

When the Scientist Is Also a Philosopher

By N. Gregory Mankiw

Do you want to know a dirty little secret of economists who give policy advice? When we do so, we are often speaking not just as economic scientists, but also as political philosophers. Our recommendations are based not only on our understanding of how the world works, but also on our judgments about what makes a good society.

The necessity of political philosophy arises because most policies are good for some people and bad for others. For example, an increase in the minimum wage, as proposed by President Obama, may raise incomes for some low-wage workers, but it will cause some businesses to make smaller profits, some customers to pay more and some workers to lose their jobs.

Similarly, the Affordable Care Act has provided greater opportunity for some people to get health insurance, but it also caused cancellations for others who were previously happy with their insurance. Evaluating the overall effect of these policies requires balancing competing interests.

To strike this balance, many economists think in terms of a “social welfare function” that aggregates individuals’ well-being into a summary measure. This approach dates back to the utilitarian philosophers of the 19th century, such as Jeremy Bentham and John Stuart Mill. The utilitarians suggested that each person in society receives a certain amount of happiness, or “utility,” from an allocation of society’s resources. The job of policy makers, they argued, is to do their best to maximize the total utility of everyone in society. According to utilitarians, taking a dollar from Peter and giving it to Paul is justified if Peter’s decrease in utility is smaller than Paul’s increase, as would plausibly be the case if Peter is richer than Paul.

Philosophers have long debated the validity of utilitarianism as an ethical criterion. Some of the most famous thought experiments in this area involve what ethicists call trolley problems. Imagine that you are on a bridge and see a runaway trolley car below you, hurtling toward three children playing on the tracks. A fat

man is standing next to you. You can push him off the bridge and into the path of the trolley, killing him but saving the children. What do you do?

If, like a true utilitarian, you have no trouble sacrificing the fat man, try another scenario. You are a doctor with four dying patients. One needs a new liver, one needs a new heart, and two need a new kidney. A perfectly healthy patient walks into your office for his annual checkup. Are you still willing to pursue the utilitarian course of action? At this point, almost everyone balks. Sometimes, respecting natural rights trumps maximizing utility.

Another problem with the utilitarian approach is that there is no objective way to compare one person's happiness with another's, especially when people have different preferences. Peter may work long hours at a dreary job to earn a high income because he gets a lot of utility from money. Paul may be forgoing a higher income for a job that requires fewer hours or offers more personal satisfaction because he doesn't care as much about money. In this case, equalizing incomes by moving a dollar from Peter to Paul could reduce total utility.

Perhaps the biggest problem with maximizing a social welfare function like utility is practical: We economists often have only a basic understanding of how most policies work. The economy is complex, and economic science is still a primitive body of knowledge. Because unintended consequences are the norm, what seems like a utility-maximizing policy can often backfire.

So, what is the alternative? At the very least, a large dose of humility is in order. When evaluating policies, our elected leaders are wise to seek advice from economists. But if an economist is always confident in his judgments, or if he demonizes those who reach opposite conclusions, you know that he is not to be trusted.

In some ways, economics is like medicine two centuries ago. If you were ill at the beginning of the 19th century, a physician was your best bet, but his knowledge was so rudimentary that his remedies could easily make things worse rather than better. And so it is with economics today. That is why we economists should be sure to apply the principle "first, do no harm."

This principle suggests that when people have voluntarily agreed upon an economic arrangement to their mutual benefit, that arrangement should be respected. (The main exception is when there are adverse effects on third parties — what economists call "negative externalities.") As a result, when a policy is

complex, hard to evaluate and disruptive of private transactions, there is good reason to be skeptical of it.

As I see it, the minimum wage and the Affordable Care Act are cases in point. Noble as they are in aspiration, they fail the do-no-harm test. An increase in the minimum wage would disrupt some deals that workers and employers have made voluntarily. The Affordable Care Act has disrupted many insurance arrangements that were acceptable to both the insurance company and the insured; these policies were canceled because they deviated from lawmakers' notion of the ideal.

To be sure, you can find economists favoring a higher minimum wage and the Affordable Care Act. They acknowledge that there are winners and losers but argue that, on the whole, these policies increase social welfare.

Perhaps they are right. But keep in mind that in making that judgment, they are relying on forecasts from a far-from-perfect science, as well as a healthy dose of their own political philosophy.