1. Introduction

Economics relates ultimately to the study of ethics and that of politics, and this point of view is further developed in Aristotle’s *Politics*. There is no scope in all this for dissociating the study of economics from that of ethics and political philosophy (Amartya Sen).

Public policy in the advanced economies has undergone a radical shift to the right over the past 40 years. This reflects, in large part, the re-emergence of deep divisions in modern capitalist societies such as the United States of America and the United Kingdom. Class inequalities of privilege, position and power have hardened during these decades and reset the policy agendas of governments, particularly in those countries adhering to a neoliberal faith in free markets and the institutional and ideological frameworks legitimating the resulting policy approaches.

The resulting policy path-dependence has emerged in country after country as a result of interdependent national and international forces. The complex processes of globalization, in their economic, cultural and political phases have impacted differently on particular countries but the overall outcome has been increasing differentiation within most, including those designated ‘emerging economies’ by commentators and politicians. Clearly, epoch-changing developments like the fall of the Soviet empire and the associated rise of US triumphalism in the 1990s have been decisive in the rise of market fundamentalism in democratic politics. New communication technologies have also played their part in shrinking the world and replicating Western consumerism throughout it. This has not been without challenge, as the rise of nationalist politics and religious fundamentalism in some countries has made only too clear.

Nevertheless, the broad narrative of market-led economic growth predominates in many parts of our increasingly fragile planet, most dramatically in the most dynamic region of the world, Asia. In one important sense, this represents a generalization of development forces unleashed in the Western countries during the nineteenth century and reinforced after World War II. However, it also flows from the reassertion of ideas that first emerged in the eighteenth century, a mix of classical liberalism and the emerging political economy. Utilitarianism and the later subjective turn wrought by neoclassical economics provided the basis on which...
economics as the emperor of the social sciences captured the policy process after the World War II. Increasingly, the self-confident (and self-interested) pronouncements of economists have come to define and confine political debate and policy outcomes to a narrow concern for material welfare, tracked by conventional measures like per capita gross domestic product. This development is celebrated as a triumph of the scientific cast of economics as a discipline over its historical roots in moral philosophy.

Mainstream economics having colonized the policy arena and posited itself as the solution has, in fact, become part of the problem. An over-reliance on the market and the extension of market criteria to policy fields stretching well beyond the traditional areas of taxation, industry structure, employment and industrial relations and the financial sector, to dictate outcomes in education, health, social welfare and infrastructure, has contributed to growing inequalities of income, wealth and opportunities, while stoking insecurity in various forms and undermining the social bonds on which societies (and market processes) depend for their continuing existence. Far from being the value-free science promoted by its practitioners, orthodox economics expresses particular ethical precepts, while unintentionally repressing alternative value commitments; these moral precepts and absences bias public policy in clearly observable directions, with a range of consequences, some of which are unintended and – depending on an observer’s moral viewpoint – undesirable.

The conventional distinction between ‘positive’ and ‘normative’ economics neatly proposes an intellectual division of labour between ethics and economics, between the roles of values and analysis in the practice of the discipline. From this position, economists are able to quarantine their analyses of what is happening in the economy from what should happen. Positive economics employs what Amartya Sen (1987) calls ‘the engineering’ or ‘logistic’ approach. The ends and values of agents are given and economics is all about how economic processes result in predictable outcomes. However, to the extent that the ethical sentiments of agents influence how they act, economists need to take into account the nature, strength and ranking of those sentiments in explaining actual outcomes. ‘If one examines the balance of emphases in the publications of modern economics, it is hard not to notice the eschewal of normative analysis, and the neglect of the influence of ethical considerations in the characterization of actual human behavior’ (ibid. p. 7).

In fact, of course, economists do assume a particular narrow set of human motivations in their positive analyses – namely that people seek to pursue their own self-interests, however they conceive them. Traditionally this position has been proposed as self-evident, indeed as a definition of what is rational. From this position economists jump easily to the
comfortable but value-laden view that policies that maximize the ability of individuals to realize their self-conscious (indeed, self-regarding) interests are *morally* compelling; these are the policies that governments *should* impose. Note the (apparent) contradiction: positive analysis prescribes what ought to be done. ‘To see any departure from self-interest maximization as evidence of irrationality must imply a rejection of the role of ethics in actual decision taking (other than some variant or other of that exotic moral view known as “ethical egoism”)’ (ibid. p.15). Economists have further narrowed the ethical scope of their discipline by developing a particular brand of normative analysis known as modern welfare economics that provides both specific tools for assessing public policies and a language for justifying them.

This book seeks to unscramble the logical mess and politically regressive state to which the uncritical application of orthodox economics to public policy has brought us. Throughout I adopt a ‘consequentialist’ ethical position. That is, I critique orthodox economics and its policy directions and outcomes in terms of its actual deleterious consequences in the real world of power and time and place. In so doing I rely on a wealth of critical studies on the philosophy of economics carried out over the past 40 years and on the much longer philosophical tradition stretching back into the eighteenth century. My aim is to remind or – in cases of unconscious ignorance, instruct – both economists and policy makers that the entrenched policy positions they take have real consequences for real people based on ethical foundations that may not bear the weight placed on them. If Aristotle’s injunction that ethics is all about the search for ‘the good life’, and that economics as the study of wealth is one but only one tool in the hands of the wise legislator, then it behooves all of us as citizens to open up debate about what factors outside the scope of orthodox economics need to inform what our governments should do and don’t do. Inevitably, this will downgrade the current pre-eminent position of economists in the public policy realm, a blow to them no doubt but hopefully one that the rest of the citizenry will benefit from. In assuming a consequentialist position I am aware that those operating from an alternative moral framework will find some of my arguments less than compelling. That is how it should be. There are legitimate differences between, say, consequentialist and rights-based traditions. Those pursuing a virtue ethics will have their own critiques of conventional approaches to economic and social policy. It is important to open up the economics discipline to a broader ethical critique, especially as the practice of economics as-we-know-it has major implications for the impact of public policy on the pursuit of ‘the good life’. My major point is that, as currently configured and practiced, mainstream economics fails its own implied consequentialist ethical foundation.
The view expressed in this book is of a dualistic conception of the relevance of ethics in public policy. First, in order to understand how and why people act in the ways they do it is necessary to grasp the fact that human behaviour, including those actions and exchanges normally described as economic, are influenced through and through by the normative commitments, beliefs and obligations that they hold dear. Trying to explain economic phenomena without taking into account the values of real people situated in particular social milieu is like attempting to understand why people sacrifice their lives for their children and the defence of their communities without considering the influence of kinship, tribal relations and the constructions of nationalism. Second, ethical analysis is necessary to reflect on and question whether observable behaviours and current policies are justifiable – and if they are, on what grounds and under what conditions. To confine one’s gaze to understanding the world in the first sense may satisfy the scholarly instinct but is itself tantamount to taking an ethical position in the second sense; the task is not to change the world but to understand it.

The book is divided into three main parts. Part I examines the ethical tradition from which modern economics as a distinct discipline emerged. This entails focusing on the development of utilitarianism, starting with David Hume’s focus on the individual as subject, the conflict of interests and values, the coexistence of self-regarding and other-regarding drivers of human behaviour and the possibility of objectivity in moral judgment. Attention then moves on to the development of classical utilitarianism and its critique by John Stuart Mill as a backdrop to the emergence of neoclassical economics in the last third of the nineteenth century. With the landmark publication of Alfred Marshall’s *Principles of Economics* in 1890 economics in its recognizably modern form had arrived. The discipline now promised to provide both a deep understanding of and a set of tools for bringing about a state of affairs in which the material well-being of individuals – as a consequence of their own voluntary interactions – is maximized.

More specifically, Chapter 2 traces the emergence of arguments in the eighteenth century that culminated in the rise of utilitarianism, the ethical foundation of a rationalistic economic science, a century later. It does so by considering the work of the two giants of the Scottish Enlightenment, David Hume and Adam Smith. The importance of considering the thought of long-dead eighteenth-century moral philosophers – as Hirschman (1977), Sen (1987) and Rothschild (2002) have argued – is to recognize the complex interrelations between the passions and the interests that existed before modern economics collapsed the distinction into a reductionist theory of rational choice that rules out the explanatory and
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policy pay-off resulting from an approach that embraces the pluralistic structure of human nature.

Chapter 3 discusses the influential work of the British legal scholar and philosopher, Jeremy Bentham. His book *An Introduction to the Principles of Morals and Legislation*, published in 1789, laid down the classical theory of utilitarianism, arguably the first secular attempt to divorce morality from a theological base. Later philosophers and political economists, notably, Sidgwick, J.S. Mill and Francis Edgeworth developed and modified Bentham’s work. However, none succeeded in resolving certain difficulties associated with the impossibility of measuring utility in ways that allowed aggregation over actions, time frames and people. The chapter goes on to discuss how modern economics came to transform the Benthamite calculus into a system of rational choice based on an ordinal concept of utility, while developing a particular but limited notion of cardinal utility.

Chapter 4 tells how John Stuart Mill sought to shake off the early influence of his father, James Mill, and Bentham to deal with features of classical utilitarianism that he found morally repugnant and politically dangerous. In particular, he objected to the radical egalitarianism implicit in Bentham’s theory and the associated view that ‘push-pin was as good as poetry’. Mill preferred an evolutionary approach to public policy and constitutional reform that would be governed by the gradual moral elevation of the masses under the benevolent guidance of governments imbued with a sophisticated (that is, Millian) utilitarian ethic.

By the time of his death, Mill’s moral philosophy and political economy were about to be eclipsed by ‘the marginal revolution’. Chapter 5 discusses how the utilitarian concern with total utility was approached side on by considering the impact on economic outcomes of marginal changes in commodity choices and resource allocations. This allowed economists to focus on the process rather than the outcomes of market interactions, emptying the subject of an explicit moral charge. By the beginning of the twentieth century, economics had moved a long way from its utilitarian roots. The recognized inability to give sense to what it means to maximize utility or net happiness caused economists to narrow their gaze to the more tractable issue of explaining how prices (including wages and interest rates) are formed in freely operating market economies. Left behind, however, was an equal sense of something missing. What was the value to human actors of freely operating market systems? What justified the nature of economic organization and the social consequences resulting? What role should government have in monitoring and, perhaps, intervening in market processes? These are all basic ethical or normative questions the answers to which could not be read off from the utility and cost curves of the new microeconomics.
However, certain seemingly insuperable conceptual and practical difficulties remained if the new science was to guide wise public policy, such as the tricky challenge of comparing the impacts of specific policies on the well-being of different people over different time periods. Part II discusses how this and other challenges were met, resulting in the policy context framing real world developments since the 1970s in countries like the USA. Attention focuses on the narrow definition and treatment of ‘economic welfare’, the central concept of economic efficiency, the limited and subservient role of distributional factors and the implications of conventional analysis for questions of social justice. The section emphasizes how power has been written out of the narrative, implicitly reflecting and entrenching the interests and policy priorities of privileged sections of society. This can be traced back to a one-sided reading of Adam Smith’s *The Wealth of Nations* and a neglect of his *Theory of Moral Sentiments*. This section concludes with a summary pinpointing the key elements of a consequentialist ethical framework for reviewing the outcomes of recent public policies informed by orthodox economics.

Chapter 6 interrogates the way in which the concept of welfare has been defined and applied in economics over the past century. I identify and critique the particular consequentialist cast defining *whose* outcomes count, *which* outcomes count and *how* these outcomes can be aggregated across people and values. Critique focuses on the over-reliance on market values to the exclusion of other value bases and outcomes, and on the inadequacy of formal theories of well being inherent in the revealed preference-driven model of rational choice. This addresses the debate on ‘the moral limits of markets’ and the non-consequentialist perspectives of rights/obligations and virtue ethics.

Chapter 7 backtracks to uncover the intellectual context from which modern theories of economic welfare developed. I discuss the emergence of the ‘old’ welfare economics and ‘new’ welfare economics associated with A.C. Pigou and Vilfredo Pareto, respectively. Most attention is given to the undeservedly neglected work of Pigou; the main critique of Pareto is reserved for the following chapter. It is not possible to fully appreciate the grip of conventional market derived values without considering how Pigou following Alfred Marshall entrenched ‘the measuring rod of money’ in the normative firmament of the discipline. The chapter also highlights Pigou’s major contribution to the moral limits of markets, namely the concept and wide applicability of ‘externalities’.

Chapter 8 is a central critical conceptual section of the book, dealing with the major ethical weapon of mainstream economics – the politically influential concept of economic efficiency, derived from the Pareto principle. It is the distributional value judgment inherent in the notion of ‘Pareto
improvement’ that enables the seemingly (misleadingly) technical meaning of ‘efficiency’ to overwhelm alternative ethical drivers of public policy. The chapter draws out the limitations of the Pareto principle in both its strong and weak forms before addressing the controversial subjects of the theory of second best and the compensation principle. The latter expresses what I have called the ‘super strong’ Pareto principle providing the normative justification for the economists’ familiar tool – cost–benefit analysis. This tool when applied routinely to policy biases outcomes in favour of the well-off and effectively zero-values – in both monetary and non-monetary terms – outcomes that are difficult or impossible to ascribe monetary values to. In effect, by relying on the measuring rod of money the attempt by Pareto to remove cardinal measures of welfare from the scene is defeated and Pigou re-emerges triumphant through the back door – but not in a way that carries much ethical weight for good policy.

Chapter 9 focuses at the societal level, comparing and critiquing alternative theories of social justice and expanding the analysis beyond the debates framed by proponents and opponents of Paretian welfare economics. This carries the analysis beyond theories based on maximizing some social good to considering the role of contested concepts like desert, merit, equality, rights and community. What are the implications of different conceptions of social justice for ‘good’ policy?

Chapter 10 asks whether democracy is possible and if so, if it is desirable. The chapter begins with the familiar approach of social choice theory and debates over the ‘impossibility’ of deriving a majoritarian social welfare function. However, I argue that the fixation with the extension of rational choice theory to the societal level diverts attention from the real political economic forces determining the extent of ‘effective democracy’, in its classical and modern senses, characterizing the role and position of citizens in developed Western societies.

Chapter 11 recapitulates the main conclusions of Part II and outlines a coherent non-utilitarian framework for assessing the social good of public policies. The framework considers issues raised by non-consequentialist moral perspectives – like rights and duty – but from the viewpoint of their outcomes in the lives of people in real existing capitalist societies. This analysis frames (orients) the discussions of policies pertaining to the morally problematic domains covered in Part III.

Part III then turns to a critical account of some of the consequences of policies justified by orthodox economic analysis. The resulting impoverishment of the public realm and attendant threat to the long-term well-being of the bulk of the populations living in societies dominated by market fundamentalism – formalized in and legitimated by the practice of orthodox economics – is addressed through a review of: the increasingly
sharp juxtaposition of ‘private affluence and public squalor’; increasing economic and social inequality; the increase in macroeconomic insecurity associated with the ‘financialization’ of capitalism; the growing concerns around population growth and forced mobility and the micro and macro threats to the environment. The final chapter in this section focuses on the multiple threats to democracy resulting from the outcomes identified.

Chapter 12 looks at the results of three decades of privatizing previously public services in countries embracing neoliberal leanings. These policies bring into sharp relief the values inherent in and moral limitations of markets. The blanket claim that by introducing ‘contestability’, the interests of consumers will be necessarily better served is impossible to establish, either theoretically or empirically. The claim rests on unbridled faith in the efficiency of markets – in the special sense analyzed in Chapter 8 – and on arguments in bad faith put by those associated with financial and investor interests. Also complicit are politicians and policy makers listening to the long-dead voices of ‘defunct economists’ and looking to a career future in the rarefied world of bankers and lobbyists.

Chapter 13 revisits the moral issues around inequality in the context of the lively current debates unleashed by Thomas Piketty’s book *Capital in the Twenty-First Century*. The emphasis is on the moral valuation of the outcomes of inequality in different spheres of life. What moral justifications are there for government intervention to offset the rising trend of economic inequality – and to what extent is this influenced by the impacts of economic inequality on other value spheres? In line with the viewpoint proposed in this book, I highlight the various negative outcomes tied to the increasing economic polarization of society.

Chapter 14 focuses on the ethical problems raised by developments in the financial sector of the advanced capitalist economies in the lead up to and policy responses arising from the 2008 global financial crisis and its lingering aftermath in the USA and Europe. In 2008 the global financial crisis burst on a world and an economics profession that was blind to its possibility. Although initial responses managed to avoid the main mistakes that turned the Wall Street Crash of 1929 into the Great Depression, an untimely reversion to the policy of enforced austerity prolonged the misery among the majority of the peoples of the advanced economies. The crisis uncovered a pervasive ethical malaise at the core of a contemporary capitalism.

Chapter 15 considers concerns around environmental values and justice, both at the micro and macro levels. To what extent are cross-country environmental problems more intractable for policy makers, civil society groups and politicians? These and related questions interact with inter-generational ethical concerns over inequality. To what extent do market
approaches – that is, pollution trading schemes – help or hinder a ‘thick’ understanding of the ethically desirable policies necessary to deal with the concerns? The phenomenon of and threats posed by human-induced climate change raise difficult economic, political and moral challenges for policy makers. It is far from clear that current political institutions and processes are adequate to successfully addressing them.

Chapter 16 looks at a world that is currently undergoing a degree and geographical scope of population mobility not experienced since the immediate aftermath of World War II. Forced migration and displacement is occurring on a scale that threatens to overwhelm the capacities of nation states, their governments and peoples to absorb and adapt to the changing demographic landscape. Conventional migration, refugee and border protection policies are failing and ad hoc responses are seeing the modern equivalent of concentration camps and isolationist rhetoric overwhelming public debates. What are the ethical consequences and questions raised by these developments? How are they feeding into the rising political tide of populist politics?

Chapter 17 revisits a number of the issues raised in Chapter 10 in the light of the arguments presented in Part III. I argue that developments in the neoliberal era raise threats to the future functioning of liberal democracy as the West has come to know it. In the words of a prominent critical economist (Joseph Stiglitz) we live in an era in which democracy itself is in peril.

Each chapter in Part III is structured on a ‘what – why – what – so what’ basis. I ask what has happened, why did it happen, what are the consequences and what are the normative and policy implications. Sources and references are used sparingly, and provided to assist the reader to follow up the main points made.

It must be stressed that the topics tackled in Part III are very large ones. Each deserves and many have received book-length treatment. My aim is to focus on some of the key aspects of the issues and challenges as a method of illustrating the arguments presented in the first two parts of the book, without claiming to have in any sense exhaustively covered the topics.

The Epilogue provides a final summary of the key arguments of the book and the implications of a renewed ethical commitment to a sustainable social democracy.

The distinguished economist and philosopher Amartya Sen has long stressed the importance of ethical issues for economics. His lectures, published as On Economics and Ethics in 1987, summarized the wealth of work done in this field to that point. Since then there has been a veritable explosion in attempts to ‘bring’ philosophy (especially ethics) into
Morality and power economics. In addition to specialist journals like *Economics and Philosophy* and *Philosophy and Public Affairs* and numerous review articles in outlets like the *Journal of Economic Literature* and the *Journal of Economic Perspectives*, a number of important books have been published on the topic; notably, Hausman and McPherson (1996, 2006), Wight (2015), Little (2002), Gaus (2008), Dutt and Wilber (2013), Reiss (2013) – to name a few.

Why, then, intrude another book into an increasingly crowded field? I do draw on and cite many of the relevant works, recent and earlier – and provide the reader with a brief guide to this literature in chapter endnotes that also extend some of the points made in the text; these additional notes are indicative and not intended to be definitive. I have tried to confine direct quotations in the text to those that I believe best convey the line of argument that I am developing, avoiding the temptation to indulge in debates over alternative interpretations of large topics like utilitarianism, for example. However, I believe that the existing contributions miss a number of important issues and matters of ethical and political import in the context of contemporary public policy in capitalist liberal democracies, due in part to the methodological and institutional framework informing those analyses.

**Summarizing, the main differences** – and I would argue, positive contributions – of this book are as follows.

First, I attempt (in Part I) to provide an account, albeit selective, of the historical philosophical roots of orthodox economics as it came to dominate the public policy realm from the mid-eighteenth, through the nineteenth and into the twentieth centuries.

Second, the book takes seriously the institutional context within which the capitalist economy operates. The model of rational choice that pervades orthodox economic analysis abstracts from critical social and political factors influencing economic outcomes. The problematic of power in economic life is either ignored or – as in game theory – reduced to a consideration of strategic interaction between individual agents operating in an institutional and cultural vacuum.

Third, I contrast the emergence in the early twentieth century of the ‘old’ and ‘new’ economics, associated with two giants in the history of economic thought, Arthur Pigou and Vilfredo Pareto, respectively. In Chapter 8 I subject the concept of Paretian optimality – the bedrock of modern economics – to a rigorous critique; this contrasts with the more limited and disjointed treatments of the notion of economic efficiency found in the existing literature, including the references noted earlier. This chapter is central to the overall thrust of the arguments presented in this book and, I would hazard, one of its main contributions to the lively debates now
energizing the discipline and associated social sciences. The contribution resides not in the individual arguments marshaled, as each has, in some degree, been put forward before, but in bringing them together in one place so that the reader can appreciate the collective force of the critique.

Fourth, in Part III, I attempt to demonstrate how recent developments in capitalist economies have ethically significant implications, both for how economics has been practiced and how public policies have unwound. A final word, by way of an epilogue, suggests how things might in future be different. In short, this book offers a more radical political economy approach to the significance of practical ethics in the policy world than is currently available in the literature.

This book is aimed at senior undergraduate and postgraduate students interested in heterodox economics and political economy, and to students and practitioners of public policy. Students in other social sciences and others perplexed by the iron grip of orthodox economics on politicians and policy makers may also find the critical approach advanced here useful.

NOTES

1. There have been many attempts to describe and analyse the manifold facets and causes of the rise of neoliberalism, an essentially contested concept, if ever there was one. For example, see Varoufakis (2011); Berry (2013); Blyth (2013); Quiggin (2010); Cassidy (2009).
2. See, for example, Wight (2015) for a review of non-consequentialist moral traditions and their implications for economics.
3. Frankfurt School critical theorist Theodor Adorno once claimed: ‘I established a theoretical model of thought. How could I have expected that people would want to implement it with Molotov cocktails?’ (quoted in Jeffries, 2016, p. 1). Adorno’s point, apparently, was to interpret the world, not to change it.