

Adam Morton, review of Sen and Nussbaum The quality of life and Elster and Roemer Interpersonal comparisons of well-being *Economics and Philosophy* **12**, 1996, 350-1

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Kornai's own theories of the shortage economy, essentially his theories of consumers' forced substitution and firms' 'soft' budget constraints under socialism. Like Hayek he sees these as the outcome of socialist paternalism. Again there is a certain naivety about the way in which markets work in other societies. Far from being characteristic only of socialism, 'forced' substitution takes place every day throughout the world where consumers are limited by their incomes (a factor which Kornai does not take into account here, obviously because under socialism consumers are held to have large stocks of 'forced' savings) and the search and transaction costs that would be incurred in obtaining their preferred commodities. Kornai is also wrong to claim that 'the budget constraint on a private enterprise is hard ...' (p. 448). It is soft for *any* economic unit that has its own savings or, the corollary of those savings, access to a credit system. Only marginal consumers and firms in market economies have a 'hard' budget constraint, and have to finance themselves out of their cash flow.

Kornai pays fulsome tributes to Western friends and economists. These contrast with his dismissal of supporters of reformed socialism. This is patronising and particularly unjust in the case of Joan Robinson, who is alleged to have been attracted to Maoism because of an intellectual attachment to workers' control. In fact Joan Robinson was as much inspired by her understanding of capitalism and market forces, which was considerably more profound than that displayed here by Kornai.

There are other irritations, such as tables badly annotated and not integrated in the text, and a basic failure to explain the integration of the microeconomic elements that Kornai describes with the 'macro' theory that he refers to in Chapter 23. Individually, all these may be rather minor inconsistencies in his argument. But its failure to underpin adequately the fundamentally common place conclusions of this book suggests that its author has failed to think through the conventional wisdom of his background and his milieu, as he started to do thirty years ago.

Jan Toporowski

South Bank University, London

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*Interpersonal Comparisons of Well-being*, JON ELSTER and JOHN E. ROEMER (editors). Cambridge University Press, 1991, x + 400 pages and *The Quality of Life*, MARTHA C. NUSSBAUM and AMARTYA SEN (editors). Oxford University Press, 1993, xi + 453 pages.

These two collections are on similar topics and there is some overlap in the contributors. But the books are very different in flavor. Elster and Roemer (henceforth E&R) consists of fairly short articles on well defined topics. All the articles share an interest in the problem of comparing one person's well being to that of another. Nussbaum and Sen (henceforth N&S) on the other hand consists largely of long articles, some of them unbelievably turgid, on vague and varied topics. The official topic of N&S is the meaning of 'the quality of life'. And the book contains valuable contributions to this topic. It also contains papers on meta-ethics in general, practical reason, the virtues, and international justice. Some of these papers make good points, and some are awful throughout, but they do not focus on the expressed aim of the collection. In this review I shall concentrate on the good articles which stick to the topics of the books.

N&S begins with a continuation of an important debate between Amartya Sen and G. A. Cohen, on the concept of need. The background to the debate is Rawls's defence in *A Theory of Justice* of an objective view of needs, according to which 'what one wants whatever else one wants' consists of a list of 'primary goods': rights and liberties, powers and opportunities, income and wealth. Rawls is very inexplicit about exactly what rights, liberties, powers and opportunities are to be primary goods, but his aim is to require that comparative well being in a society is determined not by the extent to which someone's desires are met but the extent to which they are provided with primary goods, whether or not they are content with their provision, and independently of their capacity to derive satisfaction from the goods. Sen, on the contrary, argues for the inclusion of more subjective features in the assessment of need and well being. He argues that a handicapped person, for example, will derive greater satisfaction from some goods, perhaps special facilities for transport or communications, than a non-handicapped person, and he appeals to the moral intuition that such a person has a greater claim on these goods. In contrast to the examples Rawls uses against utilitarian accounts of welfare, in Sen's examples a greater capacity to take advantage of a good does establish a greater claim to it. Sen points out that the advantage that is taken of the good does establish a greater claim to it. Sen points out that the advantage that is taken of the good in his examples is not primarily pleasure but rather the opportunity to develop one's potentialities. He thus commends an Aristotelian conception of the good, according to which there is a large but fixed list of potentialities

which should be realized in full human flourishing. A person's needs are fundamentally directed at achieving the potentialities that are intrinsic to the human essence, and failure to achieve them gives a person a claim on others for the resources which will make some of the potentialities actual.

Cohen, commenting on Sen, distinguishes between two different kinds of need. First there is 'midfare', Sen's conception of a kind of need or claim intermediacy between primary goods on the one hand and utility or welfare on the other. Sen's examples can for the most part be understood as midfare. And then there are the potentialities for human flourishing in terms of which Sen's arguments are expressed. Cohen argues that it is midfare that is the really enlightening concept, which can be appreciated without a commitment to the importance of potentialities of flourishing. Consider for example the provision of food. We can measure its adequacy in terms of the amount of food provided to an individual, the nutrition acquired by that individual, and the pleasure or want satisfaction experienced by that individual. All three are obviously different. And Rawls's arguments against utilitarianism tell against using the third but not the second as an index of the individual's claim on others. But Rawls mistakenly, according to Cohen, concludes that we must use the first, rather than the second as an index. It is the second, the midfare concept, whose basic moral significance Sen has made us appreciate. The individual's capacity to develop normal human appetites or tastes is in this case not relevant.

Suppose that Cohen is right, to the extent that midfare, or as Cohen puts it, what a person gets as opposed to what they are given, constitutes a basic and important concept of need, distinct from the concept of human flourishing. How is this to be defined? Several of the papers in E&R are helpful here, as is the introduction to that collection. Thomas Scanlon's 'The moral basis of interpersonal comparisons' argues that we cannot understand what it is for a person's life to go well only in terms of her preferences and their satisfaction. This is in part because 'for an individual things are not normally valued because they are preferred but, rather, preferred because they are judged desirable for some other reason'. It is also because our comparisons of the preferences of different people depend on our assessment of 'those personal interests that give rise to important claims on us and our shared institutions'. (Scanlon's article in N&S makes similar points.) Peter Hammond's 'Interpersonal comparisons of utility: why and how they are and should be made' in E&R argues for a similar conclusion, that comparisons of the preferences of different people have to be made as part of rather than as a preparation for moral decision making. Hammond's conception of how moral problems should be thought out is rather different from Scanlon's, though. Both Scanlon's and Hammond's papers could be profitably linked to the points made by B. M. S. van Praag in 'The relativity of the

welfare concept', in N&S, which describes an empirical procedure for interpersonal comparisons which depends on people's assessment of the importance of various aspects of their lives. A variant point is made by James Griffin in 'Against the taste model' in E&R. Griffin's point is that the notions of preference or utility are terms in explanatory and moral theories and that different explanatory or moral purposes may require different notions of utility, different ways of squaring up one person's preferences against another's.

The issues raised by Sen and Rawls also have consequences for questions about privacy and pluralism. Paul Seabright, in 'Pluralism and the standard of living' in N&S, argues that 'there are a great many aspects of the good life for individuals the enhancement and distribution of which are simply not society's business'. He defends this in terms of a conception of the standard of living based on 'command over resources rather than the outcomes that result'. The conflict with Sen's position is dealt with by allowing 'only some reasons for the divergence of utility levels to count in standard of living comparisons - namely those that are sufficiently publicly observable to be the basis of a contract'. Derek Parfit, in a commentary on Seabright, focuses on Seabright's claim that since you could not contract not to be unhappy, providing happiness is not the business of government. Parfit takes the issue to be one of precision and verifiability and argues that these do not matter as much in questions of social responsibility as they do in private contract. His essay ends with some interesting disambiguating remarks on the meaning of moral pluralism.

Questions of moral pluralism arise in one way when one considers the variety of ways in which people could value their lives. They arise in another way when one considers how people can be blocked from better lives by the beliefs of their cultures. Julia Annas in 'Women and the quality of life: two norms or one?' in N&S, argues that the right concepts for evaluating the status of women in societies with very definite gender roles is not satisfaction or happiness but rather justice, and in particular the distribution of tasks and opportunities. There are connections here with the issues raised by Sen and Cohen, which should be explored further.

John Roemer's 'Distributing health: the allocation of resources by an international agency' in N&S connects many of the issues discussed in both volumes to the strategies of the WHO. Roemer argues convincingly that the leximin strategy at present in force gives great significance to arbitrary boundaries between countries' favors 'heroic and almost futile programs over effective and productive ones, so long as the former are not absolutely futile and so long as they occur in sufficiently blighted countries'. The quotation is from Seabright's commentary on Roemer, which raises the important question of whether Roemer's roughly

utilitarian alternative is the right one. This question is important because it links these policy questions back to the issues discussed by Sen, Cohen, and Annas about what an egalitarian social policy should try to make equal. My feeling after absorbing the points made by papers in both collections is that Seabright is surely right: to define a better strategy for distributing scarce resources we have to become clearer about the aspects of people's lives which make claims.

Both collections contain interesting and important papers. They are very different. N&S has more big words and long sentences, and some of the papers do address profound issues that we cannot yet think about in clear and concise terms. The papers in E&R are more digestible, intellectually, though more of them have some mathematics, sometimes unnecessarily. There is no reason why a reviewer should rank them; they are both valuable works, and any university library should have both. But if I were spending my own money on just one it would definitely be E&R.

Adam Morton

University of Bristol

*Microfoundations: A Critical Inquiry*, MAARTEN C. W. JANSSEN. Routledge, 1993, xix + 198 pages.

The aim of this book is to examine the question of whether modern mainstream economists practice what they preach, namely whether they build macroeconomics on theories of individual behaviour and provide macroeconomics with microfoundations. The answer is that 'the microfoundations literature does not provide macroeconomics with individualistic foundations'. (p. x).

Individual behaviour, in that particular from considered by economists, means optimizing behaviour under constraints. A separate branch of economics has developed to study rational choice in a world of certainty and uncertainty; its characterization as microeconomic theory distinguishes it from macroeconomics, which is the study of aggregate relationships. Microeconomics, however, has a broader scope. It encompasses the functioning of economic markets and the general consequences of individual rational action in the economy as a whole.

Keynesian macroeconomics postulated the existence of aggregate relationships, such as the consumption function, the investment function and the demand for money, without directly addressing the issue of how

these aggregate relationships were derived. It was built on the assumption that an aggregate relationship between two variables, in virtue of the composition effect involved, had a different status from the same relationship looked at from the point of view of an individual agent. Three examples will help to clarify the point. While a single agent can always increase his saving, in aggregate this is not possible, since a generalized fall in expenditure causes a fall in income and thereby in the total amount of saving. If a single agent increases his speculative demand for money by selling bonds when his expectation is that the interest rate is going to rise (the price of bonds is going to fall) the interest rate will rise, but if all individuals hold the same expectation no one will want to buy bonds and the aggregate demand for money remains perfectly elastic to a constant interest rate. Finally, if autonomous aggregate spending increases because of buoyant expectations about the future level of demand, the level of economic activity does in fact increase, validating the entrepreneurs' optimism. The same does not hold when there is an increase in investment by a single entrepreneur. Whether his expectations turn out to be correct, will be reflected in the profits he gets, but the level of activity will not be affected. Thus, Keynesian macroeconomics is a warning against the fallacy of composition: what is true for a single individual agent, may not be true for the economy as a whole and vice versa.

On the contrary, microeconomics starts from individual rational choice and studies the effects of interrelated behaviour as a result of the aggregation of individual optimizing choices.

This book takes issue with three central theories – general equilibrium theory, game theory and rational expectations models – to show that the interrelation between individual behaviour and aggregate outcome cannot be reduced to the sum of individual choices under constraints.

In the general equilibrium model, the effect of interrelated behaviour is captured by the notion of market equilibrium. Janssen reiterates here the well-known criticism that the notion of a competitive market equilibrium is not derivable from the notion of rational individual behaviour. The model tells us what individual agents do at given prices; it does not tell us *how* prices derive from individual actions. The auctioneer and the invisible hand are necessary parts of the explanation of how a market equilibrium is obtained.

The same criticism is extended by the author to the concept of Nash equilibrium, employed in the game theoretical approach, because it also lacks individualistic foundation. Only if all players share the expectation that the outcome will be a particular Nash equilibrium, is this equilibrium then obtained. Thus, Nash equilibrium requires an underlying process that coordinates the expectations that individuals form. As in the case of general equilibrium, explaining an aggregate outcome requires postu-