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# Economics as Applied Ethics: Value Judgements in Welfare Economics by Wilfred Beckerman (Book Review)

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# Review of Wilfred Beckerman's *Economics as applied ethics: value judgements in welfare economics*. London: Palgrave Macmillan, 2011, 240 pp.

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This is a well-written textbook geared to advanced undergraduate or graduate students of economics, many of whom are largely and regrettably innocent of the ethical problems inherent in conventional economic analysis. It compares with Daniel M. Hausman and Michael S. McPherson's *Economic analysis, moral philosophy, and public policy* (2006) and Johan J. Graafland's *Economics, ethics, and the market: introduction and applications* (2007). The book presupposes a fair amount of knowledge in both economics and ethics (it does not intend to be a primer in either). The author is professor emeritus at Balliol College, Oxford and honorary visiting professor of economics at University College London, and this book arose from a third-year course at the latter school in which he participated.

The book contains 17 chapters, each of them reasonably concise (ranging from 8 pages to 24 pages). Each chapter could thus be covered on a single day or two in class. The topics are generally what one would expect: the fact-value dichotomy; getting from individual choices to individual welfare and from individual welfare to social welfare; utilitarianism and its critics; GDP; happiness; equality; justice; the value of life; and the bounds of moral standing in space and time (e.g., international and inter-generational welfare).

The author is dissatisfied with the standard way of teaching economics, which supposes that one can do policy making without carefully addressing ethical precepts. Another frustration with current economic teaching is the focus on optimality rather than on understanding our actual, second-best, starting position. The book attempts to demonstrate, in chapter 1, the mix of value judgments with facts necessary for welfare economics. Two examples are provided, one of natural resource depletion and the other of global warming. Citing Ian Little, Beckerman notes that in both cases finding a unique optimum solution is impossible given that ethical choices dominate any conclusion. Hence, "'Optimal' does not mean 'ethical'" (p. 11). In addition, I would add that historical, cultural, and political frameworks create institutional regimes with path dependencies that are important for policy analysis and that go far beyond the scope of efficiency analysis. Dani Rodrik's *One economics, many recipes: globalization, institutions, and economic growth* (2007) is suggestive of what can and should be done to incorporate some of these elements.

Beckerman does not do all that he could with the fact-value dichotomy. For example, he accepts that scientific propositions in positive economics depend upon factual observations. But an unexamined issue in the book is how values are used to create the very facts that are presented as scientific. For example, the "fact" that the unemployment rate is 7% depends in part on the value judgments that go into the official definition of who is "unemployed". A looser definition could produce policies that result in more fiscal stimulus and more people on welfare rolls. In economics, definitional terms are socially created and they reflect professional judgments mixed with moral and political norms.

Chapter 3 discusses the trade-offs between policy goals, such as low inflation and low unemployment. The point is to demonstrate that "both value judgments and positive propositions must enter, sooner or later, into any specific normative economics prescription" (p. 33). In many instances the ethical judgments in welfare economics are "not always adequately appreciated" (p. 33)—which is likely an understatement. In my own experience, colleagues have argued that once a value proposition is widely adopted it is no longer "ethical" it is objectively "professional". This is misguided. For example, a professional norm in econometrics is to accept a Type I error rate of 5 percent, i.e., which produces false positives in 5 out of 100 cases. However, the loss function for a Type I error varies greatly depending on the circumstances. If a food additive is suspected of causing serious brain injury in children, would one prefer to make fewer false positives in this case, compared to when the loss involves merely an upset stomach? There is no objective answer to this question because the choice requires a value judgment. Establishing a professional norm cannot diminish the ethical significance of what is at stake.

Using David Hume's and Adam Smith's writings, Beckerman adeptly demonstrates that ethical analysis in economics has deep historical roots. In introducing altruism and benevolent sympathy he cites the familiar opening sentence from Adam Smith's *The theory of moral sentiments* (1759):

> How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it (Smith TMS, I.i.1).

Yet readers should be aware that Smith was also interested in anti-social instincts for hatred and revenge that play an important part in the development of institutions of justice.

In chapter 4, on social welfare functions, Beckerman laments that standard microeconomics insists that no interpersonal comparisons of utility can be valid. While the neoclassical approach is scientifically logical, it defies our moral intuitions: a loaf of bread taken from a plump person and given to a starving child would certainly increase human welfare in the minds of most people, even if there is no way of proving this. Given the growing interplay between economics and biology, there may indeed be ways to calculate substantive measures (e.g., hormonal responses) of well-being in the future. Beckerman notes, using the wry humour that peppers the book:

> We all know that to rule out interpersonal comparisons of this kind simply because there is no scientific basis for them is nonsense. Rigour is extremely important, but it must not be allowed to become 'rigor mortis'. If we were unable to empathize with other people sufficiently for us to be able to make fairly sound judgements about significant differences in levels of utility, the social concepts of fairness that are essential in any stable society would be impossible (p. 62).

To Beckerman, making "rough interpersonal comparisons" between utilities can be justified in specific circumstances.

Beckerman addresses the limitations of Larry Summers's famous memorandum on exporting pollution to impoverished African countries.[1] He rightly points out the distributional as well as principal-agent problems with Summers's proposal, and the fact that compensation for pollution victims is unlikely. But he might also have pointed out that there are few institutional safeguards in the countries

[1] This was part of an internal memo on trade liberalization circulated in December 1991, while Summers was chief economist at the World Bank, and which was published in *The Economist*, 8th February 1992.

concerned, whether for legal redress or political protest. In other words, Summers (like most economic analysts) assumes the existence of functioning institutions that are essential for justifying the implicit coercion that lies behind modern cost-benefit calculations. The Chinese government forcibly relocated 1 million peasants to build the Three Gorges Dam based on purported economic benefits and costs. But opportunity costs cannot be calculated in involuntary transactions, and without judicial restraints, a free press, and a democratic process, these estimates are not subject to impartial checks. In a Hobbesian world, coercion is justified only when the contractual basis for coercion is voluntarily agreed to ahead of time.

Ultimately, Beckerman is sanguine about the role of cost-benefit analysis in the economic toolkit:

> It might appear from the above that welfare economics cannot take us very far in making rational choices among different policy options. But this would be a mistake. Welfare economics, combined with the social welfare function, provides a valuable framework and organizing principle for taking account of the effect of any economic policy (p. 76).

Because most policy choices are about marginal adjustments to resource allocations, "what is usually required will be factual information, and there will be little point in wringing one's hands over the normative significance of the starting point" (pp. 76-77). Nevertheless, a sterile cost-benefit analysis that fails to adequately address ethical values may become a harmful activity.

Overall, this book is highly recommended. It covers the selected topics with depth and sensitivity. The writing is generally excellent, but there are occasions of repetition and unevenness, as if the chapters were compiled separately and merged later. A student reader who is not already familiar with basic ethical theories could benefit from a primer in some places. For example, the book discusses Amartya Sen's theory of commitment, however it does not dig very deeply to explain or defend that notion, whether from a deontological or virtue ethics approach.

The book devotes a lot of attention to questions of equality and justice, particularly on the work of economist philosophers such as John Broome, Partha Dasgupta, Ian Little, and Amartya Sen. This is appropriate, interesting, and relevant. However, the book does not appear to address research in experimental economics, biology, and psychology that might be relevant to some of these questions, such as the work in neuroeconomics by Paul Zak, experimental work by Vernon Smith, or recent philosophical work on virtue ethics by Deirdre McCloskey. This is the normal limitation of any text that strives to be concise, yet students should understand there is much more to ethics and economics than can be conveyed in this book.

In particular, if economics is applied ethics, as the title suggests, economists themselves must be ethical in the pursuit of science. However, the book does not address the moral responsibilities of being a scientist, nor does it address the conflicts of interest of economists before and during the crisis of 2008 (as alleged in the documentary, *Inside job*). These would seem to be important topics for economics students but they lie beyond the scope of this work. As with the ethics embedded in normative economics, the ethics embedded in positive economics also remain generally unexamined.

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