Economic Analysis and Moral Philosophy, by Daniel M. Hausman and Michael S. McPherson. Cambridge: Cambridge University Press, 1996. Pp. 249. H/b. £35.00, $49.95. P/b. £12.95, $16.95.

This book aims to show how moral philosophy can enrich economic analysis and (to a lesser extent) vice-versa. Hausman and McPherson begin their book discussing two examples of economic analysis that illustrate how it relies on, yet belies, moral assumptions. One example is the infamous 1991 internal World Bank memo generated by Lawrence Summers (and leaked to *The Economist* in 1992) in which he argues in chillingly detached neoclassical style for exporting more pollution from rich countries to poor ones. This example, which they return to in the conclusion and occasionally throughout, raises two serious moral objections to orthodox economic analysis: (1) the unfairness of exploiting economic advantage; and (2) the irrationality and/or immorality of equating preference satisfaction with welfare.

Economists routinely ignore fairness issues and equate preference satisfaction with welfare. Why? In Part I of their book Hausman and McPherson explain how the neoclassical economic theory of rationality together with heroic idealizing assumptions about economic agents and the distinction between positive and normative economics, combine to make these sensible (though problematic) theoretical moves. Rationality, the "Trojan horse smuggling ethical presuppositions into the theoretical citadel of positive economics" (p. 45), enters positive economics as a theory of action. Persons are assumed to be rational (in the "thin" sense) and their utility functions are assumed to be self-interested, and from this economists explain actions. Add to this the assumption of perfect knowledge and they derive the equation of preference satisfaction and welfare—apparently as a non-normative conclusion! To get standard normative economics we need only add the principle of minimal benevolence: that all other things equal it is morally good if people are better off. Hausman and McPherson then argue that since persons are not plausibly self-interested and are in fact motivated by (what they take to be) moral reasons, good explanations of actions must attend to moral reasons. Therefore, they argue, economists must attend to moral philosophy. I will return to this last inference later in the review.

Part II of the book takes up the issue of welfare. In chapter six they argue that welfare cannot plausibly be equated with preference satisfaction by summarizing arguments from Elster, Sen, Nagel, and Scanlon. First there are theoretical problems with identifying preferences, because of preference change, agents' false beliefs, and conflicts within individuals between first- and second-order preferences. Then there are ethical problems with equating welfare and preference satisfaction in social policymaking: how should very expensive preferences count? Should anti-social preferences be respected? Should preferences formed non-autonomously (to use Elster's terms) be satisfied? In chapter seven Hausman and McPherson discuss welfare economics, which employs the concept of pareto optimality and cost benefit analysis in making prescriptive claims. They argue that pareto optimality unreasonably restricts the scope of welfare economics, and show how cost-benefit analysis belies normative presuppositions, concluding that welfare economics will remain "in limbo" without explicitly considering issues of justice, freedom, and equality. Chapter eight discusses utilitarianism and consequentialism, explaining why economists would be attracted to these moral theories, and suggesting that economic analysis could enrich them by analyzing the consequences of specific institutional policies.

Part III discusses three political philosophies: libertarianism, egalitarianism, and contractualism, and suggests ways that economic analysis has clarified and could further clarify the implications of each of them. I found the discussion of egalitarianism in chapter ten to be an especially useful summary of the literature, both philosophical and economic, on equality of resources, welfare, and capabilities. Part IV, entitled "Moral mathematics", discusses social choice theory and game theory. I found the discussion of social choice theory to be useful though brief, but that of game theory to be too brief to be of much help. This part read like an afterthought. The concluding chapter is a rich summary of the implications that their discussions of welfare, justice, and equality have for Summers's memo.

Hausman and McPherson add an appendix that is to my mind an essential part of their argument that economic analysis needs moral theory. In the appendix they rebut two objections to the effect that economics is value-free, at most making hypothetical imperatives when analyzing alternative policy prescriptions. First they argue that values enter economic theory in selecting and specifying economic problems to address. Second, they reinforce their previous arguments from Part I that since economics aims to give reason-based explanations of action, and since some motivating reasons for persons are moral reasons, good economics requires an understanding of morality. I will return to this argument. Finally Hausman and McPherson suggest that the kinds of arguments that economists give are influential in society, and that therefore economists can help to make societies and individuals more moral if they incorporate moral arguments in their analyses. I think that they are right here, and it may be the best reason for economists to read their book.

This book is clearly written and should be very helpful for economists who want an overview of ethical theories that bear on questions of preference, welfare, justice, and liberty. It is less good as an introduction to economic analysis for moral philosophers (though there is a useful glossary of economic and philosophical terms), but it does an especially good job of making sense of the positivist slant and callousness of much of economic analysis, and it raises some interesting philosophical issues concerning explanations of actions. It would serve as an excellent textbook for courses that attempt to address both disciplines.

This book does not aim to break new philosophical ground, but in order successfully to argue for its thesis, that economic analysis needs moral theory, Hausman and McPherson offer some new philosophical arguments. As I reported, they argue that since some motivations to action are moral ones, to give good explanations of actions economic analysis must incorporate moral analysis. This does not immediately follow, of course. What motivates is not morality but agents' beliefs about morality. So it seems that it would be adequate for economic analysis to canvass agents' moral beliefs, assign some moral preference function, and use that (in some complex combination with preference functions) to explain action. But doing this is not doing moral theory, it is social psychology, an empirical not a normative enterprise. Hausman and McPherson are clear that they intend normative moral philosophy, however. So how do they argue for this point? The relevant passage seems to be this:

> People's desire to act on principles that no rational agent could reasonably reject, or their desire not to free-ride, but to do their part in practices of which they approve, can motivate them to follow norms, even when doing so will not benefit them materially .... And if such explanations are correct, then the *justification* for a set of norms and not merely the *fact* that the norms are accepted may be important empirically. If people comply with some norms because they accept the moral *reasons* that justify those noms, then a critique of those reasons may have important behavioral consequences. And if reasons have such empirical importance, then economists need to understand how norms are justified. (pp. 58–9)

The last phrase contains an equivocation. If reasons are important in motivating behavior because they are justifiers, what matters is how the agent sees the reasons as justifying, not whether the reasons normatively justify. Again they argue the point in the appendix, where they illustrate it with a nice example of the explanation of different levels of blood donation in Britain, where there is no market for blood, and the US, where blood was bought and sold. The argument there is the same: to explain the difference one must understand moral motivations and gift giving norms, which economists tend to ignore. And to understand these motivations one needs to understand morality, or as they put it, "to enter into the moral universe of the agents" (p. 218). Hausman and McPherson have convinced me that economists need "to understand how norms are justified" in the sense of understanding what practices of reason giving, justifying, and explaining agents engage in, but it is a further step, and one that I cannot see that they have justified, to argue that therefore one needs to study normative ethics. Social psychology or anthropology would seem to be the shorter route to such an understanding. Perhaps Hausman and McPherson mean to suggest that by studying normative ethics economists will be more flexible in the motivations they attribute to agents, and will tend to look for a moral reason as quickly as for a prudential one. Again, social psychology and anthropology seem the shorter route.

Their strongest argument for their thesis is that "a critique of those (motivating) reasons may have important behavioral consequences", a point that they reiterate in the final paragraph of the concluding chapter. Economists do seem to be well placed not only to report agents' motivating reasons, but to critique them, and thereby to change them. If they want to critique them well, then they must engage in a normative moral investigation. I find it ironic that their most successful argument is so reminiscent of Marx's Thesis XI, given that they have virtually ignored (with the exception of Roemer's) the normative economic work of marxist economists.

Department of Philosophy
University of Kansas
Lawrence, KS 66045
USA

ANN E. CUDD

Normative Ethics, by Shelly Kagan. Dimensions of Philosophy Series (Series Editors Norman Daniels and Keith Lehrer). Boulder and Oxford: Westview Press, 1998. Pp. 337. H/b. £53.00. P/b. £16.50.

Kagan's book is an overview of the main positions within ethical theory. Its target reader is the "upper level" or graduate student of philosophy. This may partly explain the author's choice of expository approach. Rather than aiming to provide a survey of the most important positions which have actually been held by ethical theorists, Kagan opts for a taxonomical approach, on which different possible views are discussed in abstraction from their relation to the positions actually held by existing philosophers. References to historical figures are confined to a bibliographical chapter at the back. The reader will therefore benefit from previous knowledge of ethics in order to place the views discussed in their right historical context.

The choice of expository approach has one beneficial upshot which makes this book a distinctive contribution to the existing literature. Kagan's taxonomy brings out the possibility of combining positions in surprising and interesting ways, thus giving the impression that ethics is a subject on which work remains to be done. This provides a refreshing contrast to some books which, by slavishly expounding the dialectic between the standard theories, frequently give students the impression that everything worth saying has already been said. Kagan's book goes some way towards avoiding this problem by providing a classification of moral theories according to which the main points of historical debate are shown not to exhaust the range of territory which can be reasonably disputed. In this way, pondering the possibilities revealed by Kagan's taxonomy might bring fertile results for anyone searching for fresh avenues of research. Furthermore, abstracting from historical context enables Kagan to avoid criticising historical figures according to standards which they would not accept. For one of Kagan's aims is to determine the extent to which different moral theories can be rendered consistent with contemporary common-sense moral intuitions. And it is by no means obvious that all historical figures can be fairly criticised on those terms.