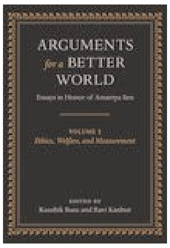

Arguments for a Better World: Essays in Honor of Amartya Sen: Volume I: Ethics, Welfare, and Measurement

Kaushik Basu (ed.), Ravi Kanbur (ed.)

https://doi.org/10.1093/acprof:oso/9780199239115.001.0001

Published: 2008 **Online ISBN:** 9780191716935 **Print ISBN:** 9780199239115

CHAPTER

1 Chapter 1 Why Economics Needs Ethical Theory

John Broome

https://doi.org/10.1093/acprof:oso/9780199239115.003.0002 Pages 7–14

Published: December 2008

Abstract

Amartya Sen has worked tirelessly to establish the importance of ethics in economics. This chapter adds a little to his arguments. Whenever economics tries to determine how the economy ought to be structured or managed, it makes an ethical judgement. But economists use various devices to hide from themselves their need for ethical theory. The chapter describes and criticizes some of their devices. The main one is to found an account of value on people's preferences. In this way, economists hope to avoid making judgements of value themselves, but instead leave them to the people. However, this device entails implausible ethical commitments of its own. Economists need to found their recommendations on their best ethical judgements. They must make their judgements explicit, and they must be ready to defend them with good arguments.

Keywords: democracy, empirical ethics, ethics, existence value, normativity, preferences and value, value of life, welfare economics, willingness to pay

Subject: Welfare Economics, Economic Development and Growth

Collection: Oxford Scholarship Online

I

ENOMICS is a branch of ethics. At least, much of it is. Part of economics is pure science; it aims to account for the behavior of people and institutions in the economic arena. But more than most scientists, economists have their eye on practical applications. Most of them are interested in economic science because they are interested in finding better ways of running the economy, or of structuring the economic system, or of intervening or not intervening in the economy. All of that practical part of economics is a branch of ethics.

Why? First, it is about how things ought to be done, which means it is normative. (By "normative" I mean concerned with what ought to be done.) But merely being normative is not necessarily being ethical. You ought to clean your car occasionally. That is a normative requirement on you, but it is not an ethical requirement. It is not universally agreed just how the ethical is to be distinguished from the rest of the normative. But in contexts that involve conflicts between the interests of different people, normative claims are certainly ethical, and this includes virtually all normative claims that are made in economics. For example, to claim that the interest rate ought to go up raises a conflict of interest between lenders, who stand to gain by an increase, and borrowers, who stand to lose.

p. 8 All his life, Amartya Sen has worked to establish the importance of ethics in economics. He has argued for it, formalized it in economic theory, applied it constantly, and exhibited it in his own life. Yet despite his work, many economists still believe their discipline is independent of ethics. This brief chapter adds a little support to Sen's own arguments.

It is well known that economists are self-effacing people, who do not like to throw their weight about. They hate the idea of imposing their ethical views on other people. So they sometimes pretend to themselves and other people that economics is an ethics-free zone. Macroeconomists can do this to some extent by dealing with broad national aggregates that elide conflicts of interest; if you concentrate on national income, you may not notice some people's income going down as other people's goes up. Microeconomists sometimes do it by concentrating on "economic efficiency", which is supposed to be an ethically neutral notion. Surely there could not be any conflict of interest over making the economy more efficient. For example, no one could reasonably be opposed to liberalizing international trade, which makes the world economy more efficient. That is the idea. But actually, there are *always* conflicts of interest. Some people are benefited by free international trade; others are harmed. No practicable economic change is good for everyone; there are always some losers.

Another strategy for evasion is to recognize that economic questions may raise ethical issues, but try to keep the ethics separate from the economics. Faced with a question, economists should work out the answer from the point of view of economics alone. What ethics says about it is another matter. The ethics may be important—it may even override the answer from economics—but nevertheless the answer from economics is independent of the ethics.

For instance, take the value of human life: the question of what sacrifices it is worthwhile for us to make in order to save some people's lives. It is sometimes said that, from the point of view of economics, the value of life should be determined by people's willingness to pay to avoid exposing their lives to danger. Willingness to pay is the standard measure of value in economics, and it should apply to life as to other goods. One implication of this measure is that the lives of poor people, such as people who live in India, are less valuable than the lives of rich people, such as those who live in Britain, because poor people are willing to pay less. (They are inevitably willing to pay less, because they have less money to pay.) That is the conclusion of economics, it is sometimes said. It may be that this conclusion is ethically unacceptable, so that we may want to override the economic conclusion on ethical grounds. Nevertheless, that is the economic, ethics-free conclusion. This seems to be the argument of Pearce *et al.* (1996: 196–7), for example.

But actually the ethical and the economic are far too intimately entangled to be separated in this way. When it comes to making normative claims, economics has no separate source of normativity apart from ethics. It is not like aesthetics. Aesthetics is perhaps normative in its own right, independently of ethics. Perhaps
p. 9 aesthetics independently justifies the claim that you ought to clean your car occasionally, so ↳ this claim is genuinely ethics-free. But when economics makes a normative claim, it cannot be anything other than an ethical claim. There is no other basis for it. That goes for evaluative claims in economics too, such as claims about the value of life, because evaluative claims are implicitly normative. Normative and evaluative economics cannot help being ethical from the start. The ethical cannot just be wheeled in when the economics is done.

Many economists have recognized this, and they make their ethical assumptions and arguments explicit. By tradition, the branch of economics where ethical issues are made explicit has been called "welfare economics". Nowadays, it is badly neglected within economics as a whole. It is little taught, and many economists know almost nothing of it. The name "welfare economics" is a poor one in the first place. For one thing, welfare is not the only thing within economics that matters ethically. Many people think the ethical issue of national autonomy is at stake in the economic question of whether Britain should adopt the Euro, and national autonomy may have nothing to do with welfare. For another thing, the name "welfare economics" does not make the ethical dimension explicit. The subject is ethics in its application to economics. Ethics applied to medicine is called medical ethics. Ethics applied to business is called business ethics. So we should speak of "economic ethics". (Not, following the precedent of medical ethics, "economical ethics", which would give the wrong impression.)

So far, I have said that economics requires ethics. But why should it need ethical *theory*? Why, too, should *economists* need ethical theory? After all, businesspeople probably do not need much ethical theory to conduct their business in the way they ought, and nor do doctors. Chiefly, these people need moral awareness and sensitivity. Training in medical ethics for doctors does not include much theory. Instead, it aims to give them sensitivity to ethical issues. Also—to use the old-fashioned, high-flown language of moral philosophy—it aims to make them virtuous; it aims to instill in them ways of thinking that make them naturally inclined to behave in a moral way. For much of medicine that may be enough.

On the other hand, moral sensitivity and virtue need not play much part in the professional life of economists. Their business is mostly the complex interactions of lots of people. Here, the natural responses of a sensitive person would not be enough to carry them through to the right answer. They need to do complex, quantitative calculations, and those must be guided by a theory. So in economics, ethical theory is inescapable.

II

Welfare economics is the branch of economics where the ethical issues are made explicit. But the natural p. 10 reticence of economists shows itself even in welfare ↳ economics. Economists do not like to take ethical positions of their own, and one way they try to avoid doing so is to leave the ethics to the public. They try to leave ethical judgements to the individual preferences of the people who make up the society. The rest of this chapter is concerned with that idea.

In economic ethics, people's preferences can be called on in two places, because the concern of economic ethics can be roughly separated into two parts. First of all, we need to know what is good for people individually: what determines people's well-being, in other words. Second, having worked that out, we need in some way to put together the good or well-being of all the different individuals, to arrive at an overall assessment of the goodness of the society. Both of these problems come within the domain of ethics. Only the second is concerned with conflicts between different people's interests, but ethics itself is not exclusively concerned with conflicts. It is also very concerned with what is good for individuals; since ancient times that has been one of its main topics. So both problems are the concern of ethics, but in economics, both are frequently referred back to people's preferences.

I have just described the concern of economic ethics in terms of goodness. But this is already to set aside a major ethical question. It is a matter of dispute within ethics whether we should be concerned with goodness. Many philosophers and economists think that the idea of the overall goodness of a society is mistaken anyway; there is no such thing. Those people will evidently not like my formulation of the problem of economic ethics. For them, the need for ethical theory in economics will appear in a very different guise. But I cannot take up this major issue here. I shall continue on the assumption that the good of society does indeed exist, and has at least some ethical importance.

III

First, then, there is the question of what is good for individuals. In welfare economics, the good of individuals is almost invariably judged by their preferences. In practice, people's preferences are garnered from the data available, from markets, from focus groups, from questionnaires or in some other way, and then those preferences are taken as the basic data for judgements about what ought to be done. To some extent this allows an economist to avoid taking a stance on what, actually, is good for a person. We do not have to worry whether, say, a person's good consists in experiencing pleasure, or in living virtuously, or in achieving various excellences, or in whatever else some philosopher might think is good for us. Instead we leave it to people themselves to determine what is good for them through their preferences.

However, theory can only partly be avoided. It takes an ethical theory to justify the use of preferences in the first place for the purpose of assessing people's well-being. One possible justification is the theory that a
p. 11 person's well-being actually ↳ consists in the satisfaction of her preferences. If you prefer A to B, this preference makes it the case that A is better for you than B. Call this the "preference-satisfaction" theory of well-being. It is an ethical theory, like any other theory of well-being. However, it is not a very good one. It seems plausible in some contexts, but it is not plausible when a person's preference is itself derived from her own belief about what is better for her. If it is your preference for A over B that makes A better for you than B, and if this preference of yours is derived from your belief that A is better for you than B, then your belief would ensure its own truth. That is not credible. Some beliefs ensure their own truth, such as a belief that you have a belief, but it is not credible that a belief of this sort does.

Furthermore, many of your preferences are indeed derived from beliefs of this sort. Your preferences about anything at all complex, such as a career or a car, involve some computation. They involve the balancing, comparing and aggregating of benefits and disadvantages. That means they have to depend on beliefs. For instance, your preferences about avoiding danger to your life, which determine your willingness to pay for avoiding danger, should depend on how long you believe you still have to live if you survive now, how well you believe your life will go, what responsibilities you believe you have to other people, and so on. These beliefs should combine together to determine your beliefs about how much money it would be better to pay rather than bear a particular risk of dying. That belief in turn should determine your willingness to pay.

I say "should" because I suspect most of us find this problem too difficult to cope with properly. For most of us, our preferences about risks to life are not formed in the rational way I described but in some less commendable way. If so, our preferences do not depend on our beliefs about goodness, at least not in the proper way. These preferences are irrational, and they plainly do not satisfy the preference-satisfaction theory of well-being. Being irrational, they cannot determine what is actually better for us. On the other hand, preferences that are rationally derived from beliefs about goodness also cannot determine what is better for us, as I have just explained. They do not satisfy the preference-satisfaction theory either. So the preference-satisfaction theory fails, at least for preferences over complex matters such as the value of life.

An alternative argument for using preferences comes from the idea that a person is the best judge of her own well-being. The argument is not the preference-satisfaction theory that a person's preferences *determine* what is good for her, but that a person's preferences *indicate* what she judges to be good for her, and hers is the best judgement we have. This is very plausible in many contexts; in many contexts preferences are surely a good indicator of well-being. But there are also contexts where we may be able to make better judgements about people's well-being than the people can themselves. Clearly people are not always the best judges of their own well-being, as they themselves recognize. People often take advice from doctors or financial advisers because they think these experts are better judges of what is good for them
p. 12 than they are themselves. The value of life is a context of this ↳ sort. The value of your life is difficult to judge. Your life extends over time, and its value depends on aggregating together in some way the goodness

of all the different times within it, but it is not easy to know how the aggregation should be done. For example, should you give more weight to earlier times compared with later ones, by applying a discount factor? Questions of aggregation are a place where ethical theory can improve on people's naive preferences. The fact that people are often the best judges of their own well-being is not an excuse for an economist never to try and do better.

If a person's well-being is judged from her preferences, things will go particularly badly wrong when her preferences are not self-interested but based on her ethical beliefs. Take the way environmental economists sometimes assess the “existence value” of some feature of the environment, say an unpolluted lake. “Existence value” is the name for the value the lake has apart from the benefit people get from drinking its water, swimming in it, looking at it, and so on. To calculate this value, people are asked how much money they would be willing to pay to preserve the lake, setting aside whatever benefit they themselves get from using it. These amounts are added up to get the lake's total existence value (for instance, see Bishop and Woodward 1995: 562–4).

Evidently, this is to interpret each person's willingness to pay as a measure of the benefit the person herself receives from the existence of the lake. Otherwise it would not be appropriate to add it up across people. It is to assume implicitly that the lake makes a contribution to a person's well-being through its mere existence, and that preferences in the form of willingness to pay measure this contribution. But that is plainly wrong. People may be prepared to contribute to saving a lake even if they do not benefit from it at all, in any way. I was faced with a question much like this when Greenpeace asked me to contribute to saving the Atlantic from oil exploration. When I decided my willingness to contribute, I thought a bit about the true value of the clean Atlantic, and also about what my responsibilities were to contribute, given my financial and other circumstances. Greenpeace helped me with the first consideration by telling me about the purity of the area and the whales that live there. They never tried to persuade me that the existence of the unpolluted Atlantic is good for *me*, and it never occurred to me to think in those terms when I determined my willingness to contribute. Indeed, it simply is not good for me, so far as I can tell, and even if it is, my willingness to contribute had nothing to do with the benefit to me.

IV

That is a case where preferences based on ethical beliefs are badly abused. But ethical preferences are also
p. 13 used by economists in a less abusive manner. Let us come to the ↳ second place I mentioned where preferences can be called on to replace an ethical commitment on the part of economists. This is where different people's well-being has somehow to be put together to arrive at an overall judgement of the goodness of the society. Let us suppose we have managed to judge the well-being of people individually, by their preferences or in some other way. Now we have to aggregate their well-beings together. How?

Some ethical theory is inescapable at this point. It takes theory even to justify the idea that the goodness of society is an aggregate of people's well-being. But here too, some economists have tried to reduce their ethical commitment by calling on people's preferences. To take one example, so-called “empirical ethics” has become an important influence in health economics (Nord 1999). Health economics often raises ethical questions conspicuously. For instance, there is the question of what relative priority to give to treating the young compared with treating the old. Another instance is the question of what priority to give to saving people's lives compared with improving people's lives. Empirical ethics starts by investigating empirically people's preferences about these priorities. Then it aims to use these preferences to determine what the priorities actually should be.

What grounds are there for proceeding this way? The obvious grounds are democratic. Economists are servants of their society, and surely they should do things the way that society wants. In matters such as priority in medicine, they should follow the preferences of the people. It would be undemocratic if economists were to insist on their own judgements of priority, and impose them in their work.

I think that argument mistakes the nature of democracy and the economist's role in it. Democracy has at least two departments. One department is decision-making, and here democracy requires that the people's preferences should prevail. (Actually, not even this is true in a representative democracy, in which the representatives are supposed to exercise their judgement and sometimes override the people's preferences. But I shall set aside that complication. We can safely ignore it because economists obviously do not play the role of representatives.) Another department of the democratic political process is the forming of people's preferences. A democratic society cannot just let these preferences be whatever they happen to be. Our preferences about complex matters depend on our beliefs, and democracy requires a process of discussion, debate and education, aimed at informing and improving people's beliefs, and moving them nearer the truth. This is why we have election campaigns as well as elections.

The role of economists in a democracy is in the second department, not the first. Economists rarely make decisions directly, in their role as economists. They advise rather than decide. They advise politicians, businesspeople, brokers or other participants in the economy, or else they publish academic papers and newspaper articles, with the aim of influencing the beliefs of influential people and ordinary voters. So their role is within the process of discussion, debate and education, and not much in the decision-making department of democracy.

p. 14 This means their job is not to garner people's preferences and act on them in a democratic fashion. It is to contribute to the public debate, in order to influence people's preferences for the better. Economists should aim to influence preferences, not take preferences for granted. In forming their preferences about complex matters, people naturally need advice, and an important job for economics is to give it to them. Economists should not see themselves as advisers to the high and mighty only, but also as advisers to the rest of us.

Economists do not like to impose their ethical opinions on people, but there is no question of that. Very few economists are in a position to impose their opinions on anyone. Like almost everyone else, all they can do is present their opinions to the rest of us, and argue for them as well as they can. They should not be diffident about this. True, economists can offer only their own opinions. But in ethics, or in economics, or in physics, or geography, or anywhere else, no one can do more than offer their own opinions.

More exactly, they can do one more thing: they can also defend their opinions. Some opinions are better founded than others, and those can be more convincingly defended. Economists are right to be diffident about their own ethical opinions if they are not founded on good arguments and well-worked-out ethical theory. In that case, their opinions will not prosper in the market place of ideas. The solution is for them to get themselves good arguments, and work out the theory. It is not to hide behind the preferences of other people, when those preferences may not be well founded, and when the people themselves may be looking for help from economists in forming better preferences.

References

BISHOP, R. C., and WOODWARD, R. T. (1995), "Environmental Quality under Certainty", in Daniel Bromley (ed.), *The Handbook of Environmental Economics* (Oxford: Blackwell), 543–67.
Google Scholar Google Preview WorldCat COPAC

NORD, ERIK (1999), *Cost—Value Analysis in Health Care: Making Sense of QALYs* (Cambridge: Cambridge University Press).
Google Scholar Google Preview WorldCat COPAC

PEARCE, D. W., CLINE, W. R., ACHANTA, A. N., FANKHAUSER, S., PACHAURI, P. K., TOL, R. S. J., and VELLINGA, P. (1996), "The Social Costs of Climate Change: Greenhouse Damage and the Benefits of Control", in Intergovernmental Panel on Climate Change, *Climate Change 1995. Volume III: Economic and Social Dimensions of Climate Change* (Cambridge: Cambridge University Press), 179–224.
Google Scholar Google Preview WorldCat COPAC