REVIEW ESSAY

Economic Analysis, Moral Philosophy, and Public Policy

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Daniel M. Hausman, a philosopher, and Michael S. McPherson, an economist, have written *Economic Analysis, Moral Philosophy, and Public Policy* (2d ed., New York: Cambridge University Press, 2006) to convince their readers, especially but not only economists, that current economic practice, particularly with regard to policy advice, is significantly more intertwined with moral philosophy than is usually admitted. Far from criticizing the inclusion of ethical judgments in economic analysis, they argue instead that such inclusion is practically unavoidable. Their aim is not to purge from economics all traces of moral philosophy, but to debunk the pretense that economists make their pronouncements from a purely objective, value-free vantage point. Recognizing the moral judgments that are often buried in arguments that purport to be purely a matter of economic science will, they contend, expose those moral assumptions to rational examination, enabling a more critical examination of the arguments and, consequently, better policy choices.

Along the way, Hausman and McPherson offer an outstanding introduction both to the fundamental tenets of modern, mainstream economics and to the current state of moral philosophy, particularly in regard to utilitarianism. They make a scrupulous attempt to be fair-minded in presenting serious rivals to their own views, carefully describing the arguments in favor of a theory before explaining why they

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The Independent Review, v. XIII, n. 1, Summer 2008, ISSN 1086–1653, Copyright © 2008, pp. 111–118.

nevertheless reject it. They show a keen eye for what is essential in contemporary "rational-choice" theory, clearly separating the core of the theory from the secondary assumptions that are often added in order to tease empirical predictions from what is largely a tautological framework. And it is in those subsidiary matters, such as the postulate that all actors are purely self-interested or concerned only with monetary gain, that economists most often introduce implicit moral presumptions into their analysis. These secondary assumptions are also the proper target of much of the criticism to which the rational-choice paradigm has been subjected because they foster the idea of a narrow-minded, selfish "economic man" that has been justifiably attacked as biased and unrealistic.

Hausman and McPherson's book has great merits, but it also has a few serious flaws. For example, the authors, despite their laudable efforts to give other viewpoints their just due, understate the case that economic reasoning makes for the superiority of free markets. In this instance, I suspect that Hausman and McPherson, as even the most objective of us are wont to do, have allowed their own political leanings to color their presentation of their opponents' arguments. In addition, they too readily dismiss the thesis that a "pure" science of economics, which is self-sufficient and can arrive at universal truths independent of any ethical stance, is both possible and desirable. The latter problem stems at least in part from the authors' failure to recognize the gulf that separates the earlier, logical approach to economics, kept alive today chiefly by Austrian economists, from the mathematical and empirical approach now followed by mainstream, neoclassical economics.

Although space does not permit a full examination of the wealth of material the authors draw into their theme, I note a few highlights here. At the start of their discussion, Hausman and McPherson point out that "moral theories are not cookbooks for good behavior," but instead "their main purpose is to help people understand what morality is, where it fits into their lives, and why they assign it the importance they do" (p. 3). This laudatory modesty about the role of moral theorizing in influencing moral practice contrasts sharply with the more grandiose view that an ethical system is capable of resolving any concrete moral dilemma from first principles. The latter position has been advanced by several prominent libertarian thinkers, such as Ayn Rand, Murray Rothbard, and Hans-Hermann Hoppe, with the unfortunate result that all too often libertarians have defended outlandish moral conclusions that discredit the broad libertarian project in the eyes of many critics. Consider, for instance, Rothbard's contention that there should be no legal sanctions against parents who allow their helpless infants to die of neglect (*The Ethics of Liberty* [New York: New York University Press, 1998], pp. 100–101).

Hausman and McPherson reject the idea that moral philosophy can identify an unambiguous, rationally required response to any concrete moral choice an individual might encounter, but they argue explicitly and convincingly that such a rejection does not imply embracing the opposite extreme in the form of full-blown moral relativism. They invite the reader to "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" (p. 4). Against those who hold that morality is merely subjective, they note that the woman is searching for *reasons* to have the abortion or not and that those reasons will take the form of rational arguments accessible to others. Contrary to the idea that morality is only a matter of social consensus, the authors point out that the results of an opinion poll on the permissibility of abortion are unlikely to resolve her dilemma. In opposition to the view that moral disagreements are not susceptible to rational resolution, they note that many such disagreements *have* been settled by reasoned debate. For example, although human slavery was widely seen as an acceptable institution 250 years ago, it would be very difficult today to find anyone making an ethical case in its defense. And although the authors admit that "moral questions are not always easy to answer and . . . difficult questions give rise to persistent disagreement," on many matters there is nearly universal consensus. For example, even serial killers typically do not attempt to offer an ethical justification for their crimes, instead confessing to the lure of a compulsion to do what they recognized as wrong but could not resist.

In their discussion of moral relativism, Hausman and McPherson brilliantly debunk the canard that rejecting moral relativism means embracing intolerance of every moral belief different from one's own. Tolerance, they argue, is itself a moral virtue, whereas, if moral relativism were true, we would have no objective reason to prefer it to intolerance! Recognizing that people from different cultural backgrounds and with different stores of experience are likely to have a different understanding of morality does not require us to regard any ethical position as being just as good as any other. Instead, it entails remaining aware that one's own moral perspective is also conditioned by one's background and therefore involves taking seriously the possibility that one's own views, rather than the stranger's, may need modification. Such weighing of one's culturally influenced judgments against a novel perspective, however, makes sense only if there *is* a rational basis for adopting some moral principles and rejecting others.

Hausman and McPherson also expound clearly and skillfully another profoundly important truth: that a fundamental distinction exists between working within a specialized discipline that employs and develops its own particular techniques and abstractions, on the one hand, and judging the significance of that discipline's findings for the broader endeavor of seeking a better understanding of reality as a whole, on the other. The practitioners of a particular subject are uniquely qualified to evaluate the merit of novel techniques and concepts as well as the application of existing methods *within the discipline itself*. But in locating the place of such discoveries within the overarching framework of all human knowledge, the specialist may be like the septic engineer who believes that what life is "really all about" is successfully disposing of feces: blinkered by his immersion in the details of his work and unaware of his biased view of its importance. (If the reader suspects that I have in mind the biologist Richard Dawkins, who thinks that life is "really all about" genes' efforts to propagate, I disclaim responsibility.) For example, a professor of formal logic is probably vastly superior to an outsider in evaluating the validity of a newly proposed theorem in his field, but perhaps not in deciding what that theorem *means* for our understanding of thought in general, which requires philosophical analysis and can never be decided solely by the techniques or rules of formal logic. Consider Gödel's Theorem in mathematics or the discovery by physicists that their own observations influence the behavior of the subatomic particles they are studying. The abstract, technical validity of these ideas has long been considered a settled matter, but the broader implications of their acceptance is still fiercely disputed. Hausman and McPherson have performed a great service for both professional economists and lay followers of their work by demonstrating so clearly and extensively that the abstract models of positive economics neither come packaged with an indisputable built-in interpretation nor provide unambiguous guidance to policymakers.

Having established the foundations of their approach in the philosophy of ethics and science, the authors proceed to their main theme: the moral assumptions hidden in many arguments that are represented as being purely economic. They undertake a detailed analysis of Lawrence Summers's 1991 memorandum on exporting pollution to Third World countries (pp. 12–23). Summers was then the chief economist for the World Bank, and his note suggested that it might be salutary for the bank to promote the relocation of "dirty" industries from industrialized nations to developing ones. His argument centered around the idea that beyond a minimum level of livability, a clean environment is a luxury good, more important to wealthy residents of the First World, who already have adequate food and shelter, than it is to impoverished people struggling to acquire the bare necessities of life. The poor might well be willing to accept somewhat dirtier air and water in exchange for more cash in their pockets.

For our purposes, let us set aside the fact that any real-world implementation of Summer's proposal would be worked out at the level of nation-states, meaning that the residents of poor countries would not actually get a choice in the matter. But suppose they did get one, and they decided unanimously to accept more pollution in exchange for cash payments. Where is the problem? Hausman and McPherson argue that although such an arrangement may promote "efficiency" in an economist's model, it ignores questions of justice, rights, and equity. They have a valid point in contending that economists all to often ignore such factors in recommending "efficient" solutions. Indeed, a number of libertarian theorists, such as Rothbard and Walter Block, have stressed this very point. In the case at hand, however, it is difficult to see how justice or rights are being violated. If every poor person involved prefers to have the extra money and the extra pollution rather than not to have them, and explicitly agrees to the trade-off, why is the situation unjust? Whose rights have been ignored? The authors recognize that an absolute prohibition of all pollution would be absurd (p. 139) because, for example, even breathing creates greenhouse gasses! So if pollution will occur somewhere, why not allow it to take place where the locals are most willing to put up with it? Of course, one may feel it is unfortunate that the poor have more limited options than the rich, but unless one advocates absolute egalitarianism (which the authors do not), then that situation is unavoidable. Why should the poor be allowed to decide to accept living in a smaller house in exchange for more spending money, but not be allowed to choose a higher level of pollution? The only plausible reason I can see for the authors' view is that they must feel they are in a better position to judge the latter trade-off than are the people directly involved. Indeed, Hausman and McPherson seriously consider such paternalistic aims as presenting a serious counterweight to common efficiency arguments based on maximization of preference satisfaction (p. 143).

With regard to the accepted limits on what welfare economists can scientifically conclude, Hausman and McPherson acknowledge the weight of the canonical case against interpersonal comparisons of utility. They admit that when welfare is conceived in terms of individual preference satisfaction, that case is strong. They argue, however, that other criteria for comparing government policies, such as basic needs rather than mere desires, provide a plausible basis for such comparisons. Indeed, they assert that "one must be able to make comparisons between states of affairs when neither is Pareto superior to the other. . . . Economic changes usually involve winners and losers, and it is not a matter of indifference who wins and who loses" (p. 138). For these authors, every action that seemingly alters the economic status quo is potentially a legitimate subject for political evaluation. The classical-liberal and libertarian standard—that any change in individuals' circumstances that arises from voluntary exchange and does not violate anyone's rights is not the proper concern of the legal system—apparently is beyond the authors' ken. Within the framework of market liberalism, plenty of scope remains for adjusting the rules so that the ability of the powerful to take advantage of the less fortunate is minimized and for attempting to redress past injustices that may have led to one-sided outcomes. Yet the mere fact that some party is made less well off by other persons' mutually agreed-upon exchanges is considered legally irrelevant in this framework.

The belief that every economic activity that affects third parties is a proper matter for policy debate also arises when Hausman and McPherson turn their attention to international trade. They begin by admitting the force of the principle of comparative advantage in arguing for the benefits of individual exchanges. "However," they declare, "the move from individual traders to countries is of great moral significance." To illustrate their claim, they write, "Although facilitating trade in beef and fish between the United States and Japan may make average incomes in both countries rise, it is quite likely to harm Japanese cattle raisers and U.S. fishers" (p. 69). They fail to see that international trade is no different from the lowliest of local exchanges in this regard. If I have been buying my weekly loaf of bread from Joe, but one day discover that Mary offers a better deal and move my business to her bakery, then Joe is clearly made worse off. If such third-party complaints are properly to be ignored in the case of local trade, why should they suddenly gain relevance if Mary happens to be a foreigner? To be fair to the authors, they do write "facilitating trade" rather than "permitting trade," so perhaps they are thinking about state treaties that subsidize or otherwise promote certain cross-border exchanges. In that case, their assertion of a change in kind is justified, although, of course, the economic liberal would contend that such treaties are themselves unwarranted.

Hausman and McPherson's work is similarly blinkered with regard to the contention that various important environmental concerns cannot be handled except by states that override the market process. The authors claim that "since there are no markets for species, landscapes, monuments, or cultural preservation, one can treat the fact that aesthetics and principled views about the environment have little influence on market outcomes as if it involved an ordinary market failure" (p. 287). However, their contention is both factually inaccurate as a description of the present situation and neglectful of reforms that potentially improve the market's ability to take such values into account. Even today, consumers can promote the protection and cultivation of these resources by patronizing eco-resorts and parks that shelter endangered species, visiting locales that cherish their past, and buying homes in developments covenanted to respect the aesthetics of their setting. Furthermore, contributing to private charities provides another effective means for individuals to act on the importance they assign to these matters. And there is no reason to regard the current system of property rights as the optimal arrangement for settling divergent opinions about the proper trade-offs to be made between preservation and development, pollution and productivity, bucolic views and efficient land use, or artistic surroundings and urban convenience. In many cases, the extension of property rights to goods such as ocean fishing grounds, air and water quality, wildlife populations, and historic landmarks would make prudent management of those resources more likely than the current tendency to treat these goods as a commons. Unlike many less careful invokers of the Coase Theorem, the authors realize that its sanguine conclusions about individuals' ability to bargain away externalities hold only in the absence of transaction costs. Yet they are guilty of unfounded optimism when they assert of such situations that "government taxes or subsidies can mitigate sub-optimal outcomes" (p. 139), and they ignore the inconvenient fact that in trying to ameliorate conditions in which the market price of a good fails to reflect important costs or benefits entailed in its provision, policymakers have no way of arriving at the "right" outcome other than by following their best hunch. To be sure, that hunch may occasionally be superior to the result that was achieved or that would have been achieved by the market process, but I see no grounds for believing that it will systematically prove to be so. It is one thing to suspect that existing property rights lead to, say, higher-than-optimal levels of automobile emissions, but it is quite another to imagine that state officials can pinpoint exactly the amount of gasoline taxation required to remedy the problem rather than exacerbate it.

The context of my final example of the authors' failure to grapple fully with the case for free markets is their discussion of the business cycle. They respect the arguments in favor of economic liberalism enough that they seriously consider the possibility that recessions "are part of the market economy and . . . having to endure such spells is a reasonably good alternative to arrangements that could eliminate the risk of unemployment" (p. 37). However, they seem to be unaware of the work by Ludwig von Mises, F. A. Hayek, and their intellectual heirs, which models business cycles not as a market phenomenon, but as a consequence of central-bank actions to manipulate interest rates and control the money supply.

Even though Hausman and McPherson's own political preferences clearly are for an interventionist state that operates roughly along the lines of a contemporary European social democracy, they take the libertarian case for a much less active government seriously enough to devote an entire chapter to its examination. They discuss the views of a modest but not insignificant sampling of libertarian thinkers, including Hayek, Jan Narveson, Tibor Machan, Walter Block, Loren Lomasky, James Buchanan, Tyler Cowen, Hillel Steiner, and, of course, Robert Nozick. (In a rare moment of sloppiness on the authors' part, Mises, mentioned only in passing, is cited [p. 333] as having published a book entitled *Human Actions* in 1941!) Although the authors do not end this chapter by declaring their conversion to libertarianism, they find libertarian arguments sufficiently persuasive that their conclusion asserts, "Normative economics should undertake more explicitly the responsibility of investigating how well economic arrangements serve liberty and to what extent they secure rights. Welfare economics should be only one part of normative economics, not the whole of it" (p. 172). A more sympathetic appraisal of one's ideas by an intellectual opponent could hardly be expected.

Hausman and McPherson's willingness to engage libertarian thought sincerely represents an encouraging trend. Although university departments of political theory and political philosophy have hardly become bastions of classical-liberal thought, libertarian ideas are for the most part no longer summarily dismissed as merely representing disingenuous attempts to provide ideological smokescreens for the interests of the wealthy, and serious libertarian theorists typically receive a respectful hearing of their ideas rather than ostracization as hopeless reactionaries.

Although Hausman and McPherson are admirably fair in presenting a political program that they clearly do not embrace, the keen critical faculties they exhibit in most parts of the book are underutilized—held in check, I suspect, by their fondness for egalitarian principles—when they turn to the egalitarian approach to policy evaluation. They note perspicaciously that any form of egalitarianism faces the dilemma that ensuring equality in one regard entails accepting inequality in others—for example, mandating a uniform income for all workers means that single workers will have more discretionary income than those who support a large family—but they are unduly lenient with some egalitarian proposals that seem to me to be nothing more than whimsical fantasizing. They take seriously the suggestion that a just polity ought to enforce an "equality of resources" between all citizens (pp. 185–90). The resources to be equalized, in this view, include not only financial wherewithal, but also conditions such as "accidents of birth." Hausman and McPherson blandly ignore the patent absurdity of believing that political authorities can objectively determine whether a person born disabled, but possessed of great charm and sharp wits is more or less fortuitously endowed by nature than someone who is physically blessed but unlikable and rather dull, and that they can then arrive at a meaningful measure of the "resource differential" that separates the two individuals and, finally, devise a method to compensate for that difference precisely. Even if officials were able to do this, do the authors really mean to suggest that a society like the one Kurt Vonnegut depicts in the satiric short story "Harrison Bergeron," in which anyone of above-average intelligence is required to wear a device that regularly interrupts his thoughts with a jarring noise, is anything other than a nightmarish dystopia?

Economic Analysis, Moral Philosophy, and Public Policy is an erudite and important book. It presents a serious challenge to the prevailing belief that economists' policy recommendations usually are or can be grounded solely in their scientific opinion. Hausman and McPherson display a keen sense of the assumptions that underlie rational-choice theory and how those assumptions affect the relevance of the models that rational-choice theorists devise. They also exhibit an intimate knowledge of the most cogent, contemporary approaches in moral philosophy. Although they sometimes go astray with regard to the specific implications of their broader argument, these missteps are only minor flaws in an outstanding work.

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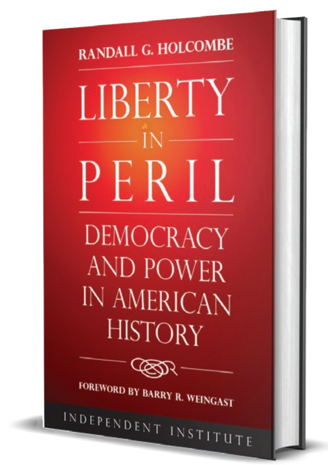

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