

Well-Being from One Economist's Perspective

Let me begin by thanking Professor Scanlon for a truly interesting lecture on one of the most important issues facing not only philosophers and economists, but people of all kinds entrusted with making decisions affecting the well-being of others. In fact, individual well-being may well be regarded by many as the fundamental human value. At least, it might have been so regarded before the lecture! Also, sometimes commentators like lectures with which they disagree profoundly. But I am happy that I am largely in agreement with the lecture, not least because it leaves me time to elaborate some complementary ideas after these complimentary remarks.

As indicated by the title for this contribution, I shall take the perspective of an economist, especially one interested in decision theory, and in the application of decision theory to ethical questions. Also, I shall say something about how other economists regard well-being. But it is one economist's perspective because I am well aware that my views do not represent those of the economics profession as a whole. Perhaps you should be grateful for this, just as I am glad to dissociate myself from some standard economists' views.

1. Well-Being as a Unifying Concept

The lecture began by re-stating the hypothesis that well-being was a concept which could simultaneously play three roles:

- (a) it could indicate from an individual's own perspective, how well his or her own life was going;
- (b) it could relate to what economists often like to call "altruistic" decisions, intended to benefit specific other individuals like family members, friends, or even recipients of one's charitable donations;
- (c) it could be used in analysing ethical decisions affecting large groups of people, such as whether to deregulate an industry like telecommunications.

Of course, I am using my own words, and my own economic examples. And this is the unification hypothesis that was being refuted in the lecture. So effectively refuted, in fact, that one might well ask: whoever could possibly believe in such a hypothesis? To which the answer has to be: much of the economics profession, *inter alia*. After all, the utility concept used by economists is meant to represent preferences and preference-maximizing behaviour, as well as to indicate how well the economic system performs in delivering individuals the goods and services they desire. Also, in most economic discussions of altruism, the same utility function for another individual becomes

part of the altruist's objective. Finally, in many policy discussions such as those concerned with efficient markets, or with the gains from free trade and other forms of economic liberalization, the economists' standard but implicit ethical objective is an amalgam of different individuals' utility functions.

So, to the extent that utility represents well being, economists confound three classes of decision problem — individual, altruistic and ethical — and analyse all them with essentially one concept of individual utility. This is treated as virtually synonymous with the concept of “welfare”, the rather quaint word economists still use to describe their idea of well-being. Actually, this concept of utility or welfare is in many ways less subtle and suitable than the concept of well-being. So, refuting the universal use of well-being, one also refutes the universal use of utility. This particular economist sheds no tears, but others may be more disturbed, and less willing to learn from philosophers like Scanlon.

2. Economists' Measures of Well-Being

Most economists like numbers. Not all do, though: some theorists like myself typically have only page numbers in their works, or occasionally small integers in numerical examples. In this regard, philosophers seem to be more like economic theorists than empirical economists.

Not surprisingly, many economists try to measure well-being, especially at the national level. Adam Smith wrote the *Wealth of Nations*, implicitly suggesting wealth as an indicator of national well-being. Jean-Jacques Rousseau (not exactly an economist, of course) suggested that a nation's well-being could be assessed by looking at its increase in population, disregarding migration. Actually, I think he got it the wrong way round — many countries doing badly have large rates of population growth due to an excess of births over deaths, whereas people want to migrate from countries doing badly to those that are doing well. So, I think it would be better to count net migration, and disregard births and deaths. Anyway, more recently economists have spilled much ink and filled vast tomes discussing how to measure what they call welfare, and associated measures of inequality, poverty, national income, etc. A sophisticated version of a standard approach can be found in Dale Jorgenson's presidential address to the Econometric Society.¹

¹See D.W. Jorgenson “Aggregate Consumer Behavior and the Measurement of Social Welfare” *Econometrica* (1990) **58**: 1007–1040. For other related work, see also P.J. Hammond “Money Metric Measures of Individual and Social Welfare Allowing for Environmental Externalities” in W. Eichhorn (ed.) *Models and Measurement of Welfare and Inequality* (Berlin: Springer-Verlag, 1994) pp. 694–724; and M. Becht “The Theory and Estimation of Individual and Social Welfare Measures” *Journal of Economic Surveys* (1995) **9**: 53–87.

Related ideas have even percolated the World Bank and some of its recent annual *World Development Reports*.

On the other hand, in a series of articles and books Amartya Sen has elaborated some earlier ideas that had previously been sketched in A.C. Pigou's *The Economics of Welfare*. In this work Sen discusses the idea of measuring well-being in terms of access to commodities, capabilities, and functionings. This idea appears to have had some effect on the construction by the United Nations of their indices of human development.²

More recently, Partha Dasgupta has discussed various indicators of national well-being that include: (i) gross national income per head, and its rate of change; (ii) life expectancy; (iii) infant mortality; (iv) adult literacy rates; (v) indices of political and civil rights. These feature in his book, *An Enquiry into Well Being and Destitution*.³

A common feature of these measures involving different kinds of substantive good is that, while they are surely highly imperfect indicators of national well-being, let alone of the distribution of well-being between rich and poor within one nation, all are based on variables that might be influenced by economic policy. Such measures, however imperfect, can be used to compare nations, to keep score in the global economy game, and also, perhaps more usefully, to suggest where foreign aid needs to be concentrated. In fact, they become used for certain essentially moral decisions. At a more mundane level, the Econometric Society charges slightly more than half its full rate for people from countries outside the O.E.C.D., which is sometimes known as the "rich countries' club". And I recently saw an interesting pricing scheme for a piece of computer shareware — either \$25 U.S., or else the dollar equivalent of the cost of 20 loaves of bread in your country, if that is less.⁴

²For useful assessments of the human development approach to measuring well-being, see S. Anand and M. Ravallion "Human Development in Poor Countries: On the Role of Private Incomes and Public Services" *Journal of Economic Perspectives* (Winter 1993) 7(1): 133–150; as well as T.N. Srinivasan "Human Development A New Paradigm or Reinvention of the Wheel?" and six other papers in the *American Economic Review (Papers and Proceedings)* (1994) 84: 211–249.

³And also in his earlier article "Well Being and the Extent of its Realisation in Poor Countries" *Economic Journal* (1990) 100: S1–S32.

⁴See footnote 13 in K. van der Laan "BLUe's Format — the off-off alternative" *TUGboat* (1996) 17: 215–221.

Thus, we see that measures of economic well-being, however imperfect, really are constructed, especially at the national level, and are used to influence decisions of various kinds.

3. Ethical Decision Making

No one measure of individual well-being is satisfactory in assessing simultaneously individual decisions, altruistic decisions in small groups, and ethical decisions concerning public policy. As pointed out in Section 1, that is Scanlon's main claim, which I tend to agree with. Some economists' measures of well-being may be useful when considering ethical public policy decisions, but none of these measures are perfect either.

To a decision theorist like myself, any concept like well-being is essentially vacuous, or even fatuous, unless it is somehow made to relate to decisions we want to make. The ideal is an ethical concept which, by definition and construction, is a suitable goal for ethical decision making. Which bring us face to face with a very hard question: What does a satisfactory theory of ethical decision-making look like? Also, to what extent does such a theory need something like a concept of individual well-being, or perhaps more precisely of what Scanlon called "choiceworthiness of a life, all things considered"?

Elsewhere, I have set out a version of utilitarian ethical decision theory.⁵ Like classical utilitarianism, this involves maximizing the sum of individual utilities. But the utilities — or rather what mathematicians and economists prefer to call utility functions — need interpreting with care. By construction and definition, an individual's utility represents what hypothetical decisions would be right just in case only that particular individual were affected by the decision. Instead of measures of utility or of welfare or of individual well-being, they are really measures of individual ethical value.

Many of us feel that decisions are ethically right or wrong to the extent that they affect individuals favourably or unfavourably. In fact, any satisfactory and coherent theory of ethical well-being or ethical value that is based exclusively on what happens to individuals has a key mathematical structure, I would argue. First, there must exist a single index for each individual, whatever we choose to call that index, which represents a single ordering of consequences for that individual alone from better to worse. Second, when there are uncertain consequences, it is

⁵See "Consequentialist Decision Theory and Utilitarian Ethics" in F. Farina, F. Hahn, and S. Vannucci (eds.) *Ethics, Rationality, and Economic Behaviour* (Oxford: Clarendon Press, 1996), pp. 92–118; as well as other work cited there.

appropriate to maximize the mathematical expectation of the index, which therefore has the features of a von Neumann–Morgenstern utility function. Third, for decisions whose consequences affect many individuals (as almost all do), it is right to add different individuals' indices and to maximize the expected value of the total. In these three respects the theory is like the Vickrey and Harsanyi approach to utilitarianism embodying attitudes to risk.⁶ But the ethical value indices used by the theory can be entirely different from the Vickrey/Harsanyi concept of utility. Also, it seems that in considering decisions affecting population, Harsanyi would recommend maximizing average utility. Yet the average utility rule can also produce incoherence unless one keeps track of the total population that has ever lived during the whole course of human history. For this reason, the total rather than the average of all individual's indices seems right, so that one can afford to ignore long forgotten ancestors. Moreover, there are some fairly easy escapes from what Derek Parfit in his book *Reasons and Persons* calls “the repugnant conclusion” concerning the maximization of a total index of ethical value — namely, that one should create very many individuals even if their ethical value is low, as long as that value is positive. The obvious remedy is to consider the ethical value of indices of parents as well as children, and also to be careful about where to set the zero level of the value index so that it reflects, not whether the individuals created value their own lives positively, but whether it would be right to create these individuals' lives if all other individuals' ethical value indices could be held fixed.

This theory of ethical value is a form of consequentialist ethics. It is closely related to John Broome's teleological approach in his book *Weighing Goods*. Note that the theory can accommodate a very broad range of consequences including rights, duties, agency, deontological assessments, the reputation of rules like promise keeping and truth telling, even the motives behind individuals' choice of actions. Note too that moral decisions are those adding ethical value to existing lives, and also ensuring that new lives have positive ethical value — positive in the mathematical sense that the value exceeds zero.

This single concept of ethical value can even re-unite the three kinds of decision mentioned in the introduction to the lecture and in Section 1. Apart from ethical decisions affecting many individuals, it is right by definition for an individual to choose an act maximizing one's own ethical value — i.e., the ethical value of one's own life. And it is right for parents to make parenting

⁶See W.S. Vickrey “Measuring Marginal Utility by Reactions to Risk” *Econometrica* (1945) **13**: 319–333; J.C. Harsanyi “Cardinal Welfare, Individualistic Ethics, and Interpersonal Comparisons of Utility” *Journal of Political Economy* (1955) **63**: 309–321; J.C. Harsanyi, *Essays on Ethics, Social Behavior, and Scientific Explanation* (Dordrecht: D. Reidel, 1976).

decisions that maximize the expected total ethical value of their children's lives, plus the similar value of their own lives. Similarly for altruists in the way they treat their beneficiaries

4. Reservations

Of course, different individuals are likely to have different conceptions of what constitutes ethical value. Probably this is just as well, given what monstrosities some people perpetrate in the name of what they choose to regard as morality. In any case, such different conceptions make it hard to tell somebody else to maximize a standard of value that is not their own.

In fact, this ethical value theory or theory of the good may well lack practical content until it can be put on a more secure footing. Urgent but hard questions that need to be addressed include:

- (a) What are the constituents of ethical value or, in more mathematical terms, what are the appropriate arguments of the ethical value function?
- (b) Even if we could agree on the constituents, how should they be aggregated?
- (c) Do the previous two questions even have a right answer? If they do, how does one go about finding it? If not, what is morality?
- (d) How does the theory need to be modified to recognize the limitations of bounded rationality — notably the impossibility of foreseeing all possible future contingencies, especially those in the distant future?⁷

This theory of ethical value, or rather sketch of a theory, is not Scanlon's but mine. I would be interested to know more about the differences between the two of us. But it seems that Scanlon also wants to leave details for later work, including his own forthcoming book. Let me repeat, however, that any coherent theory of individualistic ethical decision making seems to require some such kind of individualistic ethical value. Sometimes, this value may be only distantly related to well-being in any commonly understood sense. After all, true saints are ethically valuable but badly off; some of the very rich may be well off while living lives of low or even negative ethical value.

5. Paternalism

Ethical value, of course, is likely to be paternalistic because it conflicts with individual inclinations or preferences. Some will see this as a serious flaw of the theory. But paternalism has its value

⁷On this point, some related issues are discussed in Russell Hardin's *Morality within the Limits of Reason*. See also my review of that book in *Economics and Philosophy* (1991) 7: 300–308.

when it involves sending young children to school. In any case, ethical value theory itself recognizes that paternalism sometimes has disadvantages. Evidently, if it is right for a teenager not to smoke tobacco, the rightness is largely unaffected by the teenager's own immature preferences. The argument would be that allowing the teenagers to smoke reduces the ethical value of their lives, especially because of the serious risk of nicotine addiction. Yet this loss of ethical value has to be balanced against the undesirability of paternalism *per se*, including the problems involved in trying to deny minors all access to tobacco products. The same is true of narcotic drugs, of course, though for these the balance may be more strongly in favour of total prohibition.

6. Why Be Moral?

Do we need a conception of individual well-being in order to argue that people should make ethical decisions? Golden rule morality relies upon universalizable prescriptions of the kind discussed by Richard Hare in particular. It says "Do unto others as you would have them do unto you". Then an individual who wants others to promote his own well-being should enhance the well-being of others. This casts well-being as an ethical concept.

However, an even more moral person might well argue that one should "Do unto others as you believe it would be right for them to do unto you". This allows ethical value to transcend individual well-being, and allows it to be accepted that right actions are those which maximize ethical value.

7. Conclusions

Yesterday some of the economists here at Michigan asked me, not entirely seriously, when I started becoming a philosopher. The somewhat mischievous answer I gave is: "as a small boy when I started reading Charles Dodgson," who is better known as Lewis Carroll, the author of *Alice in Wonderland*, *Alice through the Looking Glass*, and serious works on voting theory. Anyway, perhaps because I was born in Cheshire, a favourite character for me is the Cheshire Cat in *Alice in Wonderland*. The cat keeps appearing and disappearing at a rapid pace which bewilders Alice. After Alice asks it to slow down, it eventually disappears slowly, leaving only a grin for Alice to see. This grin could be regarded as an obvious indicator of well-being. And if we imagine ourselves on the other side of some strange kind of looking glass, we might be able to observe the reverse, with the grin disappearing from the cat. This would seem to fit Scanlon's claim that "well-being disappears, leaving only the values that make it up". Moreover, just as the cat's body seems indispensable for it to have the capability of grinning, so might these constituent values

represent exactly what allows an individual to experience well-being in some ethically relevant sense.

To sum up, in order to allow analysis of a wide range of ethical decision problems, any version of a coherent individualistic ethical decision theory requires some ideal index indicating the ethical value of each individual's life. It seems reasonable that this index should be related to well-being. In fact the values involved in determining well-being might still form part of an ideal value index, but only after they have been suitably repackaged. But it would appear that a satisfactory ethical value index must transcend any of the commonly accepted notions of well-being.

The coherent decision framework that could be erected on this kind of index would be useful, not only for policy decisions affecting large groups, but also in suggesting how individuals can add ethical value to their own lives, or to the lives of those whom their altruistic actions are intended to benefit. In this way, ethical value replaces individual well-being as the appropriate unifying maximand for ethical decisions affecting large groups, for altruistic decisions, and as the right goal for individuals to pursue if they are going to improve their own lives. Of course, much work remains to be done before we can be confident in our ability to construct any satisfactory ethical value index. And also before such a framework is anywhere near ready for application to real ethical decision problems of any complexity or serious interest.

*Peter J. Hammond,
Department of Economics,
Stanford University,
Stanford, CA 94305-6072*