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Revealed Preference is a Very Strong Normative Prior

As an undergraduate philosophy student, I thought economists naïve in their deference to people's preferences. People smoke, gamble, and eat McDonalds — not to speak of Taco Bell. I am wiser now: I've gone through the brainwashing¹ that is the economics PhD first year at the University of Chicago. My laundered view is that in fact philosophers underrate how strong a normative prior revealed preference is — and so do economists. The reasons may be more subtle than you expect.

Lead in paint is a significant problem in developing countries. You, as a development economist with lots of resources, want to help these people. So you go and spend your grant money and research time running a campaign to inform poor consumers about the dangers of lead in paint. You even test your subjects, randomly selected people living in developing countries, and they all show complete mastery over the harms of leaded paint as well the specific intoxication mechanisms. But when you look at their purchases you are surprised: your information intervention has not been effective at changing demand: people are still buying leaded paint. You figure information is unfortunately not effective. To help poor people with their lead in paint problem, we need to convince their governments to ban the use of lead in paint. Not so fast.

I see two problems: knowledge and coercion. The knowledge problem is an old Hayekian point. From your perspective as the “analyst”, what is more likely: (a) poor people are informed but acting against what is good for them and their families or (b) you are missing something in your cost-benefit analysis that poor people instead know? In “The Use of Knowledge in Society” Hayek teaches us to respect the information each person possesses about their own situation. You may be simply underrating the ability of people on the ground to use cheaper, leaded paint to provide affordable housing by optimally using the leaded paint in minimally risky applications such as roofs and other external structures unlikely to expose children to paint chips.

The second problem is that coercion is intrinsically harmful. Remember, persuasion did not work: you informed people and they chose not to comply. Regulation, your alternative, is by definition coercive. So say you are confident in your cost-benefit calculations: regulating away lead in paint will bring a net benefit to the poor, especially their children — even if poor parents disagree. Still, is the benefit of unleaded paint great enough that it is not offset by the direct harm of implementing this benefit through coercion?

Put the problems of knowledge and coercion together and I think it shows that when we fail to persuade people to change their behavior we should rarely be confident that coercion will improve their lives. For coercion to create a net benefit, the benefit must be very large, for it

¹My dear philosophy professor Garrett Thomson would correct me here: not washing; it is brain dirtying.

needs to overcome the inherent harm of coercion. But not only. We must also be confident that despite the benefit being so large that it overcomes the harm of coercion, it is not large enough that people on the ground, the subject of these benefits, are persuaded and informed enough to pursue it absent your coercion. And for that we need to have very little doubt about how well informed we are about what is good for the poor. To me that's a high bar. A bar that I am not yet confident is met by lead paint, for example.

So, you might think, I am advocating that rather than trying to coerce people into what is good for them, we should be content with spending our economic development and global health resources trying to persuade people to do what's good for them (not buy lead paint), and leave them as the final judges of whether they want to implement change. Again there is more nuance.

In the real world, one quarter of GDP is persuasion (McCloskey and Klamer 1995). Firms don't merely produce and sell. Paint manufacturers and shops persuade consumers to buy their products, leaded or unleaded. Persuasion ranges from advertising to highlighting products on the most convenient to access shelf in the supermarket, or paint store. But if persuasion is so pervasive, then the lack of persuasion is itself informative. If manufacturers of unleaded paint are not in fact persuading consumers to switch to their safer alternative, we should update our priors: causing behavioral change might be too expensive, so expensive that it may only be achieved through coercion.

What does this mean? It means you might waste money in a well-intentioned information campaign. If paint brands offering unleaded paint have not persuaded consumers to buy their product, it may just be too costly to do so and this may be because either the act of persuasion is itself too costly or because even after being persuaded of its benefits, consumers don't switch to buying unleaded paint. This line of reasoning suggests that in general there are not that many free lunches in improving people's lives in the form of marginal interventions to inform or even gift people products we think are better for them. Your development and global health money might be better spent if you GiveDirectly.

REFERENCES

- Hayek, F. A. "The Use of Knowledge in Society." *The American Economic Review* 35, no. 4 (1945): 519–30. <http://www.jstor.org/stable/1809376>.
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