Its role is at Stage 4, at which automatic processes cause one of Savage's preferences to disappear.

How this concept of endorsement relates to 'correctness' depends in part on how preference is interpreted. Under a cognitivist interpretation, favoured by Broome, a preference is a 'better for me' judgement, where 'better for Savage' is a property about which judgements can be true or false. This betterness property could be regarded as objective (which is probably Broome's position) or as subjective, i.e., defined by what Savage approves or, more plausibly, would approve under ideal conditions of, say, awareness, information, and self-control. Under an emotivist interpretation, in contrast, a preference is a relative desire. On this view, 'Rather  $x$  than  $y$ ' directly expresses an *attitude of* relative desire (not a second-order belief about the desires one has); the attitude itself is not something that can be true or false.<sup>26</sup> Arguably, Broome's concept of 'broad preference' as a mental state that can cause choice (discussed in Section 4 above) is compatible with either the cognitive or the emotive interpretation of preference. Any of these interpretations, and a range of subtly different variants of these, could support a coherent account of what Savage means by saying that  $(g', f', \succ_{\Omega})$  was an error and that  $(f', g', \succ_{\Omega})$  was a correction. The cognitivist interpretation, particularly its objectivist variant, would support a more literal reading of 'error', but 'making an error' might be read simply as 'forming a preference that I do not

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<sup>26</sup> Sugden (2006) attributes this interpretation of preference to Hume (1739-40/ 1978), and presents Hume as a pioneer of experimental psychology.

identify with'.<sup>27</sup> For our purposes in this paper, it is sufficient to note that Savage believes that  $(g', f', \succ_{\Omega})$  was an error *by his own standards*. In this respect, at least, Savage's understanding of error is compatible with the analyses of error that are used in behavioural welfare economics.

But recall from Section 1 that, in behavioural welfare economics, an individual's latent preferences are identified by abstracting from the effects of known sources of error on observable choice behaviour. If one is to show that Savage's response to Allais's challenge supports the methods of behavioural welfare economics, it is not enough to point out that, as a result of his reasoning, Savage has corrected what he judges to be an error and has arrived at a preference that is reflectively stable (i.e., that he acts on irrespective of how decision problems are framed). That might justify a behavioural welfare economist in concluding that  $(f', g', \succ_{\Omega})$  is *Savage's* latent preference; but it would not show that Savage's mode of reasoning can lead *people in general* to reflectively stable preferences that satisfy the axioms of rational choice theory. One needs to find some factor that was at work in Savage's formation of  $(g', f', \succ_{\Omega})$ , that can be judged to be an error according to standards that almost everyone accepts, and that Savage's reasoning corrected. Were one to find an error of this kind, one might have some reason to expect that if a person became aware of having made it, a preference that she formed to correct it would have reflective stability.

But was there such an error in Savage's formation of  $(g', f', \succ_{\Omega})$ ? Clearly, there was no error of incorrect reasoning in either of Broome's senses:  $(g', f', \succ_{\Omega})$  was a direct output of System 1. Nor was there any failure of self-control: nothing in Savage's account suggests that, when he expressed his initial preference for Gamble 4 over Gamble 3, he acted against what *at the time* he recognised as his better judgement.

Did Savage 'incorrectly perceive the choice set', i.e., make a mistake about the nature of Gambles 3 and 4, perhaps as a result of inattention or some cognitive limitation? Notice that the probability distribution framing is explicit and transparent about the possible consequences of each gamble, expressed as amounts of money, and about the probabilities of those consequences, expressed numerically. Nothing in Savage's account suggests that he misperceived this simple information. Was there anything else he needed to know? According to Savage's SEUT, an individual's preferences between any two acts depend only

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<sup>27</sup> Relatedly, the idea that a requirement is one of 'rationality', and the idea that a rule 'seems right to you', are open to alternative interpretations according to how preferences are understood.

on their respective consequences and probabilities. In particular, those preferences are independent of the juxtaposition of consequences that is revealed in the state/consequence framing. (For example, Table 3 is constructed in such a way that the states in which Gamble 3 gives zero are also ones in which Gamble 4 gives zero.) Indeed, it is only because Savage treats this property of independence as self-evident that he is able to treat the particular juxtaposition in Table 3 as a realisation of Allais's situations.<sup>28</sup> We conclude that Savage acted on full information about each of the options in the relevant choice set.

What might be said is that the probability distribution framing fails to make salient certain kinds of relationship between objects within the choice set *and objects outside it*. In particular, it does not draw attention to the relationship between, on the one hand, an unconditional comparison between the available acts  $f$  and  $g'$ , and on the other, a comparison between the same two acts assuming  $E$ . Savage's initial failure to notice that relationship might perhaps be called 'inattention' or 'cognitive limitation'. For the sake of the argument, let us accept that this was an error by Savage.

But that is just another way of saying what has been implicit from the beginning: Savage believes that his reflective response to Allais's challenge describes a sequence of mental operations that he *could* have carried out in the Paris lunch break. Presumably, he now believes that not carrying them out was an error or oversight. If he had carried them out, he would have found that his System 1 created the conditional preference  $(f, g', \succ_E)$  *in addition to*  $(g', f, \succ_\Omega)$ . (If he failed to notice the latter preference as an immediate effect of Allais's framing, that would be inattention too.) But that does not get us any nearer to finding what we are looking for – a factor that is an error in the sense that is recognised by behavioural welfare economists, and that contributed to the formation of the preference that Savage judges to be erroneous.

If we consider the psychological processes by which these preferences were formed, the essential difference between  $(f, g', \succ_E)$  and  $(g', f, \succ_\Omega)$  is surely that they were formed in different frames. As Savage recognises, his formation of the preference  $(g', f, \succ_\Omega)$  was a natural – perhaps even a reasonable – response to the cues given by the probability distribution frame. It seems that, as viewed by Savage, the mistake he made in the lunch break was to think of Allais's situations in that frame, rather than the state/consequence frame

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<sup>28</sup> Juxtaposition is relevant for some theories of choice under uncertainty, such as regret theory (Loomes and Sugden, 1982), but its irrelevance is an implication of Savage's axioms.

that he used in his later reflections. Ultimately, Savage endorses the preference  $(f', g', \succ_{\Omega})$  because he approves of the frame in which it is formed.

It is easy to understand why Savage privileges the state/consequence frame, particularly when he is asking himself whether his axioms are justified. He has developed a conceptual framework in which preferences are defined in relation to the acts  $\times$  states matrices of consequences that feature in that frame. In contrast, the concept of probability that is central to the probability distribution frame is not a primitive; it is a property of the SEUT representation of preferences that is implied by his axioms. Thus, the state/consequence frame is a better representation of what, *according to Savage's theory*, is fundamental to choice under uncertainty. It is therefore neither surprising nor unreasonable that Savage feels particular identification with preferences that he has found or formed when thinking about problems in that frame.

In choosing to use the state/consequence frame in responding to Allais's challenge, Savage is deliberately affecting the cues on which his System 1 will work, in something like the way that a person with a tight budget might choose to avoid going into a high-end department store. Savage's conscious mental activity is that of 'focusing' on – directing his attention to – a frame that he has chosen to use. Thus, System 1 and System 2 are playing complementary roles. Savage is conscious of the operations of both systems and of the relationships between them, even though only System 2 is under his conscious control.

We conclude that Savage's concepts of error and correction are very different from those that behavioural welfare economists use to identify individuals' latent preferences. Thus, the fact that Savage is able to correct *what he classifies as* an error gives no support to the error-correction methods of behavioural welfare economics. To the contrary, his account describes a pair of initial preferences, i.e.,  $(f, g, \succ_{\Omega})$  and  $(g', f', \succ_{\Omega})$ , that have not been influenced by *what behavioural welfare economists classify as* error, but which together violate a rationality requirement of SEUT. This is an anomaly that the methods of behavioural welfare economics cannot correct.

It is natural to ask whether behavioural welfare economists could adapt Savage's method of error-correction as an alternative way of retrieving an individual's latent

preferences – perhaps through some kind of structured interviewing.<sup>29</sup> But if such a method is to arrive at latent preferences that satisfy standard rationality requirements, there must be some framing of the relevant decision problems that induces preferences that satisfy those requirements and, crucially, this must be a frame *that the individual herself approves*.

Imagine someone with no knowledge of decision theory who responds to Allais's situations, presented in the probability distribution frame. Like Savage, she finds she prefers Gamble 1 to Gamble 2, and Gamble 4 to Gamble 3. A behavioural economist, trying to retrieve the individual's latent preferences (or a decision theorist, acting on Gilboa's recommendation to go out and preach SEUT) guides her through the steps of Savage's reasoning. The individual might get through Stage 1 (she agrees that the state/consequence frame is a realisation of the gambles), Stage 2 (she finds the same conditional preferences and beliefs as Savage did), and Stage 3 (the Sure-thing Rule seems right to her, and she reasons to  $(f', g', \succ_{\Omega})$ ). She gets to Stage 4 and becomes aware of having two contradictory preferences,  $(f', g', \succ_{\Omega})$  and  $(g', f', \succ_{\Omega})$ . As a result of automatic processes, one of them disappears. But if she is to satisfy P2, the preference that disappears must be  $(g', f', \succ_{\Omega})$ . What guarantees that? And if that preference *does* disappear, what prevents it from reappearing if she goes back to thinking in the probability distribution frame? In Savage's case, the guarantee was his approval of the state/consequence frame, but we are not entitled to assume that other people share that sense of approval.

## 7. Conclusion: Preaching rationality

The mental experiment we have just described has a close counterpart in a famous early hypothetical-choice experiment reported by Slovic and Tversky (1974). Participants first responded to Allais's situations, presented in the original probability distribution frame. Fifty-nine per cent of participants made Allais Paradox decisions; the others acted in consistency with P2, preferring the less risky gamble in both situations. Participants who had revealed Allais Paradox preferences were then exposed to Savage's sure-thing argument, presented by a fictional Dr S, while those whose choices were consistent with SEUT were exposed to a fictional Dr A's advocacy of Allais Paradox choices. All participants were then

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<sup>29</sup> In one of the first contributions to behavioural welfare economics, Bleichrodt, Pinto-Prades and Wakker (2001) propose interactive interviewing as the methodological gold standard for correcting 'choice inconsistencies' and thereby retrieving individuals' latent preferences.

invited to reconsider their previous decisions. In both groups, most participants chose to stick with their original decisions; Dr A proved to be marginally more persuasive than Dr S.

In fact, the sample size (29 participants) was too small to produce statistically significant results, but let us imagine that Slovic and Tversky's findings have been replicated in a much larger experiment. For a decision theorist who shared Gilboa's position on 'preaching', that would be evidence that, for a majority of people, the Sure-thing Principle is not a requirement of rationality. We take it that Savage (who in fact died before this experiment was reported) would not have accepted that conclusion. Recall that for Savage, the Sure-thing Principle has a status analogous with that of a rule of logic: it has a claim to 'universality' or 'objectivity'. As the author of a defence of a normative theory of rationality, he believes that he has a duty of good faith not to defend principles whose implications are contravened by preferences *of his own* that, upon careful reflection, *he* endorses. That is why it is important for him to respond to Allais. But it is entirely legitimate for him to argue in favour of principles that other people, perhaps upon equally careful reflection, reject.

In trying to convince his readers of the normativity of his theory, Savage *is* preaching. One might say that, in responding to Allais's challenge, he is preaching to himself. His reasoning provides a model of how the preaching of rationality can be immune to Broome's objections to arguments that state rationality requirements without explaining how people can come to satisfy them.

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