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052160866X - Economic Analysis, Moral Philosophy, and Public Policy - Second Edition

Daniel M. Hausman and Michael S. McPherson

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## INTRODUCTION

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## ONE

## Ethics and Economics?

*Economic Analysis, Moral Philosophy, and Public Policy* is concerned with economics and ethics, but it is not about how to behave ethically when doing business or doing economics. We prescribe no code of conduct and preach few sermons. Rather, in this book we try to show how understanding moral philosophy can help economists to do economics better and how economics and ethics can help policy analysts to improve their evaluations of alternative policies. We also hope to show how philosophers can do ethics better by drawing on insights and analytical tools from economics. We are writing mainly for those who are interested in economics and we aim at helping them to do economics, but we think that economics has some important things to offer ethics, too.

This focus may seem a big letdown. Surely it's more important to grapple with life-and-death moral problems! You'll get no argument from us about that. We fully agree, and we're not proposing that people stop asking moral questions. On the contrary, we hope this book will show how important morality is in economic life. But our concern is with economic theory rather than directly with economic life. *Our job will be to show clearly the role that ethics has in economics and policy analysis and to show how knowing moral philosophy helps one do economics and policy evaluation better.*

In our view, the main value of moral theories does not lie in prescribing what to do in particular situations. Moral theories are not cookbooks for good behavior. Their main purpose is to help people to understand what morality is, where it fits into their lives, and why they assign it the importance they do. Moral theories have a practical role in guiding people's reflection on the moral principles they accept and in helping people decide what to do when their moral principles conflict. Similarly, understanding ethics can help economists to think productively about the moral dimensions of policy problems, and it can bolster their confidence in recognizing

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and dealing with these moral issues. Knowing some ethics can help economists and policy analysts to improve their methods of policy evaluation and to understand how people's economic behavior is influenced by the moral dimensions of their lives.

Moral insights are, to be sure, more important to some parts of economics than others. Though not entirely irrelevant to any human choices, moral ideas are of little help in forecasting the price of wheat or in refining theories of exchange rate determination. Moral ideas will be more important to economists who face problems such as improving the standard of living in poor countries, increasing tax compliance, or helping citizens think through the trade-offs between environmental protection and economic growth.

### 1.1 What Are Moral Questions and How Can They Be Answered?

Moral questions and moral reasoning can be difficult to understand, and we have found that students often hold very skeptical or even cynical views. One hears claims such as, "It's just a matter of how you feel." "There's no rational way to resolve moral disputes. One can only fight." "Moral claims cannot be true or false." "Morality is just a matter of social convention or prejudice." These views seem to have some foundation.

- It might seem that morality is just a matter of individual feeling and that moral disagreements cannot be rationally resolved, because it is hard to understand how moral claims can be tested, confirmed, or disconfirmed.
- It might seem that moral claims cannot be true or false, correct or incorrect, because moral claims are often prescriptions and concern how things ought to be rather than how they in fact are.
- It is tempting to believe that moral claims are social conventions or relative, because members of different societies disagree about morality.

Yet these skeptical conclusions are exaggerated, and they yield implications that are hard to accept. To see why, let's be more concrete and focus on an example of a genuine moral question that might face an individual. A young woman attending college becomes pregnant and is trying to decide whether to have an abortion. This young woman might not regard this as a moral problem. She might have no doubt that abortion is morally permissible and be concerned instead about whether it would be advantageous for her to continue the pregnancy. But let us suppose that she is genuinely in doubt about whether abortion is morally permissible.

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Notice first that hers is not a legal problem. She knows that abortion is in fact legal. But this doesn't tell her whether it is morally permissible. It's legal to be rude to your parents or to pretend to love somebody in order to seduce them, but that doesn't mean these actions are morally permissible. Second, notice that this young woman's question is not one that a sociologist can answer. Even if she reads that 62.37% of her fellow citizens think that an abortion is permissible in circumstances like hers, her problem has not been solved. She still needs to decide whether she ought to have the abortion or not. The third thing to recognize is that hers is a real question. It is something that she might agonize over. Whether reflecting by herself or talking over her dilemma with friends or family or counselors, she will be thinking about *reasons* why she should conclude that abortion is or is not morally permissible. Whether or not one believes that morality is subjective (in some sense of this ambiguous term) or that morality depends in some sense on feelings, there is unquestionably a huge potential role here for argument and judgment. It seems that her moral question is real, that some answers to it are better than others, and that it is possible to think rationally about which answers are better and which are worse.

There are genuine moral questions about social policy, too. For example, the question about whether abortions *should* be legal cannot be decided by ascertaining what the law *is*. The moral question of what the law concerning abortion ought to be must also be distinguished from questions about whether laws permitting or banning abortion are constitutional. Before the Thirteenth Amendment was passed, the constitution specifically permitted slavery. That made slavery constitutional, but it didn't make it just. Questions about what the constitution ought to say are moral questions. One also cannot decide whether abortions ought to be legal by means of sociological research, such as taking a poll. A poll can determine what most people believe, but it won't say whether they're right. Those who believe that abortions ought not to be legal cannot be refuted by results of polls showing that most people believe that they should remain legal. One addresses moral questions instead by making arguments.

Once we recognize these truisms – that moral questions have better and worse answers, and that arguments can sometimes help people find out which answers are better – we can see that the cynical or relativistic conclusions concerning morality are exaggerated and unjustified.

- It is not true that there's no method of resolving moral disagreements and that consequently all one ever gets in morality is disagreement. There is a method: One can make arguments; that is, one can look for premises

that others agree on and then use logic to try reaching agreement on the issues in dispute. When people stand to benefit from doing evil, they may be deaf to rational argument. It took a civil war – in addition to the arguments of abolitionists – in order to eliminate slavery in the United States, but without those arguments (to which there were, in fact, no good responses) there wouldn't have been a movement opposing slavery.

- The fact that moral judgments are *prescriptive* – that they say how things ought to be rather than how they are – may imply that moral judgments cannot be literally true or false, but it does not follow that one cannot sensibly consider whether some moral judgments are mistaken. Although there are subtle philosophical questions one might ask about the sense in which prescriptions can be correct or mistaken, clearly some prescriptions are better than others, and there is room for rational argument concerning which are better and which are worse. Moreover, even if moral judgments are not descriptive assertions, the reasons for those judgments often include empirical claims that can be criticized and investigated.
- Though moral questions are not always easy to answer and though difficult questions give rise to persistent disagreement, there is also a lot of agreement in ethics. Few people approve of torture for any purpose, and even fewer approve of it for entertainment.

The claim that morality is “relative” can be confusing, because in one sense morality clearly is relative: what's right depends on (is relative to) what the facts are. Whether it is permissible to knock over a frail old man depends on whether one knocks him over to see whether his bones are brittle or whether one knocks him over to prevent him from being run down by a truck. But to recognize that one does not have a well-defined moral question until one has specified all the facts is perfectly consistent with the idea that well-defined moral questions have better and worse answers.

What people mean by claiming that morality is relative is often something altogether different: that whatever a person (or a society) believes is right is automatically right (“for that person or society”). But when the woman in our previous example is trying to decide whether it is morally permissible to have an abortion, she is not trying to find out what her beliefs already are; she is trying to find out which answer to her question is correct. Similarly, when thinking about whether abortion should or shouldn't be legal, people are not trying to find out what they (or others in their society) already believe but instead what the law concerning abortion should be.

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If whatever people believed about ethics were automatically right, then there could be no moral disagreement. To disagree with someone about a moral question commits you to believing that people's ethical beliefs can be incorrect. Similarly, if a social consensus guaranteed its own correctness, then defenders of unpopular views would automatically be mistaken. One wouldn't need to argue with defenders of minority views, since they couldn't possibly be right. But iconoclasts cannot be refuted with polls, and social consensus is not proof of correctness.

We recognize how tempting it is to think that there is no fact of the matter about morality and that, even if there were, people could not know it. Morality seems in large part a human construction, so it is easy to jump to the conclusion that it is mere social convention or, more radically, that individuals determine what is right or wrong by what they believe or feel. But these temptations lead either to moral nihilism – the complete rejection of morality – or to views that cannot be sustained. If you think that anything is right or wrong, good or bad, morally praiseworthy or blameworthy, then you are not a moral nihilist. And if you take any moral claims seriously, wonder if they are correct or incorrect, and sometimes disagree or argue with others, then you cannot believe that all moral views are on a par and that there can never be any reason to accept some and reject others.

Sometimes people feel that it is intolerant or dogmatic to believe that their moral convictions are correct. In some cases they are right, because some systems of morality are dogmatic in maintaining that there is nothing to be learned or debated concerning the one true moral code. But whether tolerance is a virtue and what views and actions should be tolerated are questions *within* morality. Some moralities are tolerant while others are intolerant, just as some people – whether the subject matter be morality, sports, or deodorants – are dogmatic and others are ready to listen and learn. Short of giving up morality altogether, including all concerns about tolerance, there is no alternative to taking one's moral beliefs seriously. People who are genuinely tolerant are not moral skeptics: They believe that tolerance is (nonrelativistically) good and that those who are intolerant are wrong to be intolerant. Tolerance is tied to an appreciation of the richness of different cultures and different life experiences, to a respect for others, and to a willingness to take their perspectives and arguments seriously. It is not a form of skepticism. Furthermore, to believe that there are better and worse answers to moral questions does not imply any unwillingness to listen to the arguments of others or an inability to see one's own limitations. A serious moral commitment to tolerance is a better remedy for dogmatism than is an impossible skepticism.

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There is nothing suspect or intolerant about believing that some answers to moral questions are better than others and that rational argument can help one to judge which answers are better. These beliefs are implicit in individual moral judgments and in policy making, and it is hard to deny them without denying that there is any such thing as morality.

### 1.2 How Is Moral Philosophy Relevant to Economics?

The idea that studying ethics could help people to do economics or policy analysis may seem far-fetched. Why not consult tarot cards instead? Many people – indeed, probably some of you reading these very words – doubt that moral philosophy can help one do *anything* better (except perhaps to spread confusion and cure insomnia). If one is seeking clarity, why look in a swamp?

Our hope is that readers of this book will not come away with the impression that argument in moral philosophy is obscure, unworldly, or boring. It is, to be sure, intellectually demanding, abstract, and often intricate, and we'll not dispel all puzzlement. Like economics itself, moral theory is loaded with controversies and unresolved issues. We want most of all to show that moral reasoning can help people gain a surer grip on serious problems about how to make their lives and our society better.

But even if moral philosophy clarifies morality, why should it clarify economics? Many economists would draw a sharp distinction between evaluative questions and the “positive” science of economics, which is concerned with facts, not values. In the 1930s, Lionel Robbins expressed this view as follows: “it does not seem logically possible to associate the two studies [ethics and economics] in any form but mere juxtaposition. Economics deals with ascertainable facts; ethics with valuations and obligations” (1935, pp. 148–9). Robbins is drawing on a commonsense distinction (which is maddeningly difficult to make precise) between factual claims and evaluative claims. Intuitively, there is a huge difference between describing how many tons of steel the United States imported in 1999 and saying whether it is a good or a bad thing.

Although there is, we believe, no way to draw the distinction between facts and values precisely, it is worth describing how philosophers and economists have distinguished them. Figure 1.2.1 summarizes the contrasts. We should stress that these contrasts are highly controversial and that (as we shall argue in the Appendix) the distinctions are exaggerated and in some cases mistaken.

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Factual Claims	Evaluative Claims
Disagreements can be resolved by evidence	No good way to resolve disagreements
Relatively little disagreement	Relatively little agreement
Descriptive: say how things <i>are</i>	Prescriptive: say how things <i>ought to be</i>
True or false	Not true or false
Objective	Subjective
Independent of evaluative claims	Dependent on factual claims
Help to achieve goals	Help to determine goals

Figure 1.2.1. Exaggerated Contrasts between Facts and Values

In its gross exaggeration of the contrasts, Figure 1.2.1 makes it easy to see why economists have thought it was so important to argue that economics is and should be “value neutral”: that it makes (and should make) no evaluative claims. Economists believed that only factual claims can be studied by the methods of science. In this view, economists trespass beyond the boundaries of science when they take stands concerning evaluative matters.

This view of the separation between scientific claims, which are the subject matter of economics, and evaluative claims, which cannot be the subject matter of any science, might be expressed as follows: “Economics is science or engineering. It shows how to arrive at certain goals but, unlike ethics, it does not prescribe what goals one should have. Economics provides technical knowledge that has no more to do with ethics than does geometry or physics. No matter how sensible and well-conceived ethical theories may be, they have nothing to do with economics and cannot possibly help one understand economies.”

This entire book is a response to the view that ethics and economics have (and should have) nothing to do with each other. The best case for relating economics and ethics is to show that linking the two subjects is productive in the practice of those disciplines. We begin to make this case in Chapters 2 and 3 by showing through examples how unproductive it is to try to “cleanse” economics of the evaluative content of familiar economic ideas like efficiency, welfare, and freedom. Instead of beginning this book with abstract philosophical considerations concerning the relations between economics and ethics, we have postponed that discussion to an appendix in which we directly challenge the claim that economics and ethics should be sharply separated. There we also criticize explicitly the “engineering” vision that portrays economics as entirely value neutral. However, in the main

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text of this book we try to be constructive, showing concretely how evaluative and factual matters are entangled in economics and policy analysis.

### 1.3 Organization

Chapters 2 and 3 present four examples that illustrate ways in which moral questions arise in economics, and our concluding Chapters 15 and 16 return to these examples and apply the concepts, distinctions, and principles developed in the intervening chapters. Those eleven chapters are divided into four parts.

Part I focuses on *rationality*. Like morality, rationality is normative. One ought to be moral and one ought to be rational. One is wicked if not moral and foolish if not rational. Rationality, unlike morality, plays a conspicuous role in contemporary economic theory. Economists usually deny that economic theory presupposes any ethics, but they freely admit that it presupposes a great deal about rationality. However, economists cannot have it both ways. Endorsing their theory of rationality, we will argue, commits them to controversial moral principles. In defending their model of rationality, economists wind up espousing fragments of a moral theory.

It also turns out, we shall argue, that exploring the connections between morality and rationality leads to criticisms of economics, because the moral principles implicit in standard views of rationality are implausible. When these principles are stated explicitly, few people would endorse them. The standard views of rationality held by economists also make it hard to understand how social norms and morality can be rational. Taking ethics seriously in this case leads (or so we shall argue) to serious theoretical criticisms of basic principles of economics.

Parts II and III then zero in on concepts and theories of economic *evaluation*. Which economic policies and institutions are best? How should they be judged? Part II focuses on the standard theory of welfare and on methods of evaluating economic outcomes and institutions in terms of their consequences for welfare, such as welfare economics and utilitarianism. We shall criticize the preference satisfaction view of welfare that economists defend, and we shall argue that welfare is not the only thing that matters ethically. But we do not doubt that welfare is of great moral importance, and a major aim of Part II is to clarify its role.

Part III is mainly concerned with four other notions: freedom, rights, equality, and justice. These notions are important in the evaluation of economic policies and institutions, and moral theories have been built around them. When one thinks about other things than welfare, new vistas

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appear. Not only are there new questions and new aspects of economic arrangements to consider, but there are also new methods of thinking about morality. We shall in particular say a good deal about *contractualism*, which provides a way of making sense of morality in which the consequences of policies for individual welfare are not necessarily decisive. Whereas Part II uses the concepts of standard welfare economics, Part III presents alternatives to the questions that welfare economists ask and to the terms in which they answer them.

Part IV provides an introduction to some technical work in economics that is directly guided by ethical concepts and is immediately relevant to moral theorizing. The payoffs from knowing something about both economics and philosophy do not go only to economists. Philosophers have lessons to learn from attempts at formalizing moral concepts and exploring their consequences.

The concluding chapters consider the benefits of harnessing the combined powers of economics and ethics in addressing important policy issues. We revisit the four cases discussed in Chapters 2 and 3 and try to show, through these and other examples, how the ideas and tools explained in this book might help identify good policies and principles for citizens and governments to adopt.

At the end of each chapter (except this one and the final two), we provide a brief discussion of relevant literature. A glossary of relevant terms is assembled at the end of the book.

When you are finished with this ramble through the lush forests of moral philosophy and the brushland where it meets economics, we hope you'll see that economics remains partly a moral science. It can't be done without moral presuppositions, and it's hard to do it well without addressing moral issues intelligently. Similarly, moral philosophy can't be done without beliefs about human interactions, and it's hard to do it well without knowledge of the kind that economists seek. Like those who would completely disavow the culture of their parents, economists sometimes try to deny their philosophical lineage. Although they can reform and improve their philosophical inheritance, they can't escape it, and attempting the escape renders their theories hollow. Neither can the philosophical parents of today's social disciplines successfully repudiate their offspring. Moral philosophy and economics have much to contribute to each other.