ECONOMIC ANALYSIS, MORAL PHILOSOPHY, AND PUBLIC POLICY

Third Edition

This book shows through argument and numerous policy-related examples how understanding moral philosophy can improve economic analysis, how moral philosophy can benefit from economists’ analytical tools, and how economic analysis and moral philosophy together can inform public policy. Part I explores the idea of rationality and its connections to ethics, arguing that when they defend their formal model of rationality, most economists implicitly espouse contestable moral principles. Part II addresses the nature and measurement of welfare, utilitarianism, and cost–benefit analysis. Part III discusses freedom, rights, equality, and justice – moral notions that are relevant to evaluating policies, but that have played little if any role in conventional welfare economics. Part IV explores work in social choice theory and game theory that is relevant to moral decision making. Each chapter includes recommended reading and discussion questions.

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Economic Analysis, Moral Philosophy, and Public Policy

Third Edition

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To the three major influences on our thinking about economics and ethics

Kenneth Arrow
John Rawls
Amartya Sen
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Preface to the Third Edition

The ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist.

John Maynard Keynes

In undertaking a third edition of this text, the authors of the first and second editions, Dan Hausman and Michael McPherson, set themselves a series of tasks: to update the discussion, especially in the context of the financial crisis of 2007–2009; to address issues that have become prominent in the decade since the previous edition such as growing social and economic inequality; to fill in some of the gaps in the range of issues covered previously; and to take cognizance of developments within ethics and relevant areas of economics. This is a tall order, for the relevant literature is immense and the conceptual challenges in selecting materials to discuss and synthesizing their insights are daunting. To help with this task, Hausman and McPherson asked Debra Satz to join them as a third author, and this third edition is the result of our three-way collaboration. It has been extremely rewarding for us three, and we have learned a great deal from one another in writing together. We hope that our efforts will be rewarding to our readers, too.

Although some sections of the second edition have made their way into this third edition with few changes, the book has been extensively rewritten with a great deal of new material. One unfortunate consequence is that it has grown longer, and bigger books are often more expensive, more intimidating, and less likely to find readers. But we believe that the new material is as important and timely as it is interesting (to us, at least). We hope that it will stimulate more economists and philosophers to learn from each other.

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Preface to the Third Edition

We also hope that it will intrigue and delight our readers and more than compensate them for the greater investment of time and money that this edition demands. Among the most obvious differences between this edition and the second edition are the addition of questions for study and discussion at the end of each chapter and a completely new chapter on the limits of markets.

Since the first edition of this book was published in 1996, much has changed. There was an air of naïve optimism in many quarters in the late 1990s: the Soviet Union had dissolved; many saw democracy as inevitably spreading everywhere; and it appeared that economists had largely tamed the business cycle. There was no shortage of difficult policy questions to which both economics and ethics had a great deal to contribute, but the task was more often to build upon the accomplishments of the past than to stave off disaster. Today, the situation is both better and worse. By many measures, the world has been making progress: life expectancies are on the rise, and the United Nations estimates that the number of people living in extreme poverty around the world has fallen by 50 percent, from 1.9 billion people lived on less than $1.25 a day to 836 million in 2015. At the same time, inequality is growing within both poor and rich countries; the risks to the financial system became increasingly evident in 2008; democracy remains only an aspiration to millions around the globe; international security is threatened; and the problems of climate change grow worse every year.

The problems we face are complex. This book has no easy answers to the panoply of contemporary problems. But it continues to express our faith in the efficacy of rigorous and open-minded thinking that draws upon both the tools and models of economists and the conceptual distinctions and theories of moral philosophers. Working at the boundaries between economics and philosophy, policy makers can, we hope, make progress on the problems faced by individual nations and the world as a whole. By making ethics accessible to economists and making economic tools and methods accessible to moral philosophers, we hope to encourage their collaboration on important social problems.
Preface to the Second Edition

This book is a heavily revised and retitled version of Economic Analysis and Moral Philosophy. We added “Public Policy” to the title to emphasize the relevance of this analysis to policy questions. The book is a descendant of a survey essay, “Taking Ethics Seriously: Economics and Contemporary Moral Philosophy,” which we published in the July 1993 issue of the Journal of Economic Literature. Though now dated, that survey essay may still be of use to readers for its extensive references to relevant literature. We would like to thank John Roemer for commissioning that essay and for the detailed criticisms he offered of several drafts. Others who were of tremendous help with the first edition were Richard Arneson, Henry Bruton, Nancy Cartwright, Marc Fleurbaey, John Kautsky, Eric Kramer, Philippe Mongin, Amartya Sen, Julius Sensat, Max Steuer, Hamish Stewart, Alain Trannoy, Gordon Winston, students at Williams College and the London School of Economics, and anonymous referees. Harry Brighouse, Henry Bruton, Lester Hunt, Andrew Levine, Patrick McCartan, Jonathan Riley, David Ruben, Larry Samuelson, and Daniel Wikler read drafts of chapters of the first edition and offered valuable assistance. The research and writing of the first edition were supported by a collaborative research grant from the National Endowment for the Humanities, and Hausman also gratefully acknowledges the support of a Vilas Associate Award from the University of Wisconsin–Madison.

Since philosophical reflection on ethics continues apace, as does the development of economic concepts and tools that may be of use to moral philosophers, we thought that a new edition was called for. Although we have preserved the overall structure and many of the specific analyses, distinctions, and arguments of the first edition, we have brought the discussion up to date and added examples that we hope will further illuminate the issues we discuss. We aim to reach a large audience of those interested
Preface to the Second Edition

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in economics and policy analysis, and we have tried to avoid unnecessary jargon and complexities.

In preparing this revised edition, we were aided by and would like to thank Elizabeth Anderson, Mavis Biss, Richard Bradley, Harry Brighouse, Michel De Vroey, Jeffrey Friedman, Francesco Guala, David Hausman, Joshua Hausman, Bernd Irlenbusch, William Jaeger, Philippe Mongin, Colin Patrick, David Schmitz, Russ Shafer-Landau, William Thomson, Peter Vanderschraet, Joel Velasco, and David Zimmerman for detailed criticisms and suggestions for improvement. Marc Fleurbaey read the entire manuscript and offered extensive and insightful comments. Colin Patrick did a wonderful job preparing the Index, and Matt and Vickie Darnell did a superb job copyediting and typesetting this book. Over the years we have received a good deal of correspondence with suggestions for improvements, and we apologize to those whose help we may have forgotten to acknowledge.
Acknowledgments

In preparation for our work, we sought advice from many scholars, both economists and philosophers, and Cambridge University Press contacted a number of reviewers as well. Altogether, we received helpful comments from more than twenty people, whose recommendations have guided us in making significant changes to the manuscript. This mass of comments has brought its own challenges: it has led us to make far more extensive changes in the third edition than we had initially envisioned. Even allowing for the greater length of this edition, we could not follow all of the good advice we received, and we regret if we have disappointed some of our interlocutors through our failure to include their suggestions. In addition, when our critics did not agree, the rules of logic interceded, and we could not follow all of their recommendations. We are grateful to our copy-editor, Susan Thornton, and once again to Colin Patrick, who created the index and helped to correct the page proofs.

In addition to seven anonymous reviewers who responded to Cambridge University Press, we would like to thank the following for their extremely generous comments. This edition would have more errors and less useful content but for the criticisms and suggestions of Matthew Adler, Elizabeth Anderson, Jonathan Anomaly, Geoffrey Brennan, Mikael Cozic, Marc Fleurbaey, Peter Hammond, Frances Kamm, Paul Kelleher, Julian Le Grand, Joshua Preiss, John Roemer, Frank Thompson, Philippe van Parijs, Alex Voorhoeve, and Jonathan Wolff. Special thanks are due to Marc Fleurbaey and Paul Kelleher for their comments on some of the new material in this edition.

Hausman had the opportunity during the fall of 2015 to teach a draft of this edition to a wonderful group of University of Wisconsin undergraduates: Colin Barushok, Jesse DeLap, Lindsay Doman, Jonah Jaxen, Ethan Kay, Mikhail Kuczmar斯基, Timothy McGuire, Andrew Murdoch, Jeong (Peter) Park, Adrian Rice, Jacob Stack, Joseph Stadler, Daniel Stoehr, Jared
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van Heerde, Steven Walker, Justin Walters, and Laura Wilk. There was also a senior auditor, Wesley Foell. The class members were very patient and willing guinea pigs, and we are indebted to them for their questions, reactions, and suggestions. Satz also taught a class with Alan Ryan in which chapters in the earlier edition were read and discussed. She is grateful to all of the participants for their feedback.

This book traces back to a survey essay Hausman and McPherson published in the *Journal of Economic Literature* in 1993 in response to an invitation from John Roemer, who is in effect the grandfather of this work. Since then many people have contributed to this project in addition to those named here. No doubt errors and misconceptions remain; we reluctantly claim these as our own.