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Philosophy and Economics

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Introduction

In part II of *Economic Analysis and Moral Philosophy*, Hausman and McPherson discuss the role of welfare in economics. They argue that contemporary notions of welfare in economics are problematic in a philosophical context. In this paper, I will argue that Hausman and McPherson's argument concerning welfare and normative economics is sound and that perhaps the view of welfare as the satisfaction of rational, well-informed preferences can remedy the divergence between philosophy and economics concerning the nature of welfare in that sphere. However, I will problematize the nature of that remedy by also arguing that the concepts of rationality and the self must be made philosophically agreeable before such a remedy can be realized.

Summary of Hausman and McPherson's Position

Hausman and McPherson begin their discussion of welfare economics by stating that economists typically judge outcomes according to the amount of welfare produced. Other moral considerations that affect the ethical soundness of a decision are more often than not encompassed within the notion of welfare. Hausman and McPherson then proceed to address some possible stances one could take concerning what counts as welfare.

They propose that one could view welfare from either a substantive or a formal theoretical perspective. The latter assumes that there are things that are intrinsically good for people, but does not say which things are good for people. These intrinsic goods constitute "welfare". A substantive perception of welfare also does not stipulate which things are good for people but, instead, determines how to find what things are good for people by examining preferences. Hausman and McPherson then claim that economists attempt to sidestep controversial philosophical issues by choosing the formal rather than the substantive perception of welfare and subsequently avoid the debate of what constitutes the good. These ideas culminate in a conception of welfare that amounts to satisfying preferences.

Hausman and McPherson point out that the standard preference satisfaction view of welfare seems problematic on a philosophical level. That is, even if, in the context of economic analysis, one can correlate welfare and the satisfaction of preferences, a range of significant issues arise in the context of philosophical discourse (e.g., What is good for a person? What is a self? What constitutes rational? What are preferences? Etc.). One example proposed by Hausman and McPherson is that of a reckless young person who desires a motorcycle. Since motorcycles can be dangerous, it may not be in her/his best interests to have a motorcycle. Nonetheless, according to standard economic view of welfare preference as satisfaction, getting the young person a motorcycle would increase her/his welfare. Simply stated, one problem with conceiving of welfare as preference satisfaction is that people prefer things that have negative repercussions or consequences (i.e., that may not be good for them).

Hausman and McPherson speculate that the economist's standard view of welfare may not be its philosophical significance but rather the most useful understanding of welfare for economics. They suggest that the majority of welfare economists believe that welfare is a desirable mental state, like the hedonist, who holds that happiness is equal to welfare. Hausman and McPherson discuss possible justifications for the standard economic view of welfare. The first is that although there are obvious flaws with a preference satisfaction view of welfare, these flaws only reflect details in reality and do not present a major problem for the theory of preference satisfaction as welfare. The second is that a person's preferences are the best indicator of what is in their best interests. Although a person may prefer something that is bad for them (e.g., the motorcycle example), a person's preference rankings remain the best indication of what could potentially bring the most good or produce the most welfare.

Hausman and McPherson continue to argue against the traditional notion of welfare as preference satisfaction by introducing the phenomenon of changing preferences, preferences based on false beliefs and conflicting preferences. First, they address the problem of changing preferences, meaning whether or not one should look to satisfy past preferences. If the economist says, "yes" then, for example, there is no reason to discount a person's childhood preference towards being a rancher. This view would seek to fulfill preferences that someone no longer desires. If the economist says "no" then she/he is committed to the view that the satisfaction of preferences is not itself the good. Rather, it is the mental state that accompanies this satisfaction that is the good.

The second problem is that of false beliefs, which amounts to the idea that some people are just misinformed. The third problem, that of conflicting preferences, is best exemplified by a person's desire to smoke and quit at the same time. This idea presents a problem because one does not know which preference constitutes welfare. The real world impact of these criticisms is significant: should an economist suggest policies based on fluctuating preferences, preferences based on faulty information, conflicting preferences? The answer seems obvious: "no".

There is a fourth problem with the preference satisfaction view of welfare: the case of anti-social preferences. The dilemma provided by the anti-social preferences is this: Should someone be morally entitled to fulfill preferences that are harmful to others? Two possible answers are given by the supporters of a preference satisfaction view of welfare: First, anti- social preferences involve extra-economic or philosophical issues, like justice. Second, since preferences can be influenced, by frustrating a person's preference toward anti-social behavior one could lead them away from anti-social preferences.

Having stated and discussed these aforementioned problems with the notion of welfare as preference satisfaction Hausman and McPherson offer an alternative conception of welfare. Welfare is equivalent to satisfaction of rational, self-interested, and well-informed preferences (in contrast to the standard view of welfare as the satisfaction of actual preferences). This view solves many of the problems with the aforementioned satisfaction of actual preference theory, but poses a problem in figuring out what is rational, self-interested and informed and is therefore less useful in analysis.

My Argument

I agree with Hausman and McPherson's conclusion that a simple notion of welfare as preference satisfaction is flawed and does not provide a foundation for normative economics. The analysis of this notion of welfare in an economic context seems to be an aspect of economics that cannot stand up to philosophical criticisms. As shown above the basic notion of welfare seems to cause a split between economics and philosophy. Since the issue of welfare (or at least what constitutes welfare) is central to both disciplines; it is my belief that concerning topics such as welfare, agreement is necessary for any type of substantive advancement. Philosophical criticism constrains the assumptions of economic analysis and at the same time, the empirical aspect of economic analysis limits the scope of philosophical speculation. Hausman and McPherson stress the same point, arguing that economic analysis, specifically normative economics, must acknowledge such philosophical staples as rights, justice, liberties.

The amended view of welfare as the satisfaction of rational, well-informed preferences (rather then actual preferences) solves the majority of philosophical criticisms (e.g. past preferences and anti-social preferences). In doing so, it creates a more important and distinct role for moral philosophy in economic analysis, subsequently drawing back into question the volatile philosophical issues of rationality and the self. If moral philosophy is going to play a more important role in economic analysis, then economic analysis can no longer dismiss the philosophical criticisms of economics' fundamental assumptions concerning the self and rationality.

The rational, well-informed preference satisfaction view of welfare does satisfy the contexts of both philosophy and economics, insofar as the economist accepts philosophical discourse and normative input regarding what counts as rational, informed and self-interested preferences. However, if in order to substantiate economics in the realm of moral philosophy, it is necessary to consider welfare as the fulfillment of rational informed preferences, then the brunt of the debate falls back into the realm of moral philosophy. Some economists may oppose this idea, because it could lead to a normative philosophical criterion for assessing economic models. In response, I believe it is necessary for an economist to view moral philosophy as a non-mathematical and yet crucial supplement to economic analysis. One specific example of an economists' concern with moral philosophy having an important role in economic analysis is paternalism. The somewhat simple answer from the sphere of moral philosophy is that paternalism and its negative repercussions on freedoms and liberties are (or can be) accounted for within the scope of moral philosophy.

One tool that may help breach the gap between economics and moral philosophy is Amartya Sen's meta-preference theory[94]. This theory of preferences presents an idea that allows economic analysis to

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[94] Sen proposes meta-preferences in response to dominant notions of utility theory. Utility theory, in brief, says people make choice based on preference rankings or orderings. Sen, counters that one preference ordering cannot hope to achieve the complexity of the human decision-making process. His solution is a system of meta-ranking preferences. He claims a broader structure allows for a better understanding of human behavior. This structure proposed by Sen requires more knowledge of a

hold a richer account of human behavior, while avoiding the pitfalls of the actual preferences account. The strength of this theory is that it allows economists to account for the self as something other then an egoistic pleasure-maximizer. Additionally, it allows for a more inclusive notion of rationality that can account for commitment. These attributes, in my opinion, make it a more potent and accurate methodology. One example is that one would predict that with massive layoffs, existing salaries would drop, but instead they stay the same. The reason for this phenomenon is that workers have loyalty or feel a sense of commitment to other workers, so they do not walk into a neighboring factory and offer to work for less. This phenomenon can be accounted for within Sen's meta-preference theory, while more traditional methods of analysis could not account for this commitment because of the narrow view of the self and rationality.

Sunstein and some economists argue that the more simplistic (parsimonious) assumptions made by economists are better fitted for economic analysis as a science. These economists claim that the present assumptions produce an accurate account of economic interactions and the added complexity of meta-preferences cannot be accounted for empirically. Sunstien goes as far as saying that economists look to simplify, while philosophers tend to complexify. While Sunstien's view seems to resolve the issue, I believe it does so inadequately: it makes faulty assumptions about the nature of both philosophy and economics. The question I would like to address is; if economics does an adequate

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person's internal preference's then utility theory, which only requires a choice.

job of predicting market outcomes with its rudimentary assumptions about the self and rationality, is there no need for change?

I disagree with Sunstien's line of reasoning for two interrelated reasons. It is based on the positivist vs. normative distinction. These reasons are that the out comes of economic inquiry can be misleading, and that it can prove to be a way for economists can side step their ethical responsibility. It is undeniable that economics is instrumental in policy decisions. Economists may believe that their input is a strictly positivist or explanatory pursuit, when, in fact, their findings are value-laden because of their fundamental assumptions. As I have attempted to show, if economists do not assume their role as policy makers then they still make projections that eventually lead to policy decisions on parsimonious assumptions that may leave characteristics like cultural difference out of the equation. In turn, the policy decisions will end up harming those people who do not share similar notions of selfhood or rationality making it ethically suspect. The economist, however, avoids any responsibility for the decision making process by claiming it is a positivist empirical science and does not recommend anything but only explain.

Perhaps an example would help to clarify my point. A development economist thinking about the introduction of given markets into a less developed nonwestern (indigenous) context may predict a positive outcome based on traditional economic assumptions. However, if these assumptions do not take into account the way a given peoples view their relationships to others (human and non-human), then the understanding may be superficial at best and destructive to indigenous ways of life at worst. In turn, the decisions (somewhat unwittingly) introduce western concepts and ideas concerning welfare, the self, and rationality, which are oftentimes incompatible with other views. This introduction of western views then leads to a loss of language, tradition and culture. Additionally, the disruption in traditional ways of living can also lead to inequality and imbalances in power. The loss of indigenous ways and the introduction of new (perhaps more oppressive) power dynamics can, in my opinion, be viewed as ethically irresponsible decision-making. I believe this example, however rudimentary it is, illustrates my points concerning the interaction of normative and positive economics and the need for a richer, fuller account of human motivation.

In addition, this example brings up one more point worth addressing. That is the idea of non-distributive issues of justice (as Karen Warren would call them). Justice has traditionally been thought of as something that one could distribute, but what happens to this notion when people must start addressing issues about loss of culture, tradition, language and eco-systems? These issues can no longer be viewed in terms of distribution, making them difficult in both economic and philosophical contexts. Philosophy may have an easier time dealing with these issues because it is not constrained to empirical study and has a wider breadth of analysis to allow it to understand and deal with non-distributive issues of justice. Economics and, in particular, cost-benefit analysis has a harder time dealing with these issues because there are some issues that cannot be dealt with by a "willingness to pay" criterion. Additionally, simplistic assumptions about the self and rationality make these issues hard to conceptualize within economic analysis. For example, suppose a policy maker wanted to build a road through a site that was considered sacred to Native Americans. These examples could not be accounted for within the constraints of willingness to pay. These examples also serve as an illustration of the kinds of situations where philosophy and economics must take a more interdisciplinary approach.

It seems feasible to have a notion of welfare as rational, well-informed preference satisfaction and at the same time hold a notion of self that is more than an egoistic autonomized self. Additionally, one could hold a notion of rationality that amounts to more than prudence, and at the same time accounting for commitment. The interdisciplinary approach of philosophy and economics can account for these concepts that have typically produced problematic outcomes in economic analysis by recognizing that economic analysis has an applied context or sphere and likewise that moral philosophy has a context within economics. Non-distributive issues that arise in the formulation of development policies produce such an example. An economic analysis may produce policy suggestions concerning development but must allow for moral philosophy to account for the importance of cultures languages, traditions and eco-systems.

In conclusion, the definition or understanding of welfare in economic analysis must stand up to the scrutiny of moral philosophers and simultaneously moral philosophers must recognize the characteristics that make a theory feasible in the realm of economic analysis.