Contents

Preface ix

INTRODUCTION 1

1 Ethics and Economics? 3
  1.1 What Are Moral Questions and How Can They Be Answered? 4
  1.2 How Is Moral Philosophy Relevant to Economics? 8
  1.3 Organization 10

2 Ethics in Welfare Economics: Two Examples 12
  2.1 A Shocking Memorandum 12
  2.2 Eight Distinctive Features of Welfare Economics 13
  2.3 The Economic Benefits of Exporting Pollution to LDCs 16
  2.4 Summers's Argument and a Further Feature of Welfare Economics 17
  2.5 Is Summers Right? Should the World Bank Encourage Migration of Dirty Industries to LDCs? 20
  2.6 School Vouchers 23
  2.7 Conclusions 29

3 Ethics in Positive Economics: Two Examples 30
  3.1 Is Unemployment Involuntary? 31
  3.2 Overlapping Generations 38
  3.3 Conclusions 41

I RATIONALITY AND MORALITY 43

4 Rationality 45
  4.1 Certainty and Ordinal Utility Theory 46
  4.2 Expected Utility Theory 51
  4.3 Questions about Utility Theory 55
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Rationality in Positive and Normative Economics</td>
<td>60</td>
</tr>
<tr>
<td>5.1</td>
<td>Rationality and Positive Economics</td>
<td>60</td>
</tr>
<tr>
<td>5.2</td>
<td>Preference Satisfaction and Pareto Efficiency</td>
<td>64</td>
</tr>
<tr>
<td>5.3</td>
<td>Rationality and Ethics in Positive Economics</td>
<td>67</td>
</tr>
<tr>
<td>5.4</td>
<td>Self-Interest and Moral Motivation</td>
<td>72</td>
</tr>
<tr>
<td>5.5</td>
<td>Conclusions</td>
<td>76</td>
</tr>
<tr>
<td>6</td>
<td>Rationality, Norms, and Morality</td>
<td>78</td>
</tr>
<tr>
<td>6.1</td>
<td>Rationality and Self-Interest</td>
<td>79</td>
</tr>
<tr>
<td>6.2</td>
<td>The Influence of Moral Norms on Economic Behavior</td>
<td>80</td>
</tr>
<tr>
<td>6.3</td>
<td>How Do Norms Motivate and What Sustains Them?</td>
<td>85</td>
</tr>
<tr>
<td>6.4</td>
<td>Philosophical Implications</td>
<td>89</td>
</tr>
<tr>
<td>6.5</td>
<td>Morality and Utility Theory</td>
<td>91</td>
</tr>
<tr>
<td>6.6</td>
<td>Conclusion: On the Rationality of Morality</td>
<td>94</td>
</tr>
<tr>
<td>II</td>
<td>Welfare and Consequences</td>
<td>97</td>
</tr>
<tr>
<td>7</td>
<td>Utilitarianism and Consequentialism</td>
<td>99</td>
</tr>
<tr>
<td>7.1</td>
<td>Clarifying Utilitarianism</td>
<td>100</td>
</tr>
<tr>
<td>7.2</td>
<td>Interpersonal Comparisons of Well-Being</td>
<td>104</td>
</tr>
<tr>
<td>7.3</td>
<td>Justifying Utilitarianism</td>
<td>107</td>
</tr>
<tr>
<td>7.4</td>
<td>Contemporary Consequentialism</td>
<td>109</td>
</tr>
<tr>
<td>7.5</td>
<td>Is Utilitarianism Plausible?</td>
<td>112</td>
</tr>
<tr>
<td>7.6</td>
<td>Consequentialism and Deontology</td>
<td>113</td>
</tr>
<tr>
<td>7.7</td>
<td>Conclusion: Should Economists Embrace Utilitarianism?</td>
<td>116</td>
</tr>
<tr>
<td>8</td>
<td>Welfare</td>
<td>118</td>
</tr>
<tr>
<td>8.1</td>
<td>Theories of Well-Being</td>
<td>119</td>
</tr>
<tr>
<td>8.2</td>
<td>Is the Standard View of Welfare Plausible?</td>
<td>120</td>
</tr>
<tr>
<td>8.3</td>
<td>Equating Well-Being and Preference Satisfaction</td>
<td>122</td>
</tr>
<tr>
<td>8.3.1</td>
<td>Changing and Conflicting Preferences and Preferences Based on False Beliefs</td>
<td>123</td>
</tr>
<tr>
<td>8.3.2</td>
<td>Assessing Preferences</td>
<td>125</td>
</tr>
<tr>
<td>8.4</td>
<td>Modifying the Preference Satisfaction View</td>
<td>128</td>
</tr>
<tr>
<td>8.5</td>
<td>Alternative Theories of Welfare</td>
<td>129</td>
</tr>
<tr>
<td>8.6</td>
<td>Conclusions</td>
<td>133</td>
</tr>
<tr>
<td>9</td>
<td>Efficiency</td>
<td>135</td>
</tr>
<tr>
<td>9.1</td>
<td>“Efficiency” as Pareto Optimality</td>
<td>136</td>
</tr>
<tr>
<td>9.2</td>
<td>How Welfare Economics Narrows Normative Questions</td>
<td>140</td>
</tr>
<tr>
<td>9.3</td>
<td>Cost–Benefit Analysis</td>
<td>144</td>
</tr>
<tr>
<td>9.4</td>
<td>Objections to Cost–Benefit Analysis</td>
<td>147</td>
</tr>
<tr>
<td>9.5</td>
<td>Cost–Benefit Analysis as a Social Practice</td>
<td>151</td>
</tr>
<tr>
<td>9.6</td>
<td>Conclusion: Welfare Economics in Limbo</td>
<td>152</td>
</tr>
</tbody>
</table>
III  LIBERTY, RIGHTS, EQUALITY, AND JUSTICE  157

10  Liberty, Rights, and Libertarianism  159
   10.1 Freedom  160
   10.2 What Are Rights?  163
   10.3 The Importance of Rights  164
   10.4 The Justification of Rights  166
   10.5 Weighing Rights, Liberties, and Welfare  167
   10.6 Libertarianism  168

11  Equality and Egalitarianism  174
   11.1 Why Equalize?  177
      11.1.1 Equality Is Intrinsically Good  178
      11.1.2 Equality and Priority for the Worst-Off  179
   11.2 Equality of What?  183
      11.2.1 Equality of Welfare  184
      11.2.2 Equality of Resources  185
      11.2.3 Equality of Opportunity for Welfare  190
      11.2.4 Equality of Capabilities  191
   11.3 Complex Equality and Equality of Moral Status  192
   11.4 The Measurement and Importance of Inequality  195

12  Justice and Contractualism  198
   12.1 The Social Contract Idea  199
   12.2 Justice as Reciprocity: Rawls's Theory of Justice  201
      12.2.1 Contractualism and the Original Position  202
      12.2.2 Rawls's Principles of Justice  203
      12.2.3 Implications of Rawls's Principles  206
      12.2.4 Justice and Pluralism  207
   12.3 Justice as Mutual Advantage: David Gauthier  209
   12.4 Other Contractualist Views  211
   12.5 Conclusion: Social Contract Reasoning and Economics  212

IV  MORAL MATHEMATICS  215

13  Social Choice Theory  217
   13.1 The Social Welfare Function and Arrow's Theorem  217
   13.2 The Interpretation of Arrow's Theorem  220
   13.3 Social Choice Theory and Moral Philosophy  222
   13.4 The Paradox of the Paretian Liberal  225
   13.5 The Range of Social Choice Theory  228
      13.5.1 The Logical Coherence of Social Judgments  228
      13.5.2 Formal Representations of Freedom and Opportunity  228
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.5.3 Should Egalitarians Aim to Equalize Welfare?</td>
<td>230</td>
</tr>
<tr>
<td>13.6 Conclusions</td>
<td>232</td>
</tr>
<tr>
<td>14 Game Theory</td>
<td>234</td>
</tr>
<tr>
<td>14.1 What Is a Game?</td>
<td>234</td>
</tr>
<tr>
<td>14.2 Moral Philosophy and Some Simple Games</td>
<td>239</td>
</tr>
<tr>
<td>14.3 Cooperation and Justice</td>
<td>243</td>
</tr>
<tr>
<td>14.4 Paradoxes and Difficulties</td>
<td>245</td>
</tr>
<tr>
<td>14.5 Bargaining Theory and the Social Contract</td>
<td>251</td>
</tr>
<tr>
<td><strong>CONCLUSIONS</strong></td>
<td>257</td>
</tr>
<tr>
<td>15 Pollution Transfers and School Vouchers: Normative Economics Reconsidered</td>
<td>259</td>
</tr>
<tr>
<td>15.1 Do Vouchers and Pollution Transfers Make People Better-Off?</td>
<td>261</td>
</tr>
<tr>
<td>15.2 A Utilitarian Perspective on Pollution Transfers</td>
<td>265</td>
</tr>
<tr>
<td>15.3 Other Ways of Evaluating Vouchers and Pollution Transfers</td>
<td>267</td>
</tr>
<tr>
<td>15.3.1 Rights, Freedoms, Pollution, and Vouchers</td>
<td>267</td>
</tr>
<tr>
<td>15.3.2 Equality, Pollution, and Vouchers</td>
<td>268</td>
</tr>
<tr>
<td>15.3.3 Justice, Pollution, and Vouchers</td>
<td>269</td>
</tr>
<tr>
<td>15.4 Conclusions</td>
<td>272</td>
</tr>
<tr>
<td>16 Economics and Ethics, Hand in Hand</td>
<td>274</td>
</tr>
<tr>
<td>16.1 Involuntary Unemployment and Moral Baselines</td>
<td>274</td>
</tr>
<tr>
<td>16.2 The Overlapping Generations Example</td>
<td>278</td>
</tr>
<tr>
<td>16.3 Pressing Problems</td>
<td>279</td>
</tr>
<tr>
<td>16.3.1 Ethnic and Religious Conflict</td>
<td>281</td>
</tr>
<tr>
<td>16.3.2 Global Inequalities</td>
<td>283</td>
</tr>
<tr>
<td>16.3.3 Environmental Protection and Global Warming</td>
<td>285</td>
</tr>
<tr>
<td>16.4 Conclusions</td>
<td>289</td>
</tr>
<tr>
<td>A.1 Objection 1: Economists as Engineers</td>
<td>292</td>
</tr>
<tr>
<td>A.2 Objection 2: Positive Economics Is Value Free</td>
<td>295</td>
</tr>
<tr>
<td>A.2.1 Positive and Normative Economics</td>
<td>296</td>
</tr>
<tr>
<td>A.2.2 On the Independence of Ethics and Economics</td>
<td>297</td>
</tr>
<tr>
<td>A.3 The Rationality of Normative Inquiry</td>
<td>297</td>
</tr>
<tr>
<td>A.4 How Knowing Ethics Contributes to Positive Economics</td>
<td>299</td>
</tr>
<tr>
<td>A.5 Conclusions</td>
<td>306</td>
</tr>
<tr>
<td><strong>Glossary</strong></td>
<td>309</td>
</tr>
<tr>
<td><strong>References</strong></td>
<td>315</td>
</tr>
<tr>
<td><strong>Index</strong></td>
<td>335</td>
</tr>
</tbody>
</table>