

# Introduction: PPE and the Philosophy of Economics

Antony Eagle

Choices, Models and Morals » Lecture 1

# Contents

- Foundations of Public Policy
- 'Economic Logic' and its Challenges

# Acknowledgement of Country

*Kurna miyurna, Kurna yarta, ngai tampinhi*

‘Kurna people, Kurna country, I recognise’

I wish to acknowledge that these course materials were prepared on the traditional Country of the Kurna people of the Adelaide Plains. I recognise the past and ongoing attachment of Kurna people to this country, and respect and value the significance of this relationship for Kurna cultural and spiritual beliefs, both traditional and present in the lives of Kurna people today.

# Course Outline

- › This course will examine some central issues in the foundations of public policy. We will examine topics in three main areas:
  1. The nature of economic explanation and the foundations of rational choice theory/cost-benefit analysis;
  2. Evidence and theory in economics, including the formulation of evidence-based policy;
  3. The role of ethics and justice in public policy.
- › But why these topics? What makes this an appropriate capstone to a degree in PPE?

# Foundations of Public Policy

# PPE and Public Policy

- › As PPE students coming to the end of your degree, you face a question: *what – if anything – unifies the disciplinary knowledge I've acquired?*
- › One answer: designing and enacting good **public policy** requires an awareness of all three disciplines.
  1. Good policy has good **aims**, and appropriately takes the **interests** of those affected by it into account;
  2. Good policy is grounded in evidence about **what works**, and is designed so that it promotes its desired ends and minimizes unintended consequences;
  3. Good policy is **enactable**: it is politically feasible and can be 'sold' effectively to stakeholders, by design.
- › The **simple story** is that the three disciplines address these three components; a simple story that, as Brennan (2010) points out, represents things in an institutionally convenient way, allowing the disciplines to address their own questions in relative autonomy.

# An Inter-disciplinary Perspective

- › Adam Smith articulated the economic principles behind the emergence of intellectual disciplines: that pursuing economic and philosophical questions separately, with disciplinary specialisation in the production and verification of ‘intellectual produce’, is more effective at producing **knowledge** (Brennan 2010: §2; Reiss 2013: 2–3).
- › Especially in an environment where most of our knowledge comes from the **testimony** of others.
- › We should also note that disciplines work because they **bracket**, or suspend enquiry into, certain issues that would **derail** the disciplinary project. You can’t make progress if you spend all your resources on foundational questions.
  - ›› Not too many physicists debating, in physics journals, whether or not there are any physical objects!
  - ›› Likewise, questions about the standard economic method are bracketed in order to make economic progress.
- › The flip side, of course, is that the **common ground** of one discipline might be fiercely contested in another – and generally everything is in philosophy.
- › And it turns out, I think, that the design and evaluation of policy is a place where the disciplines actually come into contact.

# Aims

- › One thought might be that philosophy tells us which aims are good, i.e., which are **moral**, all things considered.
- › One immediate complication: does ‘moral’ mean *morally permissible* or *morally obligatory*?
  - › If the latter, then of course we must do it, but very few policies aim only at satisfying our obligations.
  - › If the former, then we may do it, and we may do many other morally permissible things. How should we choose? Must we do the best of the permissible things? Must we do as many permissible things as we can? How do we **trade-off** between the things we may do?
- › These are philosophical questions about **normative ethics** – what we should do – but when we move from **individual morality** to public policy, they overlap with the methods of economics, in accounting for trade-offs.



# Interests

- › ‘All things considered’ is supposed to take into consideration the interests of all **stakeholders** – individuals, companies, governments, institutions, etc. But who should count here – might ‘society’ as a whole be the only relevant stakeholder?
  - ›› Should we only value individual-level interests like freedom or well-being, or should consideration of justice or equality also play a role in representing interests?
- › What are our interests in an outcome? The simple answer is we have an interest in a policy when it impacts on our **welfare**.
- › But what contributes to welfare – what we **do** value? Or what we **should** value? Does it include everything we do/should value, or just **some** of those things (e.g., just **happiness** or **preference satisfaction**)?
- › What if stakeholders disagree about our moral obligations? And how do we account for the balance of different interests – a question of political legitimacy.

# What Works

- › Even if philosophy alone cannot answer questions about which aims are good to pursue, perhaps at least we might technocratically follow economic methodology in enacting policy?
- › The standard economic toolkit in evaluating a policy would be, very crudely, something like this:
  1. Construct a **model** of the relevant statistics, looking at how some variable of interest depends on others, both exogenous (fixed outside of the model) and endogenous (internal to the model) – e.g., the inflation rate.
  2. Design a policy or policies that permits **manipulation** of the target variable by **intervention** on exogenous variables that are under our control – e.g., the central bank interest rate.
  3. Among the policies that do what we want, adopt the one that best balances **beneficial** influence over the target with least **cost** of implementation.
- › Behind all of this, mainstream economics has a fairly orthodox method: an appeal to methodological individualism, rational actor assumptions, ... and to the role of relative prices (and changes in them) in explaining (changes in) social outcomes. (Brennan 2010: 391–92)

# Can Economics 'Go It Alone'?

economists are prone to minimize reliance on purely ethical matters in framing policy recommendations. They (we) do this by adopting normative principles that are thought to be totally unobjectionable (such as the Pareto criterion) or by insisting that policy recommendations are robust to quite large changes in ethical position. ... If so, this is good news for the social sciences. We social scientists simply do not have to worry about what the moral philosophers are saying, because all the real action lies with social science issues.

This sort of instinct of disciplines to try to 'go it alone' in relation to questions that manifestly need input from a variety of sources seems to me to be, among other things, a denial of the basic principle of the epistemic division of labour. It is self-evident that on many matters of normative concern, moral philosophy, economics, and political science *need each other*, in exactly the same way as, say, global warming needs input from all of science, economics, politics, and moral philosophy. Any attempt on any discipline's part to try to go it alone ... is likely to have considerable appeal within the relevant discipline, but the intellectually isolationist manoeuvres it encourages are to be lamented more generally. (Brennan 2010: 388)

# Philosophical Questions About Economics

- › Philosophical questions arise at every turn.
- › About models: are these models really **representing** reality? How can we know that **every** relevant variable is included (esp. if we focus on variables representing relative prices)? Is this in danger of confusing correlation with causation? Will our models continue to be accurate if transplanted to a new policy setting? Are the
- › Perhaps the most fundamental however: what are **costs and benefits**? Are they, as the orthodoxy would have it, ultimately all derived from individual rational preference?
  - ›› These look like questions of value – giving us the same issues about welfare, equality, trade-offs, etc., that we had when deciding about aims.
  - ›› Can we treat ethical evaluation as a separate process from policy design – e.g., we formulate policy goals bearing ethics in mind, but once we turn to evaluating costs and benefits, we operate simply ‘mathematically’? Is this possible, or is the question of cost and benefit itself philosophically contested?

# Enacting Policy

- › Bismarck said ‘**die Politik ist die Lehre vom Möglichen**’ – *Politics is the study of the possible*.
- › Even the best designed policy will need to be **sold**, particularly to those upon whom it imposes costs. If the costs accrue to too many, even if they are very slight, your ‘courageous’ policy will never be implemented, no matter how economically optimal and philosophically desirable:
  - ▮ Economic policy recommendations, bereft of a sense of political realities, have a distinctly naive character. (Brennan 2010: 389)
- › Of course **political decisions** enter in the setting of policy goals, and even in the application of cost-benefit analysis.
  - ›› E.g., mainstream political parties in Australia seem to apply cost-benefit analysis in a way that suggests some constituencies have their costs and benefits heavily weighted; e.g., it is only a slight exaggeration to think that no policy that imposes costs on self-funded retirees will ever get through a Coalition cabinet.
- › That said, we will mostly be looking at ‘ideal’ challenges to economics, rather than those that emerge from *realpolitik* – political issues enter principally filtered through ethics.
  - ›› This reflects a pedagogical choice (coherence at the expense of breadth) and my disciplinary background. (PPE capstone taught by a political theorist would look quite different.)

# Philosophical Questions and Philosophical Answers

- › How can an interdisciplinary perspective help? Someone could argue:

At least in the standard economic framework, we get some answers. But if we start down the path of philosophical questioning, we give up our framework and get no firm alternative - just lots of philosophical back and forth, leaving us in a mire of scepticism and confusion.

- › Two points in response:
  1. Refusing to deal with challenges to the framework is like the drunk who looks for his lost keys under the street light because the light is better there – there is no guarantee the truth is there even if it is easier to use.
  2. There is no real reason for scepticism about philosophical judgement. There is in fact relatively robust agreement on philosophical method (Brennan 2010: 392–93), and lots of substantive agreement on particular cases.
- › In any case, this course will be an extended attempt to demonstrate the intellectual and practical consequences of an interdisciplinary engagement with economic reasoning in the foundations of public policy (Reiss 2013: 4).
- › We'll deal with this more fully in the coming weeks. But first I want to look at the kind of approach we might take in microcosm.

# 'Economic Logic' and its Challenges

# Exporting Pollution: The World Bank Memo

...shouldn't the World Bank be encouraging more migration of the dirty industries to the LDC's [less developed countries]? ...

- (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 underpolluted; their air quality is probably vastly inefficiently low compared to Los Angeles....
- (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



# The logic of the memo

- › The memo makes three supporting arguments:
  1. Shifting pollution sources to LDCs reduces the **costs** of pollution (thought of as **foregone individual earnings** as a result of **health impacts**);
  2. A more even world distribution of pollution is likely to reduce its health impacts, and thus its cost (because the impacts of pollution are likely to be **non-linear**, given the adaptability of human bodies)
  3. Some significant effects of pollution are likely to be of concern only in high-income environments (aesthetics, or geriatric cancer risk, is likely to be low priority ‘in a country where under-5 mortality is 200 per thousand’).
- › Compare the local debate over an **outback nuclear waste dump**, which seems to follow exactly this logic (plus a dose of pro-regions propaganda/opportunism).

# What's the Argument?

- › This argument is a piece of **practical reason**, since the conclusion is about what we **ought to do**, specifically, what policies the World Bank ought to adopt.
- › So what's the argument structure? Something roughly like this:
  - (4) There is some amount of compensation  $c$  such that rational agents in LDCs would prefer to (receive  $c$  and pollution) than (forego both); and rational agents in high wage/high pollution societies would prefer to (pay  $c$  and forego pollution) than (retain  $c$  and pollution). (premise)
  - (5) Shifting pollution to LDCs and paying compensation  $c$  is preferable to the *status quo* for all rational agents in all societies. (from (4))
  - (6) We ought to adopt policies that encourage shifting pollution and paying  $c$ . (from (5))
- › Note that oftentimes the category of rational preference is itself politically contested; **whose preferences get to be called 'rational'**, and whose relegated to the realm of 'unreasonable', is not an economic issue (where any coherent preferences are okay), but is politically charged.

# Controversial premise

- › The first thing to note is that this argument begins with a **controversial** premise (4), both empirically and philosophically.
- › It presupposes an empirical claim: that it is possible to **shift** pollution.
  - › A proposal that shifts carbon intensive industry offshore, without reducing the overall carbon pollution load, is arguably not worth paying for: the pollution (and its effects) won't stay offshore.
  - › And 'the unit transport costs of solid waste are so high' (Hausman, McPherson, and Satz 2017: 20) as to prevent effective trade in pollution that will stay put.
- › (4) also presupposes a philosophical claim: that we can always **compare** states of affairs and rank them in preferability.
  - › Some prior assumptions: costs and benefits accrue to **individuals**, and are reflected in their **rational preference** for one possible state of affairs over another. Compensation is there to sweeten some features of unpreferred states; relative prices reflect how sweet the compensation needs to be across different environments.
  - › But maybe I place value on the clean environment and on money, but without an exchange rate – so I prefer a clean environment AND lots of money to either individually, and definitely prefer either individually to neither, but I have no preference for money over clean environment or *vice versa*.
    - › See Hare (2010): not every pair of options is, intuitively, comparable.

# The Value of Human Life

- › Another objection to premise (4) involves how we evaluate the costs of pollution. This is really about what we **measure**: if we restrict the costs we account for to foregone earnings, which can easily be measured, are we really capturing everything that matters to choice?
- › In old Germanic law, the legal response to murder and serious woundings was for the offer to offer to pay *weregeld*, compensation, to the victim or their surviving relatives.
- › But is it the case that there is any amount of money that would compensate for serious life impairment caused by pollution?
- › The **monetary cost** of a serious health problem caused by pollution is lower in an LDC. But the ‘human cost’, in terms of harm to the **opportunity for an individual to pursue their life projects**, is the same.
  - ›› The nature of those projects may themselves be the product of adaptive preference to the circumstances in an LDC, but may be no less part of a life plan for all that.
- › Maybe an agent’s preferences over combinations of money and pollution doesn’t reflect the ‘real’ options the agent cares about.

# From Preference to Policy

- › A second issue: How exactly do we get from (5) to (6)?
- › If that is a good step, then there is some **economic logic** to this argument that goes beyond logic – that in addition embodies some substantive assumptions.
- › What would bridge the gap between (5) and the conclusion, in light of this, is something like the following:
  - (Pareto) ‘If someone prefers  $X$  to  $Y$ , and no one prefers  $Y$  to  $X$ , then  $X$  is morally better than  $Y$ .’ (Reiss 2013: 212; Hausman, McPherson, and Satz 2017: 151)
  - (B-Ought) If a change makes everyone morally better off, then we ought to adopt policies that encourage it.
- › These are far from **neutral** principles of pure logic: indeed, they are probably both **false**.

# Opportunity Cost and What We Ought to Do

- › (B-Ought) is false, because what we ought to do doesn't depend just on whether doing it is **an** improvement: we ought to do the thing making the **biggest** improvement.
  - ›› Suppose I'm donating \$100 to charity, and I'm choosing between giving to a wealthy private school in Adelaide and a parasitic disease charity like **Unlimit Health**.
  - ›› Let's suppose both lead to outcomes everyone prefers to the current *status quo*.
  - ›› Still, I ought not to give to the private school.
- › Even by **purely** economic logic, then, the memo fails: any policy choice also has costs associated, namely, the **opportunity cost** of foregoing better policies. The memo simply doesn't consider opportunity cost.
- › So much for the **economic perspective** on this argument. But what is economically interesting 'and what is "philosophically interesting" about a given topic may just be different things' (Brennan 2010: 389).
- › What does the argument of this memo look like from a different standpoint?

# A challenge from Justice

- › Is the shifting of pollution **just** or **fair**, even if it is economically rational?
  - › Suppose I burn down your house, and you know I did. I offer to pay you an amount that compensates you for your loss and ‘pain and suffering’, if you don’t report me to the police.
  - › The uncertainty of the court case, and the aggressiveness of your insurer, may mean that you overall expect to benefit from accepting the deal; and if I dislike the prospect of jail enough, the deal may be cheaper for me too.
  - › Still, it would not be fair or just for me to escape legal sanction – **I caused a harm to you**, regardless of whether I subsequently wish to compensate you for it to avoid a harm to myself.
- › Likewise: would it be fair or just for wealthy countries to pay LDCs to accept their pollution, given that in many cases the LDCs remain impoverished **because** of the actions of the wealthy countries? To say nothing of the exploitation of economic power differences involved.
- › This is, notice, a direct argument against Pareto. We’ll return to it later in the course.

# Whose interests? Pareto revisited

- › A more general version of this challenge to the Pareto principle is that it involves what is **objectively valuable** coming apart from what is preferred.
  - › E.g., in environmental ethics, where nature may have intrinsic value even if no one puts nature first in their own preference ordering;
  - › Or if human health has objective value, even if everyone prefers to eat junk food or take the money from big polluters.
- › Another challenge, not to the truth of Pareto but its scope: can we ever make policy decisions if not everyone rationally prefers a change, or if it doesn't make everyone better off? Can we ever have acceptable **trade-offs**?
- › We cannot resolve these today. But they give the flavour of the economic analyses we will address, and the kinds of considerations we might be worried about in response.



# References

# References

- Brennan, Geoffrey (2010) 'PPE: An Institutional View', *Politics, Philosophy & Economics* **9**: 379–97. doi:[10.1177/1470594X10368270](https://doi.org/10.1177/1470594X10368270).
- Hare, Caspar (2010) 'Take the Sugar', *Analysis* **70**: 237–47. doi:[10.1093/analys/anp174](https://doi.org/10.1093/analys/anp174).
- Hausman, Daniel, Michael McPherson, and Debra Satz (2017) *Economic Analysis, Moral Philosophy, and Public Policy*, 3rd edition. Cambridge University Press.
- Reiss, Julian (2013) *Philosophy of Economics*. Routledge.