

Freedom, Choice, Wealth, and Welfare

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A central aim of public policy in a democratic society should be improving the welfare of its citizens. Even when resources are plentiful, this is an extremely challenging task, because of the difficulty of determining what “welfare” consists in. Beyond basic necessities, there is great individual variation in what people want out of life. This is true with respect to material goods, and it is also true with respect to what people want from their work, their medical care, their educational opportunities, their relationships with others, their public institutions, the arts, and just about everything else. So any specific commitment of public resources (to the arts, to improved science curricula, to green spaces, to medical facilities, and so on) is likely to please some people and displease others.

The way to solve this problem, we are often told, is to provide a wide range of opportunities and let people choose for themselves whatever promotes their personal welfare. Since each individual is in the best position to judge his or her welfare, putting resource allocation decisions into the hands of individuals is a solution to the social welfare problem that can not be improved upon. This idea has been the central dogma of neoclassical economics from its inception. To improve welfare,

one must increase freedom of choice, not because increased choice is intrinsically good necessarily (though it is), but because it increases the chances that each individual will be able to find something that serves his or her interests.

This central dogma contributes to the current enthusiasm of many in the U.S. for the privatization of social security, the privatization of health insurance for senior citizens, school choice for America’s children, and more generally, for the libertarian view that the best government is the least government. Whatever else initiatives like these may accomplish, they each have the virtue of allowing individuals to pursue welfare as they see fit: risky retirement investments or safe ones; high deductible prescription drug plans or low; open classrooms or highly structured ones. Indeed, more generally, on this view, the real virtue of the competitive free market is not so much what it gains in economic efficiency (narrowly defined as output per unit of input) over other economic systems as what it gains individuals in opportunities to choose.

The importance of choice to welfare also casts a new light on the emphasis that developed societies like the U.S. and Britain place on increasing the material wealth of their citizens. The value of material wealth has more to do with its relation to freedom and choice than with its relation to luxurious standards of living. It is roughly true that the wealthier a person is, the freer she is to live the kind of life she wants and make the kinds of

choices she wants. Wealth liberates. The per capita GDP, then, is a pretty decent proxy for the amount of freedom enjoyed by individuals in a society. It is admittedly incomplete and imperfect as a proxy: civil rights don't require wealth, and wealth doesn't buy one freedom of speech and assembly. But even with civil rights, if you have to struggle to exhaustion every day just to meet basic subsistence needs, freedom of speech or assembly becomes the kind of luxury you rarely get to enjoy.

Thus, collective welfare requires freedom, freedom entails choice, and choice is enhanced by wealth. The more choice people have, the better. Increased choice enables even those with the most idiosyncratic tastes to find things to do and have that they think worth doing and having.

I must admit that this view seems compelling, and what makes it so is the reasonable assumption that if some choice is good, then more choice is better. After all, people who aren't interested in a plethora of options can always ignore them. Adding options can't make anyone worse off and will surely make some people better off. Adding options is what economists call "Pareto efficient."

And we have certainly added options. To give you some examples, in a recent trip to the market, I encountered 285 varieties and brands of cookies, 75 iced tea drinks, 40 toothpastes, 230 soups, 175 salad dressings, and 275 cereals. In a consumer electronics store I found 110 different

TVs, 30 VCRs and 50 DVD players, and stereo components that could be combined to make 6.5 million stereo systems.

On top of this, in areas of life in which there was once virtually no choice, we now have very real choice, at least in the U.S. There is choice of phone service: local, long distance, and cellular. There is choice in health care, where it is up to us to be informed consumers, as both prescription drugs and medical procedures are marketed directly to patients. There is choice of retirement plans, with some employers offering dozens and dozens of mutual funds as instruments for employee retirement investment. The university offers an astonishing variety of general education courses and majors, with the possibility often open to students to design their own majors if they don't like any of the fifty or so that are on the books. In work, not only is there a wide variety of career paths, but thanks to the modern digital revolution, no matter where you are, you can always be connected and working, giving you the choice of whether or not to work twenty-four hours of every day. Marital and family arrangements have become a matter of choice—whether and when to marry, and whether and when to have kids. Religious institutions offer many different flavors of religious observance. Physical appearance is something you now get to choose, with things like botox injection and cosmetic surgery becoming increasingly commonplace. And "designer genes"—the creation of just the children

we want—lie right around the corner. It would seem that we have created for ourselves the best of all possible worlds.

But though the logic of choice may be compelling, there is growing evidence that the psychologic is not. Indeed, there is growing evidence that for many people, increased choice produces decreases in satisfaction—sometimes even misery; that it sometimes produces paralysis, not liberation. Here is some of the evidence, involving decisions about trivial matters and important ones:

- Psychologists Sheena Iyengar and Mark Lepper have shown that as the number of flavors of jam, or varieties of chocolate available to shoppers is increased, the likelihood that they will leave the store without buying any goes up. Shoppers are ten times as likely to buy jam when six varieties are on display as when twenty-four are on display.
- Iyengar and Lepper also showed that as the number of extra-credit essay topics available to college students is increased from six to thirty, the likelihood that they will write on any, and hence earn extra credit, goes down by fifteen percent. So does the quality of what they write if they do write.
- Iyengar, Rachel Elwork and I have shown that as the number of job possibilities available to college graduates goes up, their satisfaction with the job search process goes

down. This is particularly true for job seekers whose aim is to get the “best possible” job; they get more and better job offers than seekers who are aiming for “good enough” jobs, but are less satisfied with them nonetheless. They are also more stressed, anxious, pessimistic, regretful, disappointed, frustrated, and depressed.

- Iyengar has also found that as the number of voluntary retirement funds offered to employees goes up, the likelihood that they will choose any goes down. For every ten funds added to the array of options, rate of participation drops two percent. And for those who do invest, added fund options increase the chances that employees will invest in ultra-conservative money-market funds. It is hard to overestimate the significance, and counter-intuitiveness, of this finding. Americans are chronic undersavers, and even if we can protect the social security system from bankruptcy, it does not provide senior citizens nearly enough to see them through in retirement. Private savings are essential. If you were to ask an investment professional how to induce people to save more, you would no doubt be advised to offer them more options, so that everyone could find something that was attractive. But doing this has exactly the opposite effect.

- Finally, law professor and ethicist Carl Schneider has reported that as the degree to which patients have real choices of drugs and medical procedures goes up, their satisfaction with the treatment they receive goes down. One striking illustration of the mismatch between how good choice appears in prospect and how it feels in actuality is the finding that 65% of people polled say they would want to be in charge of their treatment plan were they to be diagnosed with cancer—unless they already have been diagnosed with cancer, in which case the percentage drops to twelve. Numerous studies indicate that for many patients, the responsibility for decisions about medical care that the canons of modern medical ethics has thrust upon them is something that they accept with great reluctance.

In cases like these, increased choice often enables people to do better by some objective measure (quality of jam, rate of return on investment, suitability of a job to ones ultimate career objectives, and so on.). But it also makes them feel worse, perhaps badly enough to contribute to the three-fold increase in clinical depression that has occurred in the U.S. over the last twenty-five years. So the question we should be thinking about is this: do we care about objective results or subjective results when we're out to improve

welfare? I think that once people's standard of living is above subsistence, it is usually the subjective quality of the experience that really matters. And increased choice does not seem to improve the subjective quality of experience.

My colleagues and I have identified several different psychological factors that help explain why increased choice can result in decreased satisfaction. First, increased choice creates an enormous burden on people to seek the information needed to make a good decision. Who has the time to find the best digital camera, the best cell phone plan, the best retirement plan, the best job, the best school for his kids? Second, plentiful choice increases the chances that people will regret the decisions they make, because of all the passed-up alternatives, many of which might have turned out better than the one that was selected. Third, choice increases the sense people have of missed opportunities with respect to all the options they have foregone. Fourth, it raises people's expectations about how good the option they actually choose will be, with the result that the objective quality of the choice gets lost as it is compared with high expectations generated by the host of possibilities. And finally, increased choice forces people to take personal responsibility for all choices that turn out to be less than perfect. With so many options out there, there is no excuse for anything less than perfection, and when less than

perfection is what you end up getting, the fault must be yours.

I can illustrate the mechanism behind these last two points with a personal example. A few years ago, I was vacationing with my family in a cottage in a small seaside town in Oregon. I went to the tiny general store to buy some wine to accompany that evening's meal, and discovered that the store had a half-dozen options. I bought one, brought it to the cottage, we drank it, and everyone agreed that it wasn't very good. But no one expected it to be very good, given the selection, and it was clear to all that I couldn't have done anything about it. So we were satisfied. Low expectations and no personal responsibility. Things would have been very different if I had brought home a disappointing wine from a shop that offered thousands of possibilities. Now, expectations would have been much higher, and failure to meet them would have been my fault.

My colleagues and I have also identified a dimension of personality that seems to exacerbate this choice overload problem. There are two different sorts of goals people can have in making a decision. One goal is to find something that is "good enough"—a good enough cereal, stereo, car, mutual fund, college—even spouse. We call people who are looking for "good enough" satisficers. The alternative we have identified is to seek the best, to be what we call a maximizer. The critical difference between these two types of goals

becomes apparent in a world of abundant choice. The satisficer has internal standards of what is good enough and keeps looking until she finds something that meets them. Then she stops the search, chooses, and doesn't look back. The maximizer, in contrast, can't know she has the "best" without examining all the possibilities. And since examining all the possibilities is simply not possible in the modern world, maximizers are reluctant to decide at all, and are plagued by doubt, when they finally do choose something, that if they had looked a little longer, they'd have done better. The result is that maximizers take longer to make decisions than satisficers, and though they may end up with better results, they are less satisfied with what they get. We find they are also less happy, less optimistic, less satisfied with life in general, and more depressed, than satisficers.

We don't know what makes someone into a maximizer, but it is possible that abundant choice plays a contributing role. I'm usually very much a satisficer, but listen to what happened to me a few years ago when I went into the Gap to buy a pair of jeans. I asked the salesperson for a pair of jeans in my size, and she replied "do you want slim fit, relaxed fit, easy fit; boot cut or straight leg, button fly or zipper fly, stone washed, acid washed, distressed, or unwashed?" What had always been for me a 30-second task had suddenly become a major project. And perhaps more important, I found that for the first time in my life, I actually

cares how the jeans I was considering fit me. I had previously had the view that jeans just fit the way they fit, and you lived with them. All that mattered was a waistband you could close and a length you wouldn't trip on. Not any more. I had been nudged in the direction of maximizing when it came to jeans. And sure enough, I ended up with a pair that fit me better than my jeans of old, but I was disappointed that they didn't fit me perfectly.

And let me make it clear that this maximizing/satisficing distinction is not just manifest in trivial decisions. American college students are currently experiencing a kind of massive unhappiness that has them flocking to campus counseling centers and taking antidepressants in record numbers. This is especially true in the most elite institutions, populated, by and large, by students who have enough talent and intelligence to take their lives in several different directions. What plagues many of them as graduation nears is the sense that there is some "right" thing that they should be doing with their lives. Moving through one door closes others, and the students don't want to close any doors until they know for sure what the right door is. If their own talents and expectations, and the world of possibilities, were more limited, students would find the decisions they faced less excruciating.

So whereas a life without any freedom of choice would not be worth living, and to some degree, giving people choices enhances their

freedom and their welfare, it appears not to be true that more choice means more freedom and more welfare. Indeed, a point may be reached at which choice tyrannizes people rather than liberating them. And we may be at that point. The significant implication of this news, both for individuals and for policy makers, is that even if wealth is a proxy for freedom of choice, that does not make wealth a proxy for welfare. If welfare is what we ultimately care about in setting social policy, we will have to look elsewhere. And if we can't simply assume that we can make people better off just by giving them more to choose from, we can no longer avoid asking hard questions about what enhances human welfare by throwing options at people and letting them answer the question for themselves.

There is no question that people value freedom, and I can't imagine eliminating choice completely from parts of life where we've gotten used to having it. What perhaps we can do, as suggested by Cass Sunstein and Richard Thaler, is structure choice in a way that takes advantage of what we know about how people make decisions. We know that, for a variety of reasons, people are heavily influenced by the "default" option. For example, in much of Europe, the "default" option when you get a driver's license is to be an organ donor. You have to check off a box on your form if you wish not to be. In the U.S., the reverse is true. In various European countries, 90 % of drivers are organ donors; in the U.S., 20% of drivers are organ

donors. Similarly, it has been found in a study in the U.S. that when the “default” option is to have money taken from your paycheck and put into a retirement account, savings participation is much higher than when the default is not to have wages deducted.

So what Sunstein and Thaler propose is what they call “libertarian paternalism.” Structure choices so that the number of options is limited, and the default option is the one that is most welfare enhancing on average (this is the paternalism part). But let people opt out (this is the libertarian part). This is a way to retain freedom of choice, while keeping the number of options manageable and engineering things so that if people get overwhelmed and avoid making the decision, what they’ll get “stuck” with is probably what is in their best interests anyway. In the U.S., we should be considering what this view implies for policy matters like privatization of social security, school choice, choice by retirees of prescription drug plans, the kinds of retirement plans employers offer to employees, and what “patient autonomy” means in medical practice. I have no doubt that England has its own, perhaps similar set of current policy debates.

In conclusion, there is a recent cartoon in the New Yorker magazine that illustrates my argument with clarity and vividness. It depicts two goldfish, a parent and a young offspring, swimming in a tiny fishbowl. “You can be anything you want to be,”

the caption reads, “No limits.” We, the sophisticated readers, are supposed to catch the irony of the myopic parent fish telling its young about how copious the possibilities are, in a world in which virtually every possibility is foreclosed. But my own view is that the parent fish has it right. People say they want a world where everything is possible—so much do they value freedom (“Where do you want to go today?” asks Microsoft). This is especially true of young people, particularly young and multi-talented people. But I think they don’t understand something important. What people really want is choice within limits, freedom with constraints. By providing people with a world of unlimited choice, we are shattering the fishbowl. And the result is not satisfaction, but anxiety; not liberation, but tyranny.

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