Ethics, Economics, and Freedom: The Failure of Consequentialist Social Welfare Theory

Timothy P. Roth

Aldershot, United Kingdom and Brookfield, Vermont: Ashgate Publishing, 1999 (111 pages with bibliography and index)

Timothy Roth's volume, *Ethics, Economics, and Freedom*, addresses the behavioral assumptions, internal consistency, and ultimately, the failure of social welfare theory, which has come to be important in economic debates over what constitutes good social policy and institutional objectives. This is a book for the specialist, written in predominantly academic language. It is not an easy read and is not likely accessible for the reader who does not have some formal background in economics or political philosophy. It is more for the academic economist or political philosopher who does foundational work that undergirds public policy. Here, the book is very helpful in identifying the logical flaws in both the economics and the ethics of the prevailing social welfare theory.

Chapter 1 provides the overall outline and thesis of the book. Roth argues that social welfare theory is based on neoclassical economics with its efficiency standard assumed to be value-free. He rightly points out that it is anything but. Rather, it has strong consequentialist moral philosophy at its heart and, thus, has a value system undergirding it. Once this is brought into the open, social welfare theory can be more fully analyzed and critiqued. As an alternative, Roth suggests more of a contractarian approach in which there is space for rights and their corresponding obligations, ethical behavior, and justice.

Perhaps the most helpful part of the book is the initial material, in which Roth insightfully points out that the behavioral assumptions underlying neoclassical economics are inadequate. A human being is clearly more than a *homo economicus* who atomistically and autonomously acts to maximize self-interest. Roth insists, correctly so, that this view of a human being ignores the multifaceted range of constraints that govern pursuit of self-interest. Chief among these are ethical norms that restrain opportunistic pursuit of self-interest and provide a substantial benefit to the economy—minimizing of transaction costs. This is a critical point for the market system and one for which Adam Smith's contribution has been forgotten—that trust among the participants in the economic system is essential in keeping transaction costs down, and when trust breaks down, the costs of doing business increase due to both internal problems such as oversight within a firm, and external factors such as increasing regulation and litigation. As Roth puts it, "respect for rights and correlative duties and trust as the essential lubricants of an increasingly impersonal market economy" (12). This is why, for example, the response to the recent plethora of accounting scandals have called for a renewal of trust between corporations and investors. The suggestion that trust has broken down is rightly considered a serious one. Roth maintains that "It is clear that the functioning of markets depends importantly on the intervention of ethical constraints" (13).

Roth's other significant contribution in the book deals with the consequentialist underpinning for social welfare theory. This is a helpful one, since it is still widely assumed, at least in popular circles, that neoclassical economics is value-free. This has important implications for social welfare theory as it tries to accommodate its consequentialism with rights, liberties, and freedom. Roth points out that rights are irreconcilable with consequentialist considerations, and at times, utilitarian considerations of efficiency may be contrary to widely accepted rights. This point could have easily been extended. It is not uncommon in the critique of utilitarianism by moral philosophers to suggest that the evaluation of outcomes can work only if one "smuggles in" principles from a more deontological moral system. That is, what constitutes a bad outcome is, in large part, dependent on one's prior commitment to principles, or rights. It is also true that the critique of Amartya Sen is correct—that, rights and liberties tend to be overlooked in many utilitarian social welfare systems, and they are judged by the outcomes produced (37). Sen rightly observes that it is difficult to adhere to strict utilitarianism and to protect rights at the same time. To make the social welfare system more of a hybrid system, which includes both utility and rights, does not help—it only makes the system attempt to accommodate two diametrically opposed components.

Roth proposes a more contractarian approach as an alternative, with emphasis on justice and procedure. These views of justice do not fit well within a consequentialist approach and enable institutional assessment in ways that a utilitarian framework does not. In the final chapter, he applies this approach insightfully to a variety of issues such as growth of government, corruption, and transition to market systems. This list could have been extended for some length, but the application is helpful and takes the book out of the strictly theoretical realm.

Overall, the book makes a solid contribution though it can be difficult reading at times for the nonspecialist.

—Scott B. Rae
Talbot School of Theology, Biola University

Equity As a Social Goal

Cathy Buchanan and Peter Hartley

Wellington, New Zealand: New Zealand Business Roundtable, The Terrace, 2000 (246 pages)

Buchanan and Hartley have given us a comprehensive inquiry into the fairness of our modern societies, with the hope of offering their readers a basis for a really ethical society, one in which everyone can get a fair shake. Is it possible, they ask, to make equity our objective, rather than just plain money-making or material advancement? "Equity As a Social Goal" covers the waterfront of welfare economics and finds its analysis mostly inconclusive. It finds that efficiency creates inequality and that equal-