

provide a cogent explanation for some of the things we observe governments doing in the real world. And, I should re-emphasize, it does so in a way that is relatively value-free. Part of the agenda of the new public economics is to investigate the most efficient ways of achieving any given amount of redistribution. It should thus be compatible with the objectives of both normative and positive public economists.

In light of its insights of the information-based approach to the theory of economic policy, a good deal of the knee jerk economic commentary that one reads in the popular media, and which has found its way into a good deal of public thinking, is sadly out of date. Too often its creators betray no familiarity with fundamental economic theoretical research or empirical findings which, in some cases, is quite incompatible with those facile prescriptions. No doubt, economists share some of the blame for these shortcomings, in failing to educate the public about the practical importance of their work.

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by Daniel M. Hausman and Michael S. McPherson

## BEWARE OF ECONOMISTS BEARING ADVICE

*L'économique du bien-être vulgarise la problématique de l'élaboration des politiques en se limitant à la promotion du bien-être et en établissant une concordance faussée entre le bien-être et la satisfaction des préférences. Il importe que les autorités publiques tiennent compte de ces limites lorsqu'elles évaluent les recommandations formulées par les économistes du bien-être.*

Beware of economists bearing advice. Though some of it is valuable, the framework of theoretical welfare economics from which economic advice usually issues has serious normative limitations and distortions. When economists go beyond identifying consequences of policies to making recommendations, they typically rely on a theory in which the only normative concern is welfare and its distribution and that mistakenly identifies welfare with the satisfaction of preferences. Their advice about how to increase welfare must accordingly be regarded with caution, and policy makers must not forget that increasing welfare should not be their only goal.

#### An example: cash versus in-kind benefits

To illustrate the power and pitfalls of welfare economics, let us focus on an example. Welfare economics contains a simple argument for why welfare benefits should be provided in cash rather than in kind. Suppose that members of a family receive \$200 in food stamps. If they had received \$200 in cash instead, they could, if they chose, have purchased the same \$200 worth of food. So they would have been no worse off with the cash. They might, however, have wanted to spend the \$200 some other way; and if getting what they prefer

makes them better off, they would have been better off. Furthermore, it is cheaper to write a cheque than to operate a system that issues and redeems food stamps and to monitor it for fraud. So greater benefits can be provided for the same cost to the taxpayer.

How good an argument is this one? Let us look at it in more detail. It relies on three main premises: 1) recipients prefer a cash benefit to an in-kind benefit of equal value; 2) if people receive what they prefer, then they are better off; and 3) the goal of social welfare programs is to make welfare recipients better off. The first premise faces some difficulties, since the effort of choosing how to spend the cash can itself be costly or distressing. Furthermore, the cheques the government issues go to heads of families rather than directly to all the beneficiaries, and it is not obvious that family heads will choose to spend the cash in ways that satisfy dependents' preferences better than in-kind transfers would. In defense of this assumption, one might suggest that recipients, though no doubt flawed in many ways, are nevertheless better judges of what their families prefer than is the government. So let us grant that the first premise is a reasonable approximation. The plausibility of the second and third premises, in contrast, is deceptive. These premises are in fact extremely controversial.

We should point out that even within the context of welfare economics, this argument has some limits. Taxpayers may themselves have preferences for certain kinds of consumption patterns among the recipients of assistance, and hence the well-being of taxpayers may be increased by resorting to in-kind provision. Furthermore, some types of in-kind benefits diminish incentives for fraud. If people gain health-care benefits by providing evidence of illness, then providing the benefits in kind rather than in cash will discourage people from misrepresenting how sick they are. The luxuries of waiting in line at a free medical clinic are not very enticing to the healthy.

### Welfare and preferences

Welfare economics identifies welfare with the satisfaction of preferences. This identification is so automatic and so ubiquitous that economists seldom realize how controversial it is. Notice that saying that well-being is the satisfaction of preferences is different from saying that it is a feeling of satisfaction. Indeed, economists who have advocated a preference-satisfaction theory of well-being pride themselves on avoiding subjective notions about people's feelings. Although one may feel satisfied when one gets what one prefers, the satisfaction of the preference — *i.e.*, the fact of getting what you preferred — and the feeling of satisfac-

tion are completely separate things. A preference is satisfied if the world is as someone prefers it to be, whether or not the person knows it, let alone whether he or she feels good about it. If Iago's parents had wanted a virtuous son, then their preferences were sadly disappointed, whether or not he successfully deceived them. Similarly when Iago convinces Othello that Desdemona was unfaithful, he does not frustrate Othello's preference that she be faithful.

The view that well-being is the satisfaction of preference has little to recommend itself as a philosophical theory of human well-being. Consider preferences based on false beliefs or preferences for states of affairs that can have no influence on the life of the agent. Suppose that Hausman falsely believes that coral snakes are harmless and wants to bring one home as a family pet. Regardless of how strong his preference is, that snake is unlikely to contribute to his welfare. Or consider McPherson's preference that there be no wars in the 23rd Century. Whether this preference is satisfied —

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that is, whether it turns out that there are any wars in the 23rd Century — is irrelevant to McPherson's well-being, on any plausible understanding of a person's well-being. Note that this does not imply that such a preference is unworthy or irrational, nor that sat-

isfying it would be without value. Rather, this example underlines the point that people sometimes care about things other than their own well-being.

Most economists would deny that they are defending any philosophical theory of well-being. Whatever welfare may be, there is no better *indicator* of welfare than people's preferences. Sometimes people may want things that are irrelevant to their well-being, but if people are largely self-interested (as economists assume), non-self-regarding preferences will be unusual. Sometimes people will want things that are harmful because of false beliefs, but who is likely to know better what is beneficial for an agent than the agent herself or himself? And who will be better motivated to consider the interests of the agent? Economists may go on to argue that it is paternalistic to suppose that policy makers know better than the individuals involved what is good for them.

### Paternalism

This defence of identifying well-being with the satisfaction of preferences seems plausible, but appearances are misleading. It is, first of all, based on a mistaken understanding of paternalism. There is nothing paternalistic about believing that a friend who smokes or who does not wear seat belts is making a mistake. Nor is it paternalistic to persuade a friend to stop smoking. Paternalism arises only when people are *coerced* for

their own good. It is important to recognize the morally significant differences between *judging* that someone is acting against her interest, *persuading* her to act differently and *coercing* her. To deny that individuals always prefer what is good for them (whatever *that* may be) is merely good sense. It is *not* paternalism. Furthermore, no one would argue that paternalistic policies directed toward children are automatically illegitimate, and some of the most important advantages of in-kind transfers derive from the fact that many beneficiaries of public welfare are children.

To be sure, questions about the justification of paternalism cannot even arise if what individuals prefer is automatically what is good for them. There is never any need to coerce people into doing what they prefer to do. But questions about the justification of paternalism *should* arise. Suppose we grant that there is a coercive element in giving welfare recipients goods in kind rather than in cash (we will return to questions of freedom and coercion in relation to in-kind transfers below). It is not absurd to maintain that food, housing and health care are good for the poor, regardless of how strongly they are wanted, and that the gains in well-being for the poor from being forced to consume more of these goods than they would choose outweigh the infringement on freedom.

Those who argue against giving cash to the poor on the grounds that they will spend it on drugs and alcohol have an insulting view of poor people. But one cannot dismiss this argument by censuring its elitism or by defining away the possibility that people may spend their cash unwisely. Policy makers need to know how much of public assistance winds up in the hands of crack dealers, and they would be foolish to suppose that if people choose crack over health care, then crack is better for them. The paternalist case for in-kind benefits is not a frivolous one to be dismissed without argument, by supposing that what people most prefer is automatically what is best for them. But the paternalist's case is not open and shut either. It is arrogant to suppose that housing and health care are always better for people than freedom or even intoxication, and self-destructive behaviour by some may be a reasonable price to pay for freedom for all. Whether there should be any paternalistic strings attached to benefits is not obvious. The question needs to be considered rather than assumed away by supposing that well-being is the satisfaction of preferences.

The argument that the best practical way to attend to people's well-being is to satisfy their preferences faces additional problems that have nothing to do with the misconstrual of paternalism. Even though it is plausible to suppose that the details of what makes an agent better off are best addressed by the agent, it does not follow that the best way of enhancing well-being is to satisfy existing preferences. People may, for example, systematically underestimate some benefits (such as the benefits of freedom) or some harms (such as long-term risks). Though laws requiring the use of seat belts

may be objectionable on grounds of freedom, it is hard to make the case that they reduce people's well-being. Furthermore, preferences may change. With less money for socializing at the pub and more public parks with basketball courts, people may come to prefer playing basketball to playing darts. Public policy that aims to increase well-being must be based on a substantive view of what well-being consists in. Identifying well-being with the satisfaction of preferences is not an acceptable shortcut.

### Is the goal to increase well-being?

The argument from welfare economics for cash rather than in-kind benefits depends on a third premise, that welfare benefits should aim to make people better off. This might seem tautological, but it is actually highly controversial. Welfare policy can have a variety of motivations. Insofar as it is conceived of as publicly organized charity — as state structured beneficence — then it seems obvious that one should conceive of its goal as making its beneficiaries better off. But even then, appearances may be misleading. Policy makers may reasonably distinguish those aspects of well-being that are of public concern from those aspects that are up to the individual. If, to borrow an example from Thomas Scanlon, members of some sect use their cash welfare payments to build a shrine to their deity or to support their priests, policy makers might shift to in-kind payments. The reason could be paternalistic, but it need not be. Even if the policy maker conceded (as a good liberal policy maker should) that it is not up to the state to judge whether the shrine or the priests are more beneficial to the believers than better health care, diet and shelter, the policy maker might deny that the well-being that comes from religious piety should be a public concern. One might reasonably conceive of welfare benefits as aiming to provide individuals with socially recognized means to construct a good life rather than as directly concerned with how well their lives turn out.

Welfare benefits can also be conceived of as a matter of justice rather than beneficence. One might argue that people have subsistence rights, or rights to participate in political and social life. Those who are destitute are prevented from participating fully in social and political life, and it is plausible to maintain that this deprivation is, at least in affluent countries, unjust. Welfare can aim to remedy this injustice. If this is the aim, then what matters is not how much better off the recipients are, but whether one has alleviated the specific disabilities that prevent people from sharing in social and political life. Public education presumably makes people better off, but it also makes them better able to participate in political deliberation. Food, clothing and health care make people better off, but they also permit individuals to interact with one another without shame. People who are sick and hungry and homeless are not only badly off, they also have little freedom to plan their own lives and to share in social and political decision making.

Providing benefits in kind may thus strengthen people's political freedom, even as it provides less market freedom — freedom of consumer choice — than a regime of in-cash benefits would do. Thus, a full analysis of cash *versus* in-kind benefits may involve tradeoffs between dimensions of freedom as well as the tradeoff between freedom and well-being discussed earlier.

Although the value of freedom lurks inarticulately within the standard economic argument for cash benefits, the argument remains within the terms set by orthodox economic theory. There is no mention of needs, of the presuppositions of individual dignity, of opportunity, of rights or of fairness. There is no concern with the moral *reasons* that make individuals willing to pay taxes to provide such benefits. Are people motivated by a general concern to satisfy the preferences of others, or do they instead see themselves as obligated to help others in *need*? Might they regard people as having *rights* to food or medical care which justify taxing others? What freedoms and opportunities do justice demand? These are hard questions even to ask within the framework economists employ.

### Conclusions

The sensible policy maker needs to understand the limitations of welfare economics and to regard its policy recommendations with skepticism. Welfare economics vulgarizes the problems of policy making by its limited concern with only one moral objective — the enhancement of well-being — and by its distorted identification of well-being with the satisfaction of preferences. The pronouncements of welfare economics must therefore be treated with caution. The recommendations — like providing cash in favour of in-kind benefits — seem so straightforward, and the arguments — like the one we have examined — so watertight. But what makes welfare economics so clear cut is that so much has been left out and that what has been left in has been distorted. Sometimes the omissions and distortions may not matter, but policy makers had better understand the limitations of the framework economists employ.

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by Thomas Mayer

## ON THE USEFULNESS OF ECONOMICS

*Une bonne part des divergences apparentes qui séparent les économistes n'ont rien à voir avec des problèmes économiques en tant que tels mais concernent plutôt les systèmes de valeurs et les aspects politiques ou sociologiques. Les chercheurs universitaires se sont toutefois fourvoyés en donnant la priorité aux modèles théoriques et aux techniques mathématiques avancées.*

The public's respect for economics is hardly overwhelming. Jokes about economists and their seeming inability to agree abound. But this view of economists as squabbling pseudo-scientists is mistaken. In a random sample of economists and non-economists on a substantial majority of issues most of the economists will usually be found on the same side. One reason for the exaggerated impression of disagreement among economists is that journalists who think that controversy is exciting search for economists who disagree with each other. Similarly, those with an axe to grind are prepared to look for the one economist in a hundred who takes their side. Moreover, much of the disagreement among economists is disagreement about the value judgments and about the political factors that go into making policy, and not about the strictly economic aspects of the policy. Furthermore, there is much more agreement among economists on many microeconomic issues that figure much less prominently in public debates than do macroeconomic issues.

All the same, there is much more disagreement among economists than among, say, chemists. Chemists also disagree at the frontiers of their discipline, but they have a much larger hinterland of settled issues. That is not surprising since they have a better way of resolving disagreements — laboratory experiments — than do economists. But the question is not whether economics is as developed a field as chemistry.