

REVIVING THE LIVING DEAD: ECONOMIC POLICY WITH ETHICAL VALUES

Miriam Bankovsky and John E. King

Philosophers of science have long been interested in articulating how values serve to condition scientific endeavour. In the 1930s and 1940s, a simple notion of verification had initially been employed by economists to support the idea of appraising theory with reference to facts or observables. However, the idea of theory-laden facts complicated this story in the 1960s, when Thomas Kuhn showed how a theory itself determines the nature of the facts that are to confirm or refute it (1962). The specification of *what* is to be measured, *how* it is to be measured or tested, and *when* a measurement is significant, came to be recognised by traditional economic methodologists (including Mark Blaug 1980) as a necessary condition for making any observations whatsoever. Economic analysis was then seen to presuppose the selection of a set of basic values. In the face of post-modernism and value-pluralism, certain economic methodologists (*e.g.* McCloskey 1983) chose to bracket the difficult problem of justifying these basic values, by limiting economic methodology to a mere description of what economists happen to do and how they happen to argue (Dow 1997: 78). As Sheila Dow explains, the current state of play is one in which economists agree that a selection of values permits the science to proceed, all the while avoiding the question of the justification of these values, by uncritically accepting what economists already tend to do. Although even the indicative and descriptive judgments of econometric analysis are thus premised on a fairly arbitrary selection of values (Ziliak and McCloskey 2008), little attention has been paid to the effect of value-selection on the discoveries of so-called 'positivist' economics. This is one important problem with mainstream economics.

Bankovsky, M. and J.E. King (2017)
'Reviving the Living Dead: Economic Policy with Ethical Values'
Journal of Australian Political Economy
No. 80, pp. 178-200.

There is a second fundamental problem with the unacknowledged role of values in economics. The function of values becomes more complex when economists offer policy advice, explicitly departing from the horizon of the descriptive to take up normative and prescriptive positions on what should be done. Just as econometricians tend to undertake descriptive analysis in a theory-less manner (rarely reflecting on the values that determine their activity), mainstream economists seek to provide prescriptive economic policy advice without explicitly considering the relation between their prescriptive judgments and the concept of welfare.

Welfare itself has been variously defined in the history of economic thought. The historically contested nature of the concept already suggests that its very definition involves ethical implications for distribution. In the Benthamite tradition of ethical utilitarianism, it is defined as happiness, to be measured and quantified in its various aspects (Bentham [1789] 1907: Chapter 4). However, as Ian Little explained, happiness came to be viewed as impossible to measure and compare (1950: 8-9). ‘Theoretical welfare economics’, from the 1930s onwards, reformulated welfare as the satisfaction of an individual’s preferences, and measured by an individual’s “willingness to pay” to have their preferences satisfied (*cf.* Pigou [1920] 1932: 11). The account purported to be ethically agnostic, because economists professed to withhold judgment about the ethical value of the various preferences. The term ‘welfarist’ thus assumed this preference-satisfaction conception. In the late 1960s, what was referred to as welfare economics came to include ‘non-welfarist’ variants – accounts whose concept of welfare was not reducible to preference-satisfaction, but rather included capabilities (Sen 1979: 1999) and primary goods (Rawls 1971: 90-95). However, the default position of most mainstream economists is to understand welfare as preference-satisfaction, according to the 1930s formulation. In a context in which the majority of economists unquestioningly assume a preference-satisfaction definition, due reflection on the welfare ground of policy advice, and on the implications of this ground for advice more generally, is an urgent task.

As A.B. Atkinson explained in an article entitled ‘The Strange Disappearance of Welfare Economics,’ when economists debate such things as optimal inflation rates, employment targets, and ‘golden rules’ about wage-setting and the like, they rarely consider the basic question of the relation between these judgments and the welfare of actual

individuals (Atkinson 2001: 195). The traditional explanation for avoiding this question is that economists should practise a division of labour, leaving ethical issues (the determination of the nature of individual and collective welfare) to the moral philosopher (2001: 204). According to this view, the moral philosopher is responsible for determining what counts as a socially acceptable objective (or distribution), with the economist responsible for identifying efficiency improvements.

According to Atkinson, the mainstream economics curriculum does not encourage students and practitioners to explicitly reflect on the assumptions about welfare that often inform economic proposals. Yet such values have a formative impact on the advice that economists read into the purportedly objective economic analysis. There are at least three reasons why economists should explicitly consider the welfare assumptions of their policy advice. First, normative principles are implicitly assumed when different economic outcomes are compared and judged (Atkinson 2001: 196). Second, not only is there scope for significant differences of opinion about what social (and ethical) objectives should be prioritised by the economist, the respective alternatives can also produce divergent conclusions about major policy issues (2001: 203). Third, basic terminology like 'efficiency' or 'equity' implicitly relies on assumptions concerning the nature of welfare (2001: 194). For the same reason that econometricians do not leave statistical analysis to the statistician, normative economists should not leave reflection about ethical values to the moral philosopher. A well-trained economist should not only be proficient in inspecting statistical relations (and the values underlying the descriptive analysis), but they should also be able to scrutinise the moral underpinnings of a policy statement (2001: 204).

Although Atkinson's account of the importance of welfare economics in the post-war curriculum of the 1950s and 1960s is perhaps exaggerated, he was nonetheless correct to notice just how little welfare economics is included in the economics degrees of the twenty-first century. The books that Atkinson recalls – including Tibor Scitovsky's *Welfare and Competition* (1952), Jan Graaff's *Theoretical Welfare Economics* (1957), Little's *A Critique of Welfare Economics* (1957) and William Baumol's *Welfare Economics and the Theory of the State* (1965) – tended to be taught, in that earlier period, as part of the odd honours class. But even less importance is devoted to welfare economics in today's curriculum,

with leading microeconomics textbooks including it as a minor optional chapter (Varian 2010) or reducing its discussion to just one page (Mankiw 2009: 197). It is generally accepted that a consideration of normative principles for economics is beyond the expertise or skill-set of the economist. For Robert Solow, the profession tends to view any discussion of normative values by an economist as equivalent to inviting ‘a turkey buzzard to lecture on table manners. How would the poor beast know where to start?’ (Solow 1998: 3, quoted in Atkinson 2001: 195). Yet there is something very strange about economists offering prescriptive policy advice without reflecting on the welfare basis of their evaluations, a problem that, for Atkinson, can be ameliorated by including welfare economics in the curriculum.

However, the issue is not simply that welfare economics has been excluded from the syllabus. This neglect could easily be overcome by due reflection on the concept of welfare as preference-satisfaction that underlies the mainstream approach. The problem lies deeper, with the concept of welfare itself, for most mainstream economists wrongly believe that the idea of welfare as preference-satisfaction is not itself an ethical position at all. This popular belief in the purported agnosticism of economics is incorrect, because the methodological strategies (the choice of subject matter, methodology and criteria) that inform the preference-satisfaction view have clear (and controversial) distributive implications for who gets what.

When certain economists, in particular Amartya Sen (1979), began to draw attention to the controversial ethical values of purportedly pre-ethical economics from the 1970s onwards, the field of welfare economics expanded to include substantive philosophical accounts of individual and social good that expressed quite different social objectives (e.g. capabilities, primary goods). However, this expansion of welfare economics has left economists faced with an uneasy tension between two different perspectives that only rarely encounter each other – a view of economics as ethically agnostic or pre-ethical (in the New Welfare spirit of preference-satisfaction), and a view of economics as requiring the selection of ethical values (in the spirit that characterises the developments of the 1970s onwards). Since students do not study the history of welfare economics in its relation to competing philosophical accounts of individual and social good, economists often unthinkingly default to the earlier New Welfare position (incorrectly defending economics as ethically neutral), for this sits more comfortably with the

sort of theory-less empiricism that defines the dominant practice. The first section of this article, 'Market valuation and preference-satisfaction' attempts to demonstrate this point.

If Atkinson's main claim was that policy advice is often entangled with the normative, to which economists have not paid sufficient attention, we provide this claim with a further critical edge missing from his text, by demonstrating that policy advice is often entangled with normative criteria that are themselves incoherent on their own terms.¹ The second section, 'A theoretical cul-de-sac,' argues that the New Welfare values that are often unthinkingly assumed by economists do not achieve the sort of ethical neutrality or agnosticism about ethical values that first compelled the New Welfare economists to propose them. The explanation is also critical because it shows that the methodological strategies of the early welfare economists were not able to avoid entanglement with ethical value judgments.

This latter claim does not imply a return to the implausible view that ethical criteria for prescriptive policy advice should be removed from economics altogether. Rather, as outlined in section three, 'The ethical economist', this is an argument for economists to salvage policy applicability by accepting that inevitably controversial ethical values are the condition for policy prescription. A number of implications follow, with respect to teaching, economic practice, and the public role of the economist.

It is in this sense that welfare economics is the 'living dead'. Although it is not explicitly taught in the economics curriculum, economists often reveal a *de facto* and uncritical reliance on New Welfare positions for their policy prescriptions, positions that are purportedly agnostic but which carry quite controversial distributive and ethical implications. The problem will not be mitigated by restoring welfare economics (narrowly

¹ Atkinson's own somewhat ambivalent attitude towards New Welfare economics is set out in his last major book, *Inequality: What Can Be Done?* (2015: 243-8). When he asserts that 'a smaller cake more fairly distributed may be preferable to a larger one with present levels of inequality' (p. 243) this seems to involve interpersonal comparisons of utility, although he does not say so. His arguments in favour of intervention in the market rest on rather orthodox concerns with the prevalence of market failures, especially involuntary unemployment (p. 139), and with widespread imperfections in competition in both product and labour markets (p. 246). Evidently Atkinson was not an outspoken critic of New Welfare economics, but neither did he allow it to interfere with his lifelong concern to reduce inequality.

defined) to the curriculum, for orthodox normative economics is itself premised on the faulty assumption that ethical values can somehow be avoided. The important and interesting question then becomes how should economists undertake to offer their advice if objectivity as ethical neutrality is not achievable.

Market valuation and preference-satisfaction: policy advice *without* ethics?

In 1992, *The Economist* published an internal memo written by Lawrence Summers to some of his colleagues that caused controversy (Anon 1992). Summers can readily be viewed as representative of mainstream US economists, having occupied a mixture of both academic and professional positions in economics. He has served as professor of economics at Harvard University, chief economist at the World Bank, a senior public servant – including Secretary – for the US Treasury during the Clinton administration, and former Director of the National Economic Council during the Obama administration. Whether the memo was written sarcastically in response to another World Bank text on environmental issues, and whether it was even written by Summers himself, is irrelevant here. The memo serves as a good example of how orthodox economists tend to view the practice of giving policy advice. The prescriptions that the memo defends are presented as implications of market valuations alone, with ethical considerations explicitly rejected. The example also clearly shows how ‘impeccable economic logic’ nonetheless involves implicit value judgments that are not at all neutral with respect to who gets what.

The memorandum reads as follows:

‘Dirty’ Industries’ Just between you and me, shouldn’t the World Bank be encouraging MORE migration of the dirty industries to the LDCs [Less Developed Countries]? I can think of three reasons:

1) The measurement of the costs of health impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view a given amount of health impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages. I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that.

2) The costs of pollution are likely to be non-linear as the initial increments of pollution probably have very low cost. I've always thought that under-populated countries in Africa are vastly UNDER-polluted, their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City. Only the lamentable facts that so much pollution is generated by non-tradable industries (transport, electrical generation) and that the unit transport costs of solid waste are so high prevent world welfare enhancing trade in air pollution and waste.

3) The demand for a clean environment for aesthetic and health reasons is likely to have very high income elasticity. The concern over an agent that causes a one in a million change in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under 5 mortality is 200 per thousand. Also, much of the concern over industrial atmosphere discharge is about visibility impairing particulates. These discharges may have very little direct health impact. Clearly trade in goods that embody aesthetic pollution concerns could be welfare enhancing. While production is mobile the consumption of pretty air is a non-tradable.

The problem with the arguments against all of these proposals for more pollution in LDCs (intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc.) could be turned around and used more or less effectively against every Bank proposal for liberalization (Anon 1992: 82).

The discussion of this example by Daniel Hausman and Michael McPherson (2006: 14-15) illustrates the various features of mainstream normative economics. Summers is concerned with *evaluating* economic states of affairs. He also assumes that there is a *single framework* for economic evaluation, taken for granted without being explicitly stated. He assumes that individual welfare is equivalent to the *preference-satisfaction of individuals*, with the implication that the effects of policy on other things (like the environment) are to be considered only insofar as they have an impact on the satisfaction of individual preferences. Summers's memorandum also accepts the *market valuation* of things. Finally, he assumes a qualitative difference between economic logic (described as 'impeccable'), and various *ethical* concerns including non-market values like rights, moral reasons, and social concern (which are not to be considered). It is assumed that *ethical* concerns are extraneous to economic prescription, and that the valuations of the market are more objective and not themselves ethical in nature.

In general, the memo's advice is based on the view that policy proposals are to be compared by assigning costs to preferences that are satisfied or not satisfied. The first and second arguments (1 and 2) rely on the view that the costs of pollution are best measured by calculating the costs

associated with the withdrawal of an individual's labour due to the morbidity and mortality that pollution causes. Since the value of lost labour is lowest in those countries with the lowest wages, the costs of pollution are lower in these countries, suggesting that a transfer of pollution from high-income to low-income countries would generate an overall economic improvement. Moreover, the initial increments of pollution in underpopulated countries in Africa are likely to be very low at first, because pollution will be dispersed and will not at first cause a large impact on morbidity and mortality.

The third point in the memo from Summers (3) presents two related arguments. Individuals in developed countries are much more likely to live to a ripe old age where they can expect to be significantly affected by pollutants, whereas the life expectancy in less developed countries is far lower and individuals do not expect to be quite so affected. Related to this is a second point, that an individual's 'willingness to pay' to enjoy the benefits of an unpolluted environment is likely to be driven by the amount that they earn. Compared with individuals in less developed countries, those in developed countries will not only be more concerned by pollution because of greater longevity but they will also have more ability and willingness to pay for a clean environment. The amount that well-off individuals will be willing to pay to avoid pollution can be expected to be large enough to fully compensate the less-well-off individuals for the losses that accompany pollution, so that the transfer of polluting industries from rich to poor countries can be fully compensated (the idea of a potential Pareto improvement).

Informing Summers' logic is a set of normative ideas that belong to New Welfare economics, comprising a behaviourist account of human disposition, an ordinal mode of measuring preferences, and criteria for judgment that include the ideas of actual and potential Pareto improvement.

These ideas continue to inform policy advice in unacknowledged ways. However, the above example, with its politically controversial content, reveals that the ideas of New Welfare economics fail to achieve ethical neutrality, for a number of reasons that we will now explain.

A theoretical cul-de-sac: the failure to achieve ethical neutrality

Let us consider *why* welfare economists formally sought to avoid ethical value judgments and *how* they attempted to do so, while bringing a critical perspective to this history. A set of recent debates between philosophers and philosophically-oriented economists (*cf.* Putnam and Walsh 2012; Davis 2014; Hands 2012) and economists with a view to the history of economics (Colander and Su 2015) provides elements of an account of why economists came to view ethical values as having no place in economics, while nonetheless accepting that certain basic value judgments must play a *methodological* role (for a useful summary of debates in economic methodology see Dow 1997).

The goal of neutrality: to avoid controversial battles over consumption

The struggle to achieve what John B. Davis (2014: 3) refers to as 'ethical neutrality' is an outgrowth of two distinct developments in the early history of orthodox welfare economics, developments that reflect a political unwillingness to accept an ethical claim for redistribution from rich to poor.

The first was a rejection of the law of diminishing marginal utility in interpersonal comparison. As Davis explains (2014: 12), interpersonal utility comparisons in the nineteenth century had previously employed the law of diminishing marginal utility to argue that the gain in utility that low-income individuals enjoyed from an additional unit of income was larger than the loss that high-income individuals sustained when their own income was reduced by the same amount. This entailed the conclusion that a transfer of income from high- to low-income individuals would increase total utility. However, the impossibility of providing empirical proof of this interpersonal comparison meant that the assumption of the law of diminishing marginal utility was taken to be equivalent to a defence of an unverifiable ethical-political statement about the desirability of transfers to the poor. This could be easily mobilised by the well-off as a reason to exclude interpersonal utility comparison from economics altogether. The law of diminishing marginal utility thus came to be replaced by the idea of Pareto improvement, which claimed to avoid controversy by instead stipulating that the gains

that one party enjoyed should not involve making any other individual worse off. This was underwritten by the ideal of the Pareto optimum, which described a state of efficiency in which it is impossible to reallocate to make any one individual better without also making at least one individual worse off. The idea of Pareto improvement, under the guise of avoiding class warfare, implicitly accepted the status quo, diverting attention away from distributional issues to the obvious detriment of the poor.

The second ethical-political development was the movement of logical positivism, an outgrowth of the disaster of World War I and its ensuing social convulsions. The logical positivists of the Vienna School had wished to protect the domain of knowledge against ideology, for it had appeared to them vitally important to distinguish *verifiable* statements from those that expressed mere subjective emotions (Creath 2014). Fascist, racist, nationalist, religious and traditional views, which blended science with ideology, had defended the subjection of millions to violence and death. The logical positivists sought protection by clarifying the domain proper of science. Objective statements capable of truth and falsity (e.g. 'there are mountains on the far side of the moon') were thus differentiated from ethical and aesthetic statements (e.g. 'stealing is wrong' and 'that painting is beautiful'), and the latter were taken to be unverifiable according to the logical positivists' definition of verification (Ayer 1936: 17, 16, 37). The early logical positivists thus saw interpersonal utility comparisons as ethical statements that reflected unverifiable subjective dispositions about a state of affairs (e.g. 'boo for stealing' and 'hooray for that painting') (Ayer 1936: 104). But the rejection of ethical statements entailed rejecting the relevance of the law of diminishing marginal utility, along with its redistributive implications.

As Hilary Putnam and Vivian Walsh explain (2012: 1), economists never really mastered the philosophical foundations of logical positivism, but instead simply seized on the one idea that appeared vital to them, namely, the idea that science answers questions about the *is* but is silent on the *ought*. Lionel Robbins's influential text on economic methodology (1932) followed this basic distinction, presenting the statement that 'Individual A's utility from eating an apple is greater than B's' as unverifiable, and instead equivalent to a subjective preference for A's eating the apple. Robbins thus called on economists to eliminate interpersonal comparisons of utility (1932: 139; see also 1932: 124, 125 and 1938: 164). This view, with which Nicholas Kaldor professed to be

‘in entire agreement’ (1939: 549), defines the New Welfare position (see also Hicks 1939). Robbins, Kaldor and Hicks thus came to reject the ethical doctrine of utilitarianism (along with its principle of maximising overall utility) on grounds that its interpersonal utility comparisons were simply impossible when consumer utility could not be measured using ‘utils’.²

Following this development, conventional wisdom came to view the economist’s work as pre-ethical or agnostic, on account of eliminating controversial interpersonal utility comparisons. Although it was still acceptable for economists as *citizens* to retain a role for ethical values in their personal lives (Robbins 1971: 148; Putnam and Walsh 2012: 2), this was not legitimate for the economist *qua* economist. This implicit view of the economics-ethics relation continues to dominate the profession, even in the work of those few thinkers who make explicit reference to ethical values. When Tjalling Koopmans, for example, explains how ethical considerations enter the discourse of the economist, he uses the language of delegation: the economist merely provides the technical means for achieving the non-economic ethical distributive goals of the politician (1977: 272).³

To conclude, then, with Davis (2014: 3) and Hands (2012: 222f), the view that Robbins developed was not simply that interpersonal comparisons of utility were expressions of feeling or emotion, but also that they expressed irresolvable contests for power over consumption, contests that required an ethical-political judgment about distributional issues. This is reflected in Robbins’s illustrative example of a dispute between the interpersonal comparison standards invoked by a Benthamite and a high-caste Brahmin (Robbins 1932: 137; 1938), which led Robbins to reject such comparison standards altogether. The Benthamite’s law of diminishing marginal utility (the more one has of something the less one values additional units thereof) entails that transfers from rich Brahmin to poor untouchables will increase total utility. However, the Brahmin’s law (a Brahmin is ten times as capable of

² Robbins, Kaldor and Hicks rejected ethical utilitarianism, but its decision rules and operational norms were nonetheless retained by New Welfare economists. The precise nature of the relation between New Welfare economists and utilitarianism is a relevant topic, but beyond this article’s scope.

³ We are grateful to an anonymous referee for this reference; our interpretation of Koopmans’s position is, however, rather different from that of the referee.

happiness as an untouchable) demands the opposite course of action. By rejecting interpersonal comparisons, the New Welfare economists in effect refused to take an ethical-political position on whether the suffering of the poor and destitute should be remedied.

Why New Welfare strategies are not ethically neutral

New Welfare economists sought to eliminate interpersonal comparisons of utility by employing three methodological or 'characterising' value judgments, intended to avoid ethical disagreement (Blaug 1992: 114). Beyond the uncontroversial point (Little 1957) that welfare economists employ value judgments, it is here argued that these values are not at all ethically neutral in the battle over consumption. The values assume that preference-satisfaction in a market is alone the relevant object of measurement, that individual preferences are worth the same or have the same weight (Robbins 1932: 635) and that the initial distribution of resources has no substantive impact on the value of preferences. But, as in the Summers memo, these positions carry clear implications for who gets what. Although the value judgments profess to be pre-ethical, they involve ethical positions that are quite controversial.

In his account of the methodological values that permit New Welfare analysis to proceed, Blaug unwittingly revealed the entanglement between the purportedly methodological and the ethical, types of judgment that Blaug himself incorrectly took to be clearly distinguishable. For Blaug, ethical or appraising value judgments 'refer to evaluative assertions about states of the world, including the desirability of certain kinds of human behaviour and the social outcomes that are produced by that behaviour' (1992: 114). These are contrasted by Blaug with methodological value judgments, which 'involve the choice of subject matter to be investigated, the mode of investigation to be followed and the criteria for judging the validity of the findings, such as adherence to the canons of formal logic, the selection of data in terms of reliability, explicit prior decisions about levels of statistical significance, etc.' (114). Blaug claimed (following Thomas Nagel 1961: 492-5) that methodological or 'characterising' value judgments of orthodox welfare economics are ethically neutral because they avoid favouring one ethical position over another.

However, if one analyses more closely the type of methodological values that appear to define New Welfare economics (and the orthodox tradition that broadly follows its key assumptions), these have distinct ethical implications regarding desirable human behaviour and social outcomes. Regarding choice of object for investigation, the New Welfare economists chose to focus on preferences, with utility or well-being defined as preference-satisfaction (Samuelson 1938). Revealed preference theory bracketed the problem of determining what sort of observable would indicate a greater quantity of utility, by instead assuming that well-being or utility was identical with (and fully revealed in) actual choice (Robbins 1932: 139; Samuelson 1938). In Summers's memo, a commitment to revealed preference theory, measured through 'willingness to pay,' explicitly appears in point 3, which articulates the demand for a clean environment as a function of the preferences for clean air of individuals with differing levels of income.

But this first methodological choice was not neutral with respect to ethical disagreement about distribution. It defined only the well-being derived from preference-satisfaction as relevant, at the expense of other alternatives that suggest different normative assessment. Alternative options might include a well-being index consisting of goods (Rawls 1971), levels of development of personal capabilities (Sen 1999) or states of consciousness (like subjective happiness or the avoidance of chronic pain). These different measures permit interpersonal comparison, but they do so without needing to undertake the sort of comparison of subjective *utility* as preference-satisfaction, whose quality the logical positivists deemed to be unmeasurable.⁴

⁴ The common reduction of Rawls's work to a maxi-min utility function misrepresents it as concerned with utilities, when it is concerned with primary goods. As Fabienne Peter (2009) explains, although economists were quick to realise the significance of Rawls's *A Theory of Justice* (with reviews immediately penned by Kenneth Arrow, R.A. Musgrave, S.S. Alexander, and J. Harsanyi, among others), they tended to interpret Rawls's ideas within a welfarist preference-satisfaction model. Arrow, for example, writes that 'Rawls..., starting from the same premises [as Harsanyi and Vickrey], derives the statement that society should maximize $\min u_i$ [instead of the sum of utilities]' (1984: 102). What became known as 'the Rawlsian social welfare function' misunderstood Rawls (Peter 2009: 444). It focused on the difference principle, neglecting the other parts of Rawls's two principles. It reduced the original position to a hypothetical rational choice situation behind a veil of ignorance, overlooking how the original position represents fundamental political values. Finally, it ignored primary goods and interpreted the difference principle in terms of utility. Rawls was partly responsible for this misunderstanding because his article 'Some Reasons

The second methodological strategy of the New Welfare economists was similarly entangled with ethical positions. This second strategy was to delimit the mode of investigation as ordinal. Unlike the classical aspiration to ‘cardinal’ measurement (which assumed utility to be quantifiable like weight and height), ordinal measurement was concerned with preference order, identifying whether an individual prefers x to y and y to z , without measuring the *extent* of the preference (Robbins 1932: 138). Avoiding the need to conduct an interpersonal comparison of the *strength* of preference-satisfaction, ordinality permitted the construction of indifference curves, indicating combinations of goods x and y between which individual consumers or producers are indifferent.

However, ordinality still establishes an implicit interpersonal comparison, entangled with an ethical value judgment. The comparison is the assumption that individual preferences are *worth the same* or *have the same weight* (Robbins 1932: 635; see also Davis 2014: 12). Individual A’s preference-satisfaction in consuming the apple is thus given the same weight as Individual B’s. In Summers’s memo, an individual’s preferences for ‘health’ are accorded the same value as an individual’s ‘aesthetic’ dislike of visibility-impairing particulates (even if these have very little direct health impact). Summers thus rules out the possibility that certain preferences are hierarchically more important than others (*e.g.* an index in which, say, ‘health’ concerns are accorded more weight than ‘aesthetic’ concerns).

Summers expressly states that an economist should not ascribe greater value to ‘intrinsic rights to certain goods, moral reasons and social concerns’, for such concerns should have no influence on the assessment of policy. But this has quite significant ethical implications for who gets what. Although Robbins would object that the weighting implied by the Law of Diminishing Utility is ethical, it is no less ethical to weight utility-satisfaction equally. As for non-utilitarian approaches, a perspective in which health concerns are ranked more highly than aesthetic concerns also implies that individual preferences do not always have the same weight. The assumption by New Welfare economists of

for the Maximin Criterion’ (1974) used the language of utility. However, he later clarified his views (2001: §31). Although Sen pointed out a potential parallel between Rawls’s difference principle and social choice, he also noted that, ‘[Rawls’s] main interest is not so much in the ordering of social states, which is our concern, but with finding just institutions as opposed to unjust ones, which is a somewhat different problem’ (Sen 1970: 140). For a fuller discussion, see Peter (2009).

the equal weighting of preference-satisfaction is an unacknowledged ethical position that the initial distribution has no substantive impact on the value of preferences.

The final methodological strategy is the stipulation of criteria – Pareto improvement and the related idea of potential Pareto improvement – for permitting prescriptive judgment without interpersonal comparison. A state of affairs *F* is a Pareto improvement over *G* if nobody prefers *G* to *F* and somebody prefers *F* to *G*. Pareto efficiency entails that there are no further Pareto improvements to be had, and it claims to avoid interpersonal comparisons of utility by limiting economic prescription to only those distributions that shift one or more parties (or goods) to a higher indifference curve, without shifting any other party (or good) to a lower indifference curve. This limitation is necessitated, the claim goes, because if one party benefits at another's expense, one would require an interpersonal comparison of utility to determine whether the change constitutes an improvement, and this is not permissible.

But, once again, Pareto improvement (and its companion idea of potential Pareto improvement, the theoretical basis of cost-benefit analysis) is not neutral with regard to who gets what. Indeed, the very idea was introduced to avoid having to consider distributive issues, taking the problem of economic inequality off the table. The assumption is that the initial distribution has no substantive impact on the value of an individual's preferences, but this is a controversial position with important implications for who has power over consumption.

By excluding assessments about the impact of how much one has at the outset on the value of preferences, the orthodox approach to the provision of policy advice historically found itself unable to respond adequately to social suffering, because the strategies for avoiding interpersonal comparisons of utility controversially involved assuming the acceptability of the initial distribution. The assumption of the equal value of preferences thus contributed to the paralysis of orthodox economists during the Great Depression when, under guise of ethical neutrality, orthodox economists were able to wash their hands of any responsibility to act, 'sheltering from the storm', as Putnam and Walsh put it, 'under the massive wings of science' (2012: 2).

Later developments: delegating non-welfarist interpersonal comparisons to the moral philosopher

Our third claim is that the determination of more philosophically-inclined economists to re-introduce standards for interpersonal comparison from the 1970s onwards provided a promising way forward. Certain approaches re-introduced the idea of utility – for an account of the various utilitarian options that have been proposed, see Hammond (1998) and Harsanyi (2008). Others were ‘non-welfarist’, which means that their accounts of welfare were not defined by orthodox economists’ view of welfare as preference-satisfaction. Non-welfarist proposals have included the use of standards like capabilities (Sen 1999) or primary goods (Rawls 1971), taking us well beyond the traditional scope of welfare economics (Atkinson 2001: 202). When economists found they could not venture far without interpersonal comparisons, they began to justify including such comparisons by reference to the idea of delegation. The standard view became that interpersonal comparison standards are themselves *political* and not economic in nature (Hammond 1998: 4, Fleurbaey and Hammond 2004: 1183), and the job of proposing ethical standards became delegated to the citizen, the philosopher, or the moral politician.

However, this essentially forgets what the previous section established, namely, that the methodological choices (the choice of the object of investigation, of the mode of investigation, and of the criteria) that permitted the analysis to proceed were not neutral, but rather entangled with ethical positions. This is why the merits of particular standards remain controversial (Scanlon 1991: 18).

For example, the selection of an object of analysis carries implications for measuring the impact of an individual’s choice on well-being. To choose capabilities as the object of investigation is quite different from the choice of satisfied preferences. By establishing the priority of an index of capabilities (literacy, health, political freedom etc.) that would permit any individual (rich, poor, Brahmin) to achieve the sort of life that an individual values, the capabilities index also professes to be indifferent between the Benthamite’s Law and the Brahman’s Law, as outlined above. The capabilities index does not, in this sense, require interpersonal comparison of *utility*, even though it establishes measures for interpersonal comparison. Unlike the preference-satisfaction model, however, the capabilities approach does endorse resource transfers from rich to poor if required for securing capabilities (e.g. health) to the

minimum threshold required for pursuing a life that an individual values. The methodological choice of subject matter as preference-satisfaction (rather than capabilities) is thus entangled with an ethical value.

On odd occasions, the New Welfare economists appeared to concede this point, while refusing to ascribe to it any significance. As Samuelson writes, 'I pass over as being obvious from our discussion... that it is not literally true that the new welfare economics is devoid of *any* ethical assumptions. Admittedly, however, its assumptions are more general and less controversial [than those of the old welfare theory]' (Samuelson 1947: 249). As Hausman and McPherson explain (2006: 119), the assumptions are perceived to be less controversial because the theory does not specify what things are good for individuals, but rather how to find out: by taking people to reveal their preferences through their market behaviour. But, for the reasons already outlined, this purportedly formal theory of welfare as preference-satisfaction is also open to controversy, for it involves accepting the initial distribution, with implication for income transfers, inequality and distribution⁵.

The ethical economist: policy advice without neutrality

While Atkinson was no doubt correct to suggest that students would benefit from an understanding of the welfare basis of normative judgment, there is a deeper reason for studying the relationship between economics and ethical judgment. A *critical* understanding of the failures of New Welfare economics to achieve ethical neutrality suggests that economists who articulate policy advice inevitably assume ethical positions even when they purport to avoid doing so. These positions implicitly involve supporting certain individuals or groups rather than others in the battle for control over consumption. But to acknowledge that the strategies designed to achieve ethical neutrality are not at all neutral leaves economists faced with the intractable problem that the

⁵ As an anonymous referee has reminded us, the Chicago theorist Frank Knight acknowledged that the initial distribution depended on 'a complex mixture of inheritance, luck, and effort, probably in that order of relative importance' (Knight 1923: 598). He cast further doubt on the distributive justice of market outcomes by asking: 'But, after all, does anyone really contend that "competence", as measured by the price system, corresponds to ethical merit?' (600). Interestingly, Knight himself believed in the possibility of 'an "absolute" science of ethics' (583).

New Welfare approach had hoped to avert, namely, how to justify choosing one ethical framework over another.

Faced with this issue, a first option might be to limit one's work to econometric analysis alone. But econometricians also need to accept that a selection of basic values is needed to permit even statistical analysis to proceed. The problem of justification is not averted by the purportedly objective analysis of positivist economics. As Stuart Birks and others have argued, econometricians have to make judgment calls on a whole range of issues (Birks 2015: chapter 3; see also Ziliak and McCloskey 2008). Although a process of value selection plays a similar methodological role in natural science, an implication of Birks's analysis is that economists face more difficulties than engineers or chemists in this process of selection, because the social world is more complex than the natural world and also prone to change more rapidly. Engineers are more likely to agree on the objectives of their work (a bridge needs to be built) than economists, who have far more objectives to choose from (poverty reduction, capability development, material equality, efficiency, equity, maximising shares of primary goods for the most disadvantaged, or other possible objectives). Engineers are also more likely to agree on the relevant measurement and safety standards, whereas economists have far more indices to choose from (GDP, infant mortality, Gini coefficient, health indices, income, wealth and so on).

A similar point has been made from a very different – Thomist (Catholic theological) – perspective by Andrew Yuengert, who criticises attempts by economists to separate techniques from the ends that they serve.⁶ This is dangerous, Yuengert argues, since

...those who attempt to practice technique as if its goals need not be connected with the good human life are liable to treat the narrow ends and methods of their technique as if they were ultimate...[so that] imperfect measures of material welfare become the standards of human welfare, and all of human life becomes a marketplace. Economists must ask themselves what their techniques are for, and take the answers seriously (Yuengert 2004: 88).

A second option is for economists to engage explicitly with the inevitably controversial task of taking a position on competing social and ethical objectives (of which the New Welfare orthodox position is but one option, and an odd one at that, in its explicit renunciation of the ethical).

⁶ We are grateful to an anonymous referee for this reference.

We agree with Yuengert that economists need to relinquish the aspiration to remain ethically neutral in the battle over consumption. As Putnam and Walsh explain, the problem stems partly from the fact that the engagement of economists with logical positivism was superficial, albeit long-lasting. Economists did not experience the long retreat of the great positivists and never understood the significance of the bitter defeats that were suffered on that path, with their intriguing complications for the *is-ought* and *fact-value* distinctions, increasingly understood to be entangled with each other, and both premised on value-selection (Putnam and Walsh 2012: 1). The consequence is that economists need to deal with the entanglement of their methodological values with ethical values in an up-front and honest manner.

A number of implications follow, with respect to teaching, practice, and the public understanding of the economist's role. Regarding teaching, as Atkinson suggested, students (as fledgling practitioners) would benefit from considering how competing social objectives and modes of measurement have an impact upon policy advice. There is a case for introducing a segment into the compulsory secondary school and tertiary syllabus on the inevitably ethical nature of economics and its implication for both theory and policy. This could involve a historical component, to briefly explore the flawed objective of ethical neutrality of the New Welfare vocabulary, to illustrate how this objective still haunts the work of orthodox economists (like Summers), and to consider the alternative objectives of various other non-welfarist versions of welfare economics. The compulsory ethical segment could also include a practical component, for students to understand how different objectives produce different modes of measurement, and different policy outcomes.

Regarding practice, there is merit in the idea of a code of ethics for economists, and not just on account of the implication of economists in the Global Financial Crisis (De Martino 2008; Freeman 2012; Dow 2013). The problem of justifying economic values provides a good reason for including a clause in the code about the need to honestly clarify and articulate the particular welfare basis of policy advice. If policy advice always involves taking a position (implicitly or explicitly) on who should have what, then economists should be bound to make their ethical positions explicit and explain why the particular welfare basis that they employ is preferable to other alternatives. Implicitly accepting the New Welfare position, many practising economists wrongly believe that they do not have an ethical position at all, and the

requirement that economists make an argument for their position might well promote a greater degree of critical reflection on their practice, as well as openness to alternative accounts of well-being.

Regarding the public understanding of the economist's role, if neutrality amid ethical values is not possible, then economic prescriptions should be understood as inevitably controversial, as contributions by informed citizens to public discourse, which express viewpoints that ultimately rely on their ability to persuade. In this sense, the role of the prescriptive economist is no different from that which the later John Rawls ascribes to the political philosopher, namely, that of a citizen addressing his or her peers. As Rawls explains, political philosophers (and we might add, prescriptive economists) have no special access to fundamental truths about justice or ethical values, but rather strive to identify practical problems and clarify resources to overcome them, encouraging others to judge the proposals intelligently. In matters of justice (or ethics), there is no institutional authority other than the reflection of individuals themselves. Philosophers (and prescriptive economists) are citizens, and not philosopher-kings, and their work can only produce effects through education or influence (Rawls 2001: 1-5).

Miriam Bankovsky is a senior lecturer and Australian Research Council DECRA Fellow in the Department of Politics and Philosophy at La Trobe University.

m.bankovsky@latrobe.edu.au

John E. King is Emeritus Professor at La Trobe University and Honorary Professor at Federation University Australia.

j.king@latrobe.edu.au

This research was supported by Bankovsky's Australian Research Council fellowship (Discovery Early Career Researcher Award DE130100325 'Revisiting the foundations of mainstream economics: A cooperative account of well-being and moral improvement'). The authors are grateful to Tim Thornton and Stuart Birks for discussions that assisted with certain aspects of this paper. We also acknowledge the useful feedback provided by two anonymous referees and the coordinating editor.

References

- Anon (1992), Let Them Eat Pollution, *The Economist* (UK edition), 8 February, 82.
- Arrow, K. (1984), *Social Choice and Justice: Collected Papers. Vol. 1*, Oxford: Blackwell.
- Atkinson, A.B. (2001), The Strange Disappearance of Welfare Economics?, *Kyklos*, Vol. 54, No. 2-3 (May-August): 193-206.
- Atkinson, A.B. (2015), *Inequality: What Can be Done?*, Cambridge, MA and London: Harvard University Press.
- Ayer, A.J. (1936), *Language, Truth and Logic*, London: Penguin.
- Baumol, W.J. (1965), *Welfare Economics and the Theory of the State*, Second Edition, London: G. Bell.
- Blaug, M. (1980), *The Methodology of Economics: Or How Economists Explain*, Cambridge UK: Cambridge University Press.
- Bentham, J. [1789] (1907), *An Introduction to the Principles of Morals and Legislation*, Oxford: Clarendon Press.
- Birks, S. (2015), *Rethinking Economics: From Analogies to the Real World*, London: Springer.
- Colander, D. and Su, H.C. (2015), Making Sense of the Economists' Positive-Normative Distinction, *Journal of Economic Methodology*, Vol. 22, No. 2 (June): 157-170.
- Creath, R. (2014), *Logical Empiricism*, in E.N. Zalta (ed.), *The Stanford Encyclopedia of Philosophy*, available: <http://plato.stanford.edu/archives/spr2014/entries/logical-empiricism/> [accessed 1 September 2017].
- Davis, John B. (2014), Economists' Odd Stand on the Positive-Normative Distinction: A Behavioural Economics View, in G. DeMartino and D. McCloskey (eds), *The Oxford Handbook of Professional Economic Ethics: Views from the Economics Profession and Beyond*, Oxford: Oxford University Press, 1-13.
- DeMartino, G. (2008), 'I do Solemnly Swear...': On the Need for and Content of Professional Economic Ethics, in J. Harvey and R. Garnett, *Future Directions for Heterodox Economics*, Michigan: University of Michigan Press.
- Dow, Sheila C. (1997), Mainstream Economic Methodology, *Cambridge Journal of Economics*, Vol. 21, No. 1 (January): 73-93.
- Dow, Sheila C. (2013), Codes of Ethics for Economists: A Pluralist View, *Economic Thought: History, Philosophy and Methodology*, Vol. 2, No. 1 (April): 20-29.
- Fleurbaey, M. and Hammond, P.J. (2004), Interpersonally comparable utility, in S. Barberà et al. (eds), *Handbook of Utility Theory*, New York: Springer Science+Business Media, 1179-1285.
- Freeman, A. (2012), Towards an Assertive Pluralist Code of Conduct for Economists, *World Economics Association (WEA) Conference: Economics and Society. The Ethical Dimension*, Feb-March, available: <http://plato.stanford.edu/archives/spr2014/entries/logical-empiricism/> [accessed 1 September 2017].
- Graaff, J. de V. (1957), *Theoretical Welfare Economics*, Cambridge: Cambridge University Press.

- Hands, W.D. (2009), Effective Tension in Robbins' Economic Methodology, *Economica*, Vol. 76, No. 1 (October): 831-44.
- Hands, W.D. (2012), The Positive-Normative Dichotomy and Economics, in D. Gabbay, P. Thagard and J. Woods (eds), *Handbook of the Philosophy of Science*, Vol. 13 (*Philosophy of Economics*), edited by U. Mäki), Amsterdam: Elsevier, 219-39.
- Hammond, P.J. (1998), Interpersonally Comparable Utility, draft publication, available: <http://www.web.stanford.edu/~hammond/icu.pdf> [accessed 1 September 2017].
- Harsanyi, J. (2008), Interpersonal Utility Comparisons, in S. Durlauf and L.E. Blume (eds), *The New Palgrave Dictionary of Economics Online*, London: Palgrave Macmillan, Second edition, available: http://www.dictionaryofeconomics.com/article?id=pde2008_I000196 [accessed 1 September 2017].
- Hausman, D.M. and McPherson, M.S. (2006), *Economic Analysis, Moral Philosophy and Public Policy*, Cambridge: Cambridge University Press.
- Hicks, J.R. (1939), The Foundations of Welfare Economics, *Economic Journal* Vol. 49, No. 196 (December): 696-712.
- Kaldor, N. (1939), Welfare Propositions of Economics and Interpersonal Comparisons of Utility, *Economic Journal* Vol. 49, No. 195 (September): 549-52.
- Knight, F.H. (1923), The Ethics of Competition, *Quarterly Journal of Economics*, Vol. 37, No. 4 (August): 579-624.
- Koopmans, T.C. (1977), Concepts of Optimality and their Uses, *American Economic Review*, Vol. 67, No. 3 (June): 261-274.
- Kuhn, T. (1962), *The Structure of Scientific Revolutions*, Chicago: Chicago University Press.
- Little, I.M.D. (1957), *A Critique of Welfare Economics*, Second Edition, Oxford: Oxford University Press.
- Mankiw, N.G. (2009), *Principles of Economics*, Sixth Edition, Mason, OH: South-Western Cengage Learning.
- McCloskey, D. N. (1983), The Rhetoric of Economics, *Journal of Economic Literature*, Vol. 21, No. 2 (June): 481-517.
- Nagel, E. (1961), *The Structure of Science. Problems in the Logic of Scientific Explanation*, Routledge and Kegan Paul, London.
- Peter, F. (2009), Rawlsian Justice, in Anand, P., Pattanaik, P., Puppe, C. (eds), *The Handbook of Rational and Social Choice*, Oxford: Oxford University Press, 433-456.
- Pigou, A.C. [1920] (1932), *The Economics of Welfare*, London: Macmillan and Co.
- Putnam, H. and Walsh, V. (2012), *The End of Value-Free Economics*, London and New York: Routledge.
- Rawls, J. (1971), *A Theory of Justice*, Cambridge, MA: Harvard University Press.
- Rawls, J. (1974), Some Reasons for the Maximin Criterion, *American Economic Review*, Vol. 64, No.2 (May): 141-146.
- Rawls, J. (2001), *Justice as Fairness: A Restatement*, Cambridge, MA: The Belknap Press of Harvard University Press.

- Robbins, L. (1932), *An Essay on the Nature and Significance of Economic Science*, London: Macmillan.
- Robbins, L. (1938), Interpersonal Comparisons of Utility: A Comment, *Economic Journal* Vol. 48, No. 192 (December): 635-41.
- Robbins, L. (1971), *Autobiography of an Economist*, Glasgow: Glasgow University Press.
- Samuelson, P. (1938), A Note on the Pure Theory of Consumer's Behaviour, *Economica* (New Series), Vol. 5, No. 17 (February): 61-71.
- Samuelson, P.A. (1947), *Foundations of Economic Analysis*, Cambridge, MA: Harvard University Press.
- Scanlon, T.M. (1991), The Moral Basis of Interpersonal Comparisons, in J. Elster and J. E. Roemer (eds), *Interpersonal Comparisons of Well-Being*, Cambridge: Cambridge University Press, 17-44.
- Scitovsky, Tibor (1952), *Welfare and Competition*, London: Allen and Unwin.
- Sen, A. (1970), *Collective Choice and Social Welfare*, San Francisco: Holden-Day.
- Sen, A. (1979), *Equality of What?* (Tanner Lectures on Human Values), Stanford: Stanford University Press.
- Sen, A. (1999), *Development as Freedom*, Oxford: Oxford University Press.
- Solow, R.M. (1998), *Work and Welfare*. Princeton: Princeton University Press.
- Varian, H.R. (2010), *Intermediate Microeconomics: A Modern Approach*, New York: W.W. Norton and Co.
- Yuengert, A. (2004), *The Boundaries of Technique: Ordering Positive and Normative Concerns in Economic Research*, Lanham, MD: Lexington Books.
- Ziliak, S.T. and McCloskey, D.N. (2008), *The Cult of Statistical Significance: How the Standard Error Costs Us Jobs, Justice and Lives*, Ann Arbor: University of Michigan Press.

