doi:10.1017/S0266267117000190

Economic Analysis, Moral Philosophy, and Public Policy, Daniel Hausman, Michael McPherson and Debra Satz. Cambridge University Press, 2016, 414 pages.

This book has three aims, first, to show the relevance of moral philosophy for economics, second, to show the relevance of economics for philosophy, and third, to show how a better understanding of the linkages between economics and moral philosophy can help improve the quality of policy analysis. The focus is clearly on the first of these aims, and the implications this has for policy analysis given the dominance of economic reasoning in policy development. In particular, the book highlights the tacit ethical assumptions in ostensibly value-free economics, and gives an overview of notions in ethics and political theory that complement economic analysis. It thereby yields opportunities for both a deeper and broader analysis of public policies.

The book is excellent. It serves well as both an introduction to ethics for economists, and an introduction to economics for ethicists. In particular, it would work well as a teaching resource for courses in economics, philosophy and public policy.

In what follows I give an overview of the book's contents, before making a few critical remarks.

1. OVERVIEW OF THE BOOK

The first part of the book serves to motivate the thesis that ethical questions are unavoidable in policy analysis, and complement the economic questions. The book begins by illustrating this thesis with two recent and important policy issues: the 2008 financial crisis and the growing concern with inequality. The first chapter (and appendix) also front-foots the sceptical claim that we can't make progress on addressing moral concerns, and shows how economics and ethics are associated. Chapter 2 looks at two policy examples addressed by welfare economics: the World Bank proposal to encourage migration of polluting industries to less developed countries, and a proposal for government to fund education via school vouchers rather than provide schooling itself. Chapter 3 looks at two policy examples in positive economics: whether there is any involuntary unemployment (as opposed to individuals who choose not to work in the jobs and for the wages available), and the issue of 'overlapping generations' (whether social security should be regarded as a savings or as a transfer programme). The authors unpack the ethical dimensions in each of these examples.

In the first substantive section of the book, the authors focus on the underlying assumption of rationality in economics, and the hidden ethical assumptions this entails. Chapter 4 gives a somewhat technical but nevertheless clear primer in rational choice theory. In Chapter 5, the authors argue that mainstream 'positive' (that is, descriptive) economics needs to broaden the standard theory of motivation and behaviour away from a narrow concern with rationality, to incorporate the influences of morality and altruism. They argue that economists who ignore morality, and look only to rationality as self-interest as providing any normative force, may end up justifying immoral actions. In addition, the exclusion of morality has predictive consequences: as a matter of fact, people are motivated (in part) by moral considerations, and these have measurable economic consequences not captured by the more limited model. Chapter 6 addresses the issue of ethical limits to markets. Markets have certain advantages, including enhancing efficiency, allowing individuals freedom of choice, and distributing information in the form of prices. Of course, there is no such thing as a purely free market, and there is justification for government intervention in the market, for example, where markets generate externalities, or where there are informational asymmetries. But are there some goods that *should* not be traded in a market? Here we need to appeal to ethics. Some goods, such as friendship or justice cannot be traded in the (categorical) sense that a 'friend' you have to buy is not actually a friend. Other goods (such as parenthood) should not be traded since this does not value the good (the children) appropriately. Further, trading some goods can impact on third parties; markets can crowd out altruistic behaviour, for example. That markets in some goods are morally problematic does not entail that they should be banned; regulation of a market in alcohol may be the least bad option. Finally, there are alternative ways of allocating goods (other than markets), such as lotteries.

Mainstream economics (as employed in policy analysis) tends to focus on the consequences of policies, and to assess the consequences of policies in terms of the welfare of individuals; the welfare of individuals is equated with preference satisfaction, and preference itself is understood as willingness to pay. The second main section of the book addresses the ethical basis of this so-called welfarism. Chapter 7 gives an overview of utilitarianism in particular, and consequentialism more generally. In Chapter 8 the authors set out the orthodox economics view of wellbeing as preference satisfaction, and consider the alternative view of wellbeing as a mental state, as well as objective views of wellbeing. The authors set out arguments for why wellbeing is not preference satisfaction and (more briefly) why mental-state theories are mistaken. The focus of Chapter 9 is mainstream welfare economics, which assesses policies according to their impact on wellbeing, understood as preference satisfaction. Mainstream welfare economics tends to reject utilitarianism, since it is judged that interpersonal comparisons of utility are not possible. But there remains a need to be able to assess policies, and make room for other considerations such as justice. This chapter explores how mainstream economics achieves this. The chapter considers the notion of Pareto improvements, and problems with applying this to policy analysis (including the fact that it narrows normative questions, and that real-world Pareto improvements are vanishingly rare). The chapter moves on to consider Kaldor/Hicks potential Pareto improvements, and the possibility of compensation. The applicability of Kaldor/Hicks potential Pareto improvements is challenged for a variety of reasons, the chief of which is the lack of real-world compensation. Finally, the chapter considers cost–benefit analysis as an application of welfare economics, and presents a set of objections to its use in policy making.

Whereas the first and second sections of the book unveil the hidden normative assumptions made by mainstream economics, the third section of the book looks to theories and concepts in ethics and political theory overlooked by welfare economics, which could complement the economic analysis of policies. Chapter 10 introduces four possible interpretations of the notion of freedom or liberty: negative liberty, positive liberty understood as fully rational self-determination, positive liberty understood as opportunities, and republican freedom. It discusses the concept of rights, the importance of rights to economics, as well as the justification and value of rights. The chapter also considers various forms of libertarianism. Chapter 11 considers equality; its definition, what is wrong with inequality, and the relative importance of considerations of equality. The authors give a good overview of the main issues in equality in this one short chapter, which is a notable achievement, given that equality is arguably the topic that has received the most attention in contemporary political philosophy. The authors argue against those who see inequality as intrinsically bad (what they term 'basic' egalitarians), and against prioritarians. The authors argue for a concern for distributional equality on instrumental grounds, including a concern for equal moral status. Chapter 12 introduces a new notion of justice to complement utilitarian and libertarian theories (egalitarian theories are ignored): social contract theories. The chapter introduces some basic terms of art, including the circumstances of justice, and state of nature, and gives an introductory history of contractualism. Most of the chapter is dedicated to the most prominent contractualist theory, namely Rawls's Theory of Justice, and subsequent developments. The chapter addresses the relevance of Rawls's contractualism for policy (though at the macro level, not the level of individual policy decisions). The chapter also considers Amartya Sen's challenge that Rawls is too ideal and G. A. Cohen's challenge that Rawls is insufficiently idealized, because it makes too many concessions to human nature.

In the penultimate section of the book, the authors switch the direction of analysis, and show how the tools of economic analysis can contribute to better moral and political theory. Chapter 13 gives an overview of some of the most important theorems in social choice theory, and explains how these formal results can help clarify moral theorizing. The chapter covers Arrow's impossibility theorem and Sen's paradox of the Paretian liberal, among other results. The authors state that they are 'ambivalent' about the value of the axiomatic approach; a formal approach can lead to important clarifications, but the abstractness of the formal approach has its own drawbacks. In particular, more work needs to be done on the interpretation of the formal work. Chapter 14 gives a basic introduction to game theory, and its potential for understanding issues in ethics, including cooperation. As with the previous chapter, the authors sound a note of caution about applying the formal methods of game theory to moral and political theory.

The book concludes by applying the lessons from the preceding chapters to policy examples. Chapter 15 revisits the four policy examples outlined at the start of the book (involuntary unemployment, retirement savings, exporting pollution, and school vouchers). The first two examples (from positive economics) illustrate how an understanding of ethics helps identify hidden assumptions made in economics; those who argue that unemployment is voluntary are either assuming that a rational choice is the same thing as a voluntary choice, or they are assuming that low quality jobs are still acceptable by the evaluative standards of their society. The latter two examples illustrate how an understanding of ethics provides alternative analytical frameworks to welfare economics; utilitarianism, as an alternative normative framework to welfare economics, would likely give a different answer as to whether polluting industries should be moved to lower developed countries. Chapter 16 seeks to underline how economics and ethics complement each other, illustrating this with three new contemporary examples: health care, the 'gig economy', and climate change. Uber is used as an example of the gig economy, where technology is used to efficiently link sellers and buyers. Such innovative business practices 'disrupt' existing regulatory systems. We need both economics and ethics to identify the rationale for the regulatory systems, and to determine how they can be reformed in light of the new business practices. For example, there is a concern that the business practices of Uber circumvent minimum wage regulations. Minimum wages can be justified on the consequentialist (ethical) grounds that the benefits to those whose income is increased by a minimum wage outweigh the costs to those who miss out on having a job. And economic reasoning suggests that if there is a minimum wage, it ought to be universal, since those firms not subject to minimum wage legislation have a competitive advantage.

2. COMMENTS

This is now the third edition of a book that will be familiar to many readers. This new edition incorporates advances in economics and philosophy, as well as recent real-world events, and is a substantial rewrite. The book works well as a reference guide for readers interested in particular issues at the intersection of economics and philosophy, such as the ethical objections to cost–benefit analysis. The entries on each issue are brief, but most chapters have a section containing suggestions for further reading. Equally, the book has a strong narrative thread running through it, and can be read cover to cover. In this regard, the book would be ideal as a core reading in a course related to economics, philosophy and public policy, or for self-study; each chapter includes a set of questions for study and discussion.

One can quibble with some of the analysis of the policy examples. Take, for instance, one of the early examples used to illustrate the intertwining of ethics with economics: the policy proposal for government to support primary and secondary education with school vouchers rather than providing schools directly. The authors claim that the proposal for school vouchers is typically advanced on the economic grounds of efficiency: school vouchers encourage schools to compete for students, and so incentivize the provision of better quality education at lower costs. The primary concern with efficiency is sometimes balanced with a concern for the distributional impacts of the policy. But the important role of schools in the development of moral and civic character in students – something that benefits wider society not just the 'consumers' (the children/parents) – is often absent from the policy debates. Under a voucher system, schools will compete for the patronage of parents on the *content* of this moral and civic education. The parents may have no interest in this civic education, or may have an interest in a type of civic education that is against the interests of wider society (a religious education that is anti-secular, for example). In addition, the focus on efficiency and distribution (and the neglect of the civic aspects of education) may lead to a level of social segregation that undermines solidarity and a common culture.

The authors claim that a voucher system 'is bound to diminish the influence of local school districts' and that 'it would be naive to opt for thoroughgoing market provision through vouchers and then assume that government regulation will protect the character of democratic education' (35). But these, surely, are contingent claims. If the government can regulate the private provision of education to ensure some minimum standards of quality, surely it can also regulate to ensure some minimum pedagogical content. In other words, the government, in using a voucher system to create a market in education, can rule out civics education as one of the points of difference on which different schools compete for students.

But I suspect that the possibilities of these disagreements are part of the authors' point. A greater fluency with ethics will not settle issues such as the likely consequences of a policy proposal; this remains the task of the positive social sciences including economics. But a greater fluency in ethics opens up dimensions of value on which these debates on likely outcomes can take place. Whatever the consequences for school vouchers are on civics education, this is an issue that ought to be taken into consideration.

This leads to a related point. The authors explicitly take the view that 'Moral theories are not cookbooks for good behaviour. Their main purpose is to help people understand what morality is, where it fits into human life, and why people assign it the importance they do' (1). Consequently, when addressing specific policy examples, they state 'We have not argued for specific policies … Instead we have called attention to the ethical values that are at stake in each of these examples' (312). The approach the authors take in the book is that a greater fluency with ethics deepens the understanding of those employing an economic analysis, and broadens the potential analyses away from purely economic approaches. The authors argue, quite reasonably, that a greater fluency in ethics can lead to a more comprehensive and robust analysis of policy proposals. But there remains a need for something like more of a cookbook approach to ethics in public policy analysis. Students aiming for a career in policy would benefit from a greater fluency in ethics, and this book ought to be part of the required reading list. Moreover, researchers interested in the intersection of economics, philosophy and public policy would also benefit from using the book as a starting point. But policy analysis is an essentially practical exercise. There will be officials charged with analysis of important policy alternatives who will miss out on this training, and lack the inclination to pick up the book. Part of the reason that economic tools, such as cost-benefit analysis, dominate policy analysis may be that they are simple and easy to use. Those using such tools ought to be aware of their limitations and ethical presuppositions, but that is not always going to happen. What is needed, in addition, are some user friendly ethical toolkits for policy analysis.

The overall lesson of the book is not to dismiss economics; economics provides many useful tools for the analysis of public policies. But the tools of economics have their limitations, and they are not the only tools available. Misusing the tools of economics, and failing to make use of alternative tools, leads to a distorted analysis of policies. We need ethics to understand the limitations of economic tools, and ethics itself provides alternative tools.

Christopher Thompson*

ACKNOWLEDGMENTS

I thank Alex Voorhoeve for helpful suggestions.

BIOGRAPHICAL INFORMATION

Christopher Thompson is an Associate Professor of Philosophy at UiT – The Arctic University of Norway. He received his PhD in Philosophy from the LSE, and worked previously at the University of Cambridge and University of Groningen. His research focuses on social epistemology, political philosophy and the philosophy of public policy.

doi:10.1017/S026626711700027X

Economics Rules, Dani Rodrik, W. W. Norton & Company, 2015, xv + 253 pages.

Many economists readily admit that they tend to think of their discipline as superior to other social sciences (Fourcade *et al*. 2015). If this sense of superiority has suffered due to the criticism economists have had to endure, both from inside and outside of their discipline in the wake of the recent global financial crisis, then part of the mission of Dani Rodrik's *Economics Rules* is to restore it. The book claims that economics is not only a science, but one that is better suited to studying the social world than other social sciences. The other meaning of 'Economics Rules' suggests a more self-critical book, one that develops methodological precepts that economists should follow to avoid failures like the unpreparedness for the financial crisis we faced in 2007–2008 and the global recession that followed. This is where the book excels: In the detailed and highly readable recounting of both failures and successes of economics in recent years, and in the analysis of what went wrong and what went right in each case. The emphasis in these case studies is, however, decidedly on the failures. Indeed, the conclusions Rodrik draws about his own field are at times devastating. These case studies should be interesting reading for philosophers of economics, especially since the more general methodological lessons Rodrik draws resonate with various views on models in the philosophy of economics literature. I will therefore start by

* UiT – The Arctic University of Norway, Po. Box 6050 Langnes, 9037 Tromsø, Norway. Email: chris.thompson009@gmail.com.