The Tragedy of Economics: On the Nature of Economic Harm and the Responsibilities of Economists

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The Oxford Handbook of Ethics and Economics
Edited by Mark D. White

Print Publication Date: Jun 2019
Subject: Economics and Finance, Micro, Behavioral, and Neuro-Economics
Online Publication Date: Jun 2019 DOI: 10.1093/oxfordhb/9780198793991.013.29

Abstract and Keywords

Economists cause harm as they try to do good: that is the tragedy of economics. That claim is a non-normative description, not an indictment of the profession. Harm arises because of the uneven impact across society of most economic policy interventions, and because of the irreparable ignorance economists face in their work. But the profession gives inadequate attention to the harm its practice induces—a claim that is both positive and normative. Standard approaches to harm in economics present harms as fully reparable through monetary compensation, even though many harms are not in fact reparable or compensable. Given its prevalence and depth, economists should foreground economic harm in their assessment of economic systems. The paper offers one such approach: "economy harm profile analysis."

Keywords: harm, econogenic harm, ignorance, Kaldor-Hicks compensation test, irreparable harm, economy harm profile analysis, coercion

(p. 474) 22.1 Introduction

ECONOMISTS cause harm as they strive to do good: that is the tragedy of economics. This claim is a positive description and not a normative indictment of economic practice. John Hicks put it this way: "Under private enterprise, any ordinary change in economic policy involves a change in the price-system, and any change in price benefits those on one side of the market, and damages those on the other" (1939: 706). But economists give insufficient attention to the harm their practice induces—and *that* claim is both positive and normative.

Here is one important example of normative negligence. *Better Living Through Economics* (2012) is a compilation of essays by prominent economists, edited by long-time American Economic Association Executive Secretary John Siegfried, which celebrates the contributions that economists have made across policy areas. One might expect that a book that takes stock of economists' impacts in the world would present a rigorous comparison of the benefits and costs associated with the policy initiatives surveyed in the book. This is particularly true of trade theory, where the defense of trade liberalization depends on Kaldor-Hicks comparisons of gains and losses and also where recent empirical research demonstrates the extent of the disruptions associated with (p. 475) liberalization. The book chapter on trade is by Anne Krueger, who claims that trade liberalization in South Korea in the 1960s and subsequently across developing economies generated extraordinary gains. The chapter acknowledges neither losses nor losers.

Objections to this oversight are preempted in the editor's introduction to the book. There we learn that the authors have been given license to steer clear of the debit side of the ledger. If a policy is consistent with the Kaldor-Hicks compensation principle, Siegfried writes,

> then, at least in theory, the policy change could be constructed to make some people better off while making no one worse off. Absent such considerations as envy and other relative income issues, the policy change might then be declared "a good thing." Unfortunately, however, matters are not quite so simple. Whether, in fact, compensation actually must be paid, or whether it is sufficient that it could be paid, even though in fact it is not paid, remains controversial. *The chapters in this volume, by and large, ignore such distributional considerations. To do otherwise would drag the analysis into a morass it could hardly escape*.
>
> (2012: 2, emphasis added)

That rhetorical maneuver does not startle economists, but what if the editor were introducing a book on better living through engineering or medicine? Would we still tolerate the suppression of any consideration of the downside of professional practice? In comparison with other professions, economists give themselves a pass, avoiding ethical complexities attending their work so that they can get on with it, even when those complexities entail real, serious, sustained, and even, sometimes, irreparable disruption to the lives of others.

Although Hicks recognized the ubiquity of economist-induced harm, he stopped short of advancing an adequate account of economic harm. Indeed, Hicks' and Kaldor's contributions to the new welfare economics of the 1930s set the profession off in the wrong direction, allowing the profession to believe it could settle ethical controversy by solving a math problem.

I have proposed elsewhere the term *econogenic harm* to name what is presently unnamed and therefore too easily repressed: economist-induced harm (DeMartino 2016). The term is inspired by medical ethics, whose term *iatrogenic* harm refers to physician-induced harm. Among the lessons from medical practice is the finding that even the most skilled, prudent, and virtuous physicians can and do cause harm, owing to features of medical practice that are shared by economic practice—and indeed, that arguably are more acutely felt in economics. This is important for a number of reasons. For too long the allegation that economists cause harm has been utilized as a weapon within the profession to cast aspersions on the practice of this or that economist or, more often, on this or that school of economics. *Harm is what other economists do*. An allegation of that sort can only induce defensiveness on the part of the defendant, and therefore obstructs open-minded exploration of the dark side of economics. It would be better to follow the lead of medical practitioners who understand that the risk of harm can be imperfectly managed but cannot be eliminated. The approach in medicine encourages careful examination of the causes of iatrogenic harm and of better practices and protocols in (p. 476) order to eliminate avoidable harm, engage the patient on the inescapable risks of harm, and prepare for unavoidable harm so as to improve the response and to lessen its impact.

Would acknowledging the tragedy of economics let the profession off the hook for the harm it induces? There is no reason why it should. In medicine we at once recognize the inevitability of the risk of harm but we are still able to hold physicians, clinics, and hospitals morally accountable for inadequate harm management. Recognition of econogenic harm can similarly induce a willingness within the profession and beyond to investigate with open minds the features of economic practice that induce harm, the complex nature of harm and economic harm, and the ethical entailments of harm-inducing economic practice. Like medicine, economics can look to prevent avoidable harm, engage those we purport to help over the risks of harm associated with the initiatives we recommend, prepare communities for possible harms, and respond appropriately—with compassion and respect and not just (hypothetical!) transfer payments—to the harms that arise despite our best efforts.

In what follows I advance a harm-focused approach to economic practice. I explore the causes of econogenic harm; the complex nature of economic harm, where the term refers to all harms that economic interventions induce; the inadequacies in the standard welfarist approach to economic harm; and harm-centric assessment of economic systems, or what I call *economy harm profile analysis*.

22.2 The Sources of Econogenic Harm

There are two principal causes of econogenic harm (detailed in DeMartino 2013, 2015). Economic interventions typically induce disparate effects across society's members, as Hicks emphasized. Econogenic harm arises whenever economist-advocated interventions that promote aggregate economic interests worsen the absolute situation of some members of the economy or substantially exacerbate inequality. Overzealous economic policy entrepreneurs sometimes claim that their preferred economic strategies benefit all of society's members. Fortunately, the profession knows better. Third-party harm may not be prevalent in very simple economic systems where the lack of specialization works to ensure that an economic innovation has consistent effects across society. Here a new technological or policy innovation may benefit all, even if unequally. Econogenic harm may also be trivial or even absent in the context of narrowly focused interventions, where Pareto-improving adjustments may present themselves. But in complex economic systems marked by a high degree of specialization, confounding webs of relationships transmit the effects of interventions throughout society. The larger the scope of the intervention, the greater the risk. In such cases, even well-designed economic interventions cause harm to some economic actors—and the harm may be substantial. Economists teach the unevenness of economic impacts every day in applied microeconomics. In the standard economic analysis of minimum wage regulation, for instance, some in society benefit from market liberalization while others necessarily suffer economic harm.

(p. 477) In many other professions that risk harming some to benefit others, the extent of the problem is more constrained. In clinical medicine, for instance, the caregiver regularly confers benefits without inducing widespread harm. Iatrogenic harm typically afflicts the agent whose welfare the caregiver seeks to improve, not third parties. In this context—which distinguishes clinical medicine from economic practice—interventions can target the individual, taking into account her particular preferences, interests, and other specifics of her medical situation about which the attending physician can know quite a bit. It is certainly not the norm in medicine (or medical research) to harm some without their consent for the purpose of benefiting others. The field of public health comes closer to economics in terms of third-party harm because it too sometimes imposes interventions that affect large groups of diverse agents. A case in point is the forced isolation of those who have been exposed to a pathogen during an epidemic to prevent infection of the rest of the population. Those affected may be subjected to greater risk of contagion and are denied the opportunity to take precautionary measures that they would prefer (such as fleeing the afflicted region). Another type of case involves triage in situations where resources are insufficient to attend to all needing care.[1] These cases notwithstanding, much of what public health practitioners do generates widely distributed benefits without imposing serious harm on third parties.

A second source of econogenic harm is epistemic insufficiency. Economists face the condition of what I call *irreparable ignorance*. They do not and in principle cannot know enough to prevent unintended and unforeseeable damage. Economic practice entails theorizing today about interventions that will be introduced tomorrow and will induce effects that may very well continue into a distant future. Equally confounding, anticipation of tomorrow's intervention affects agents' behavior today, which in turn alters the initial conditions under which the policy's effects will unfold. Moreover, the policy's effects will unfold in combination with innumerable other changes in the economy and society that cannot be specified in advance with any degree of precision. It was with good reason that Keynes argued that the future is simply unknowable.[2] In addition, there is the additional problem that policy typically imposes the same "treatment" on agents with diverse and (what are to the economist) inscrutable preferences, interests, and values. Even when predictions of a policy's impact on prices (for example) can be predicted, we still cannot know how the price shifts will affect agents' welfare and agency.

(p. 478) Some ignorance is in principle reparable. We may come to know next year with some degree of accuracy the GDP in China today. But in practice economists must typically make consequential decisions before reparable ignorance is repaired. For the purposes of today's interventions the fact that something may be known with a high degree of certainty down the road may be immaterial. And so although it would be of academic interest to parse the in-principle unknowable from the in-principle knowable-but-unknown, there is no need to do so here. Both kinds of ignorance entail the risk of unforeseeable consequences, including unintended and unanticipated harm, in the moment that economic interventions must be undertaken. Waiting for all the relevant information to be known would preclude most economic practice, to the detriment of society (or so we presume).

Harm resulting from error—or, more broadly, from the imperative facing the professional to act under conditions of epistemic insufficiency in a world that defies dependable prediction or control—is a universal problem in the professions. Its salience in economics represents a difference in degree rather than in kind. If we theorize a continuum from the professions in which ignorance is manageable or insignificant to those where it is both unmanageable and consequential, we might place basic civil engineering near the benign pole and medical practice at a middling point. In contrast, economics resides in the perilous zone where irreparable ignorance generates risk of severe harm.

Taken together, unevenness of economic impacts and the extent of ignorance in economics imply that the economics profession faces an urgent duty to engage the matter of econogenic harm. So does the fact that econogenic harms, although substantial, are often indirect, postponed, and otherwise obscured. Unlike many other professionals, economists typically do not have to confront the people who are harmed by their practice and they are generally unaware of the extent of and rarely held accountable for the harm (Angner 2006; Ravallion 2009). Moreover, the complexities of the linkages from intervention to effects complicate post-factum assessment of a policy's impact and interfere with the learning that might otherwise occur, both of which promote the proliferation of biases that obstruct clear-headed assessment of economists' practice (Angner 2006).

22.3 Economic Harm: The Standard Approach

Kaldor-Hicks efficiency continues today to inform policy analysis, often operationalized through cost-benefit analysis.[3] Hicks described the principle this way: "If *A* is made (p. 479) so much better off by the change that he could compensate *B* for his loss, and still have something left over, then the reorganisation is an unequivocal improvement" (1941: 111). On first approach the intuition is appealing. But the assumption set that enables Kaldor-Hicks is extensive and, as we will see, problematic. Most importantly, it comprises controversial claims about what humans value and about the nature of harms they suffer (see Boadway and Bruce 1984; Adler 1998, 2012; Kaplow and Shavell 2002; Adler and Posner 2006; and DeMartino 2015, which explores some of the issues in this section in greater detail).

Under Kaldor-Hicks, normative assessment depends on the level of each agent's welfare (defined on an ordinal scale) and tends to include as arguments in each individual's utility function only her own level of consumption of private and public goods, or the satisfaction of self-regarding preferences (Sen 1987). Harm emerges in this account as a diminution in welfare following a reduction in access to goods that the agent values. In addition, the approach requires that diverse goods be welfare *commensurable* with each other, and that there are no lexicographic orderings, implying that all goods are *substitutable*.[4] Taken together, these assumptions ensure that all harms are *compensable* through monetary transfers. Without that presumption, of course, Kaldor-Hicks fails as a normative standard. Full compensation for any harm simply requires finding the appropriate magnitude of monetary transfer that will restore the harmed agent to his previous level of welfare. If compensation is made, then the agent is taken to suffer no harm from any loss—indeed, she is theorized as indifferent between her pre- and post-harm situations since compensation implies that she has been made whole. Hence Kaldor-Hicks is sometimes described as a *potential* Pareto test.

Kaldor-Hicks is taken to provide a tractable framework for reaching unequivocal judgments on economic policy decisions that entail harm, one that appears to be only minimally normative. In Hicks's own view, "this criterion is more useful than any other as a basis on which to establish maxims of sound economic policy" (1941: 111). Like Hicks, many economists believe themselves warranted in advocating policies that induce even substantial harm to some in order to augment aggregate welfare (cf. Kanbur 2003). Moreover, the approach is understood to take adequate account of non-pecuniary as well as pecuniary harms. Kaldor presumed that non-pecuniary harms simply warrant a greater level of compensation than in cases where non-pecuniary harms are absent: in cases involving non-pecuniary harms, "something more than their previous level of money income will be necessary to secure their previous level of enjoyment" (1939: 551).

(p. 480) 22.4 Kaldor-Hicks Efficiency: Normative Deficiencies

Theoretical economists have raised a host of technical and normative objections to Kaldor-Hicks even while it continues to play a central role in much applied economic policy assessment. The primary normative controversy has to do with potential as opposed to actual compensation. Hicks and Kaldor thought that potential compensation was generally sufficient to permit the endorsement of a policy; most economists follow their lead. In contrast, Amartya Sen ridicules the idea that potential compensation provides adequate justification. "In what sense," he asks, "is a rise of 'potential welfare' of interest to *actual* welfare comparisons? Even if gainers *could* overcompensate the losers, why is that an improvement?" (1979: 24). Other controversies over Kaldor-Hicks entail Kantian concerns (White 2006), disputes over whether welfare is tied to existing as opposed to ideal preferences (Goodin 1986; Adler and Posner 2006) and the related matter of endogenous preferences (Stringham 2001, and below), the substantial normative difference between voluntary Pareto improving transactions and coercive "potential" Pareto improvements (White 2009; Buchanan 1959), and concerns about inequality (Kanbur 2003; Kaplow and

Shavell 2002). Many of these have been examined extensively in the literature. Here I raise normative concerns that have not attracted the attention they deserve.

The application of Kaldor-Hicks confronts a daunting philosophical challenge: to ascertain the *moral status* of the harms and benefits a proposed policy will induce. Are harms and benefits—or more precisely, the acts of *harming* and of *not benefitting*—morally equivalent in some unproblematic way? Consider two interventions: one that benefits one agent by x units while harming none, and another that will benefit one agent by $3x$ but harm all others by a total of x. Though the first case induces no harm and the second harms all but one agent, Kaldor-Hicks generates the conclusion that the second policy represents an unequivocal improvement over the first. But this conclusion requires the economist to treat harming and not benefitting as not only morally comparable, but in fact, morally identical (Shiffrin 2012). Doing so transforms an otherwise theoretically daunting comparison of benefits and harms into a comparison of *relative harms*—harm to those who will suffer in the shift from the status quo to a new state of affairs, and the harm to those who, in the event of the perpetuation of the status quo, would have benefitted from the new state of affairs. To put it directly, in this account, not benefitting is theorized as harm.

Several leading legal and moral philosophers who have explored the matter of harm see the matter differently, concluding that not harming must be given moral priority over benefitting. The principle of harm's priority draws a fairly bright line between the duty not to harm and the duty to benefit others (Shiffrin 2012). In this account not benefitting rarely rises to the level of harming.[5] The paradigmatic case is the duty to rescue (p. 481) when it can be undertaken with little risk to the rescuer (see Feinberg 1984: ch. 4). Only in cases such as this, where an agent facing no serious risk of harm to herself fails to intervene to prevent a significant deterioration below the baseline condition of another, is not benefitting theorized as harming. Those conditions are not typically met when Kaldor-Hicks is invoked by economists since these cases involve potentially serious harm to some (those who will lose under a Kaldor-Hicks efficient policy adjustment) to advance the condition of other agents beyond their baseline.

Under what circumstances should foregone benefits be treated as equivalent to harm, and when should foregone benefits morally trump the harm to those who will suffer under a proposed policy? What is the economic analogy of the duty to rescue? Answering these questions requires consideration of contextual conditions such as the impact of the harm and benefits on agents' substantive freedoms and the relation of those harms and benefits to their life plans, as well as the relative substantive freedoms of the agents to be harmed and benefitted. Attention must be paid to the question whether those who will be harmed are entitled to be insulated from the harm, and whether those who will benefit are entitled to the benefit. Do agents' claims derive from central rights, or are they grounded in what a fair evaluation of the case would conclude are unsustainable privileges?

A related issue deserves brief mention here. Are there deontological (or other) limits on the Kaldor-Hicks efficient policies that deserve support? If there are such limits, what are they? Medical and public health practitioners and ethicists engage these questions and distinguish between cases where it is and where it is not ethically appropriate to trade off the rights of some for the welfare of others (see DeMartino 2015). Economists invoking Kaldor-Hicks do not, tending instead to displace careful judgment with the formulaic application of a mathematical decision-rule.

22.4.1 Compensable Versus Noncompensable Harm

Equally troubling are the standard assumptions about welfare reducibility and compensability of all harm. We have taken note of the fact that Kaldor-Hicks treats all goods as commensurable and substitutable and, as a consequence, views all harms as reparable and compensable. However, the four concepts are analytically distinct.

In standard welfare economics, all harms fall into the upper-left cell of Table 22.1. Absent commensurability and substitutability, and in the presence of irreparability, the compensation at the heart of Kaldor-Hicks would fail to make the harmed agent whole (lower-right cell). Alternatively, although some harms may prove to be noncompensable in the sense that transfer payments cannot suffice to render the harmed person whole, the harms might be repaired (wholly or in part) through other noncompensatory acts by individuals or society. Acts of *acknowledgment*, such as public or private forms of apology or sympathy, may serve to heal the harmed agent in ways that attempted compensation fails to do (Bouris 2007). Harms suffered in the line of duty (for example, by first responders to crises) or in public service more generally might warrant public expression of gratitude, respect, or honor.

Table 22.1 Compensable vs. noncompensable harm

	Reparable Harm	**Irreparable Harm**
Commensurable,	Compensable Harms	Undefined
Substitutable		
Goods		
Incommensurable,	Noncompensable Harms	Noncompensable Harms
Non-Substitutable	Acknowledgment:	Remedial measures unavailable
Goods	Apology, Sympathy,	
	Gratitude, Recognition,	

	Respect, Honor	

(p. 482) Sometimes, transfer payments occur in the context of public or private acknowledgment; indeed, acknowledgment might even manifest as a monetary transfer. This fact can lead to confusion in the minds of economists who tend not to take sufficient care deciphering the social function of monetary transfers in instances of harm.[6] Money transfers carry diverse meanings depending on the identities of the giver and receiver, the context in which the transfers occur, and the agents' respective purposes in giving and receiving. Whenever it matters from whom the transfer is given and the social circumstances under which it occurs—whenever knowing the size of the transfer alone provides incomplete information about whether it suffices to do the job for which it is intended—we should be alerted to the fact that the transfer is serving purposes other than compensation.

Apology, sympathy, gratitude, recognition, respect, and honor all reflect an awareness of the fact that not all harms are created equal, and not all are compensable.[7] Some rights violations, for instance, are generally viewed as too precious to repair with compensation (Rendleman 2002). Alternatively, some harms, such as being dishonored, are not amenable to compensation at all: "Once lost, honor is extraordinarily hard, if not impossible, to regain … the very idea of [pricing honor] seems inconsistent with the concept" (McGowan 2010: 589, 591).

Which harms are reparable, and which are not? Which reparable harms are compensable, and which are not? Which compensable harms should be compensated, and which should not? What is to be done when economic interventions potentially threaten or actually do cause noncompensable or irreparable harm, and what authority should the economist have in answering these questions? Questions such as these have been explored at length in tort law, which provides answers that are appropriate to that domain (Geistfeld 2008). Most economists adopting the compensation test have not (p. 483) taken care to address them systematically. This is particularly true of economists theorizing and advocating policy interventions that induce both harms and benefits.[8]

22.4.2 The Complex Nature of (Economic) Harm

Are all harms best theorized simply as reductions in welfare? Table 22.2 presents a taxonomy of harm, which suffices to make the point that harm is internally complex and manifests in heterogeneous forms that may compound well into the future. Agents can experience physical and mental disabilities as well as psychological or emotional suffering; lose income, wealth, or access to valued goods; be exploited; and suffer impairment in the pursuit of their life plans and a diminution in the capacity for self-respect, creativity, inventiveness, or playfulness (Nussbaum 1992). Harm also manifests as the loss of political efficacy, social respect, meaningful connections with others, and community (Sen 1992; Marglin 2008). Harm comprises both objective and subjective components, and the two may conflict. Harm may arise without causing psychological discomfort or unhappiness, as the literature on "adaptive preferences" makes clear (Elster 1982). The fact that harm can occur behind the backs of those suffering it complicates judgments about the presence, nature, and extent of the harm. It also problematizes the issue of who should be authorized to determine whether harm has occurred and how disabling and indictable is the harm. What role should the agent play in the determination whether she has been harmed, and what role is there in this determination for the economist? Is she to serve as an independent harm expert, or should she largely defer to the judgments of those experiencing the harm?

Table 22.2 A taxonomy of harmed or harmful conditions

Physical:	Pain
	Injury or dismemberment
	Loss/diminution of physical or mental capacities
	Death
	Degradation of the physical environment
Psychological:	Emotional or psychological suffering; depression
	Becoming fearful, insecure, or anxious
	Becoming ashamed
	Loss of Hope
	Erosion of self-respect
	Loss of capacity for creativity, playfulness, inventiveness, or fraternal feelings
Economic:	Loss of income, wealth, or welfare/utility
	Loss of access to valued goods
	Loss of genuine choice over valued goods
	Loss of economic security
	Loss of economic opportunities (to do, be, or become)

	Loss of economic capacities (e.g., to earn a living)
	Loss of control over one's economic activities and practices
	Alienation from one's labor, output, or nature
	Subjection to exploitation, discrimination, or deprivation
Social:	Loss of community
	Loss of place in community (status, influence, or role as contributor)
	Loss of respect, recognition, or honor
	Loss of political efficacy
	Loss of fraternity or meaningful connections with others
	Erosion of social capital
Moral:	Erosion, inversion, and/or collapse of some important ethical or spiritual values, virtues, sensibilities, and norms
Autonomy:	Adaptive preference formation
	Impairment in the pursuit of one's life plans
	Treatment as mere means and not also as an end
	Destruction of a valued way of life
	Constriction of one's capabilities or feasibility set
	Exacerbation of personal or systemic threats, risk, or instability
	Assault on negative or positive rights/freedoms (coercion)
	Denial of opportunity to participate in vitally important social, economic, or cultural processes

The concept of harm relates in complex ways to central features of human nature and social existence. Agents suffer harm when their welfare, agency, freedoms, liberties, or valued relationships are undermined. A comprehensive account of harm requires an account of human needs, flourishing, subjectivity (and subjectivity formation), and human connections with others and with their natural and social environment. It also requires an adequate conception of rights (civil, political, economic, social, and cultural), freedoms, and responsibilities.

The impact of a harmful event depends not just on the objective effect of the event, but on agents' sense of a wide range of factors that contributed to the harm. Does the agent view herself as complicit? Does she view the actors who caused the harm as negligent or otherwise culpable, or does she hold them harmless (Shiffrin 2012)? An athlete suffering a serious injury as a consequence of a hard hit by an opponent but in the **(p. 484)** **(p. 485)** context of fair play may feel regret, but the same injury caused by a similar act outside of the arena may induce trauma. In the economic context, does an agent who loses her employment view herself as the victim of an injustice or simply unlucky? Does the agent have available means of responding effectively to her situation? Answers to these questions may depend on whether she alone loses her job or whether an external shock has rendered many in her community unemployed; on the range of services available to her to find new opportunities; and on the depth of social exclusion she encounters as a consequence of being unemployed. And as this discussion suggests, agents buffeted by the same objective harmful event—such as being rendered unemployed—may experience that harm very differently owing to their internal and external resources. Divergent effects across agents complicate the matter of assessing the causal significance of any harm-inducing event, the severity of the consequent harm, the responsibility for the harms suffered, and much else. Can we skirt these complications by assessing the effects that policies are reasonably expected to have on a representative agent rather than on the actual agents who will endure them? Or are we obligated to consider how the trauma is experienced by the real agents populating the economy?

Distinct philosophical and economic frameworks disagree fundamentally about what events cause harm, what effects count as harm, and what harms are normatively indictable. In assessing harm the positive and the normative are inescapably linked (Feinberg 1984). Hicks was therefore wrong in claiming his compensation principle is "a perfectly *objective* test which enables us to discriminate between those reorganisations which improve productive efficiency and those which do not" (1941: 111, emphasis added). Even attending narrowly to economic and not social efficiency, the test requires a raft of normative judgments of the sort that economists are not well trained or willing to make.

22.5 A Harm-Centric Approach to Economic Assessment

In promoting the public good economists influence institutions, rules, norms, and practices that bear on what I call an *economy harm profile*.[9] Economies with distinct institutions, rules, and practices will be characterized by distinct harm profiles. This fact represents a challenge and an opportunity for economists. To the degree that economists can affect the harms that characterize an economy, they have an ethical duty to endeavor to improve the economy harm profile. This requires as a first step investigating the harms that proliferate under existing local, national, and international economic arrangements, and under the alternative arrangements economists advocate, as well as (p. 486) eliminating gratuitous harms while ameliorating inescapable harms. It also entails exploring which harms they take it to be legitimate (and illegitimate) to impose on some (or all) of society's members or outsiders in pursuit of highly valued goods. I emphasize that economy harm profile analysis provides an additional basis for social assessment that complements but is not intended to replace other normative standards.

An economy harm profile comprises five principal features, each of which encompasses multiple sub-categories (see Box 22.1). They are the 1) *nature*, 2) *productivity*, and 3) *distribution* of prevalent, prevented, and covered harms; 4) *mechanisms* of harm generation and distribution; and 5) *consent* and *coercion* that attend the generation and distribution of harms. The features are internally complex, and each deserves closer attention than I can give it here. For present purposes I limit the discussion to the components of harm profile analysis highlighted in Box 22.1.

Box 22.1 Elements of economy harm profile

1. Nature of Prevalent, Prevented, and Covered Harms

a) Prevalence, depth, and risk of

reparable versus *irreparable* harms
compensable versus *noncompensable* harms
foreseeable versus *unforeseeable* harms
avoidable versus *unavoidable* harms

b) Nature of harms *prevented, or diminished* in frequency/severity

c) Nature of *exposed* harms versus nature of harms *insured against* or otherwise *ameliorated*

2. Productivity of Harms

a) *Necessary* versus *unnecessary* harms
b) *Ethically benign* versus *ethically indictable* harms

3. Distribution of Harms

a) *Distribution of winners and losers*
—in each period, and over the course of successive periods
b) Relative stakes, winning and losing

4. Mechanisms of Harm Generation and Distribution

a) Direct harm versus indirect harm
b) Fairness of harm-generative arrangements
c) *Ability of those causing harm to escape consequences*
d) Fragility versus antifragility of economic system

5. Consent versus Coercion

a) Extent & intensity of coercion within each particular game comprising the economic system.

b) Extent & intensity of coercion to play any particular game

c) *Extent & intensity of coercion to play any particular class of games*

d) *Extent & intensity of coercion to participate in any particular economic system*

(p. 487) 22.5.1 Nature of Prevalent, Prevented, and Covered Harms

Reparable versus irreparable harms, and compensable versus noncompensable harms. It bears repeating that not all harms are created equal. Some harms are well-defined as reparable and compensable, just as standard welfare theory presents them (DeMartino 2015). Contra Kaldor, non-pecuniary damages are often irreparable and noncompensable, as we have seen. This insight bears on economy harm profile analysis. An economy that routinely generates serious irreparable and noncompensable harms to some for the benefit of others must be recognized as distinct from and normatively deficient in this respect in comparison with one whose prevalent harms are reparable and compensable.

Foreseeable versus unforeseeable harms, and avoidable versus unavoidable harms. Economic systems diverge in regard to which harms are foreseeable and which are unforeseeable, as well as which are avoidable and which are unavoidable. Keynes (1936) argued that a highly liquid financial system provides ample credit during normal times but also induces unpredictable financial crises that disrupt commerce and long-term investment. Institutions *inter alia* attempt to convert unforeseeable events into foreseeable events in the hope of increasing their ability to prepare for, take advantage of, and/or ameliorate their effects. Institutions also attempt to convert unavoidable into avoidable events, thereby extending control over the relevant landscape. Up against an uncertain future, however, institutions exert only limited control over harm (Taleb 2007). Efforts to avoid or manage certain kinds of harmful events might fail while increasing the prevalence of other harms. The strategies financial institutions pursue individually to insulate themselves from market volatility might, as Keynes warned, induce systemic risk. It follows that distinct complexes of institutions can be characterized by varying abilities to foresee, control, and avoid distinct forms of economic harm, as well as by the harms they unintentionally generate.

22.5.2 Productivity of Harms

Necessary versus unnecessary harms. Necessary or productive harms are those which are vital to the generation of highly-valued, widely-shared goods that the system conveys. Harms that can be plausibly linked to the realization of valued goals are to be accorded a higher moral status than unnecessary or gratuitous harms, those for which the connection to valued goods is remote or absent.

Economic systems are apt to vary in the degree to which they generate and/or tolerate gratuitous harms. Some economic systems may encompass measures to eliminate or reduce gratuitous harms, while others may demonstrate broad tolerance owing to concerns about the cost of regulation, indifference, and other factors. Economic systems will also differ according to the distinctions drawn between significant harms that warrant regulation and *de minimis* harms that do not. Drawing that distinction entails quantitative, qualitative, and normative judgments. Economic systems that (p. 488) are alike in important respects, then, may differ substantially in terms of the gratuitous harms that proliferate within them.

Claims about the necessity of harms warrant careful scrutiny. We should resist the presumption of the necessity of harm until we have definitive proof and not just an appealing argument. Moreover, even in the face of a plausible argument and evidence that a harm is necessary, the economist must then inquire whether the good that depends on the harm warrants the harm. In this assessment, reasoned argument must prevail over mechanical decision rules like Kaldor-Hicks that treat goods and harms as commensurable. The simple equation of the good with preference satisfaction and harm with the failure to satisfy preferences will not suffice. “Preferences are the creation of experience and, therefore, also of laws and institutions,” Nussbaum (2001: 192) reminds us (see also Elster 1982). Judgments must be made about which preferences deserve respect and which preference satisfaction failures are cause for concern. Such judgments entail value-driven laundering of preferences before according them weight in any harm calculations (Goodin 1986; Adler and Posner 2006: ch. 5).

Furthermore, the finding that a harm is necessary to achieve a good under prevailing social arrangements cannot be taken as proof that the harm is necessary under alternative available arrangements. This point is fundamental: the *necessity* of harm may be and often is *contextually contingent*, necessary only relative to established economic arrangements. A finding of obligatory harm to achieve a good entails what Nussbaum calls a tragic choice, and should trigger in the minds of the professional what she identifies as the *Hegelian question*: “How can we bring it about that citizens do not face such tragic choices all the time?” (Nussbaum 2001: 187). In a harm-centric approach to social analysis, recognition of the contingent relation between a particular harm and a particular good would prod the economist to search for institutional and policy reforms that render a necessary harm unnecessary. Reforms that eliminate tragic choices—that break the link of dependence between particular goods and harms—serve to generate a more benign economy harm profile.

Ethically benign versus ethically indictable harms. Economic systems vary in the ethical status of the harms they induce. I return to this matter below in the discussion of coercion; here I will note that not all serious harms are ethically indictable and not all legally permitted harms are ethically benign. The first point follows from the nature of any reasonably complex society: we harm each other as a routine feature of living with others (White 2015). We often seek the same goods, positions, rankings, and honors under circumstances where the success of one agent necessarily entails loss to another. Two people competing for the same job cannot both win it; and the harm to the loser might be deep and enduring. Yet, we would not be apt to condemn the victor for his success (provided the contest was fair in salient respects). The harm suffered in this case, even if severe, is ethically benign. Alternatively, economic systems may permit ethically illegitimate harm. The legacy admission system at elite universities in the United States is a case in point (Kahlenberg 2010): it is legal in the United States for private universities to reserve a significant number of places for the children of alumni in the entering class (p. 489) when making admissions decisions. Nonetheless, the harm to more qualified applicants from less influential families who are excluded from admission is illegitimate on the basis of the most basic and relatively uncontested justice criteria.[10]

22.5.3 Distribution of Harms

Distribution of winners and losers in each period, and over the course of successive periods. Economic arrangements vary in terms of the distribution of rewards and penalties. The distribution of the risks of harm in period t_0 can be fairly egalitarian. Alternatively, the risks can be concentrated among a majority to the benefit of a risk-insulated minority, or among a minority to the benefit of an insulated majority. The mechanisms that generate the distribution of harms might entail some combination of luck, merit, privilege, rights, and other factors, and they might encompass some degree or other of randomness. Assessment of the justice of the economic system ought to concern itself *inter alia* with harm distribution in each particular time period.[11] The imperative to do so is amplified by the degree to which some of the harms are irreparable or are reparable but not in fact repaired.

The distribution of harms over successive periods deserves particular scrutiny. Economic systems may differ in terms of the serial dependence of harm distributions. In one economic system, being harmed in period t_0 may not predispose the agent to being harmed in periods t_1, t_2, and beyond, while another may predispose the loser in one period to lose in successive periods. For instance, systems that generate substantial capabilities inequality are apt to generate not just serial dependence in harm distributions but increasing inequality over time (Sen 2000). This is so in part because capabilities deprivation is apt to lead to income deprivation which in turn amplifies capabilities deprivation. In this case, those harmed in t_0 may expect to suffer equal or greater harms in successive periods. A proposed defense of the serial dependence of harms that emerge in an economic system, then, needs to clear a very high bar before that feature of the system could be adjudged to be ethically legitimate.

22.5.4 Mechanisms of Harm Generation and Distribution

Ability of those causing harm to escape consequences. Economic systems may vary in terms of the degree to which they hold actors accountable for the local and systemic (p. 490) risks they generate. Under one set of arrangements, an actor may have what Taleb (2012, 2018) calls “skin in the game,” where he stands to benefit if all goes well but also suffers harm if things go badly. An aircraft engineer who tests her own experimental designs has skin in the game; so does an entrepreneur who invests his own time, energy and funds in a new venture without prospects of a public bailout. Under alternative arrangements, however, an actor may benefit from the upside of his risky behavior but be insulated from the downside, which is borne by others. Those populating financial institutions deemed too big to fail can take extraordinary risks, profiting from the upside while being insulated from the downside by taxpayer bailouts. Professional economists, too, are typically insulated from the consequences of their errors; they do not lose their jobs when the interventions they advocate yield unintended harm.

Advocates of diverse political and moral philosophies are apt to converge on the matter of harm shifting. There is no refuge in libertarianism, welfarism, or any other normative framework for those lacking skin in the game who gamble with the lives of others. An economic system that permits extensive opportunities for agents to offload risk onto others without their consent while remaining themselves insulated from their imprudence is, in this respect, fundamentally unjust (Taleb 2012; Taleb and Sandis 2015).

22.5.5 Consent versus Coercion

Economic systems vary according to the extent to which they embody consent as opposed to coercion. There is good reason to distinguish between the risks of harm agents consent to and the risks that are imposed upon them.[12] Here I take an approach that examines the various levels at which economic agents may face illicit constraints, from the coercion they face within a particular economic game to the coercion they face to participate in certain economic arenas. It may be the case that voluntarism at one level of agent decision-making co-resides with coercion at other levels.

Extent and intensity of coercion within each particular game comprising the economic system. Complex economic systems comprise many distinct cooperative and competitive arenas (or games) that yield rewards and punishments. Ascertaining the degree to which the overall system entails coercive or consensual harm requires as a first step an investigation of each arena to discern whether *within each arena* participants enjoy extensive voluntarism, or whether, instead, they are coerced in their conduct.

A liberal market is often taken to be the paradigmatic case of voluntarism. Here there is no gun to the head. If it is a liberal market, the terms on which transactors exchange depends on the outcome of bargaining in which agents attend to their own interests. No agent is forced by another to accept unsatisfactory terms. A failure to transact is to be (p. 491) taken as further evidence of voluntarism. An agent who cannot secure a fair return on what he offers is free to withdraw from the exchange.

The liberal defense of the market as coercion-free has been rejected by heterodox economists for well over a century. Marx ridiculed the notion of freedom and equality between capital and labor in a capitalist economy. Early institutionalists also emphasized coercion in market economies. John R. Commons argued that workers typically face coercion since they represent the long side of the labor market (see Ramstad 1987). What liberal economists view as an arena free from coercion, then, Marxists and institutionalists identify as a complex of coercive pressures. The goal for Marxists is to eliminate coercion, while Commons and other institutionalists seek to establish laws and regulations that decrease coercive imbalances.

Mapping an economy harm profile requires attention to the presence and degree of coercion within each of the harm-generating games that constitute the economic system. A system that comprises many games that are internally consensual or balance the coercive force of the players, is one that is morally superior to one where the games comprise coercive mechanisms or where the coercive force is deeply unbalanced.

Extent and intensity of coercion to play any particular game. A harm-generating game that affords the participants extensive latitude to make their own decisions—such as what risks to take, what strategies to pursue, and so forth—might yet be indictable if the players are effectively coerced into playing. One way to frame the matter before us is in terms of exit options. An arrangement where agents can desist from participating in a particular economic game that threatens their wellbeing, rights, or other valued goods is to be preferred, morally, over one where they lack the effective freedom to exit it (or the voice necessary to improve it). In the liberal view expressed famously by Friedman (1962), a market economy with a sufficiently large number of firms confronting a sufficiently large number of consumers, suppliers, and laborers achieves voluntarism. In this view any transactions that occur within the market should be judged to be voluntary since buyers and sellers have many others with whom to contract.

Liberal economists tend to presume rather than carefully examine the presence or absence of exit options. In *Capitalism and Freedom* Friedman begins discussion of voluntarism with a stylized account of a simple economy, where “independent households” produce for themselves and exchange output with others. Here, “since the household *always* has the alternative of producing directly for itself, it need not enter into any exchange unless it benefits from it” (1962: 13, emphasis added). A paragraph later he applies the same logic to a modern market economy, neglecting to examine whether the disappearance of the household enterprise, with the means of production and other capacities necessary to engage in production, undermines the condition for effective freedom. He finds, unproblematically, that workers who are unwilling to supply labor at the going market rate can withdraw from the labor market and produce independently. The exit option is presumed rather than demonstrated. In fact, and contrary to Friedman, the absence of exit options in the modern economy may help to explain how it is that so many participants play economic games for which they are so poorly suited and in which they are destined to and do suffer serious, serial harms. To recognize the (p. 492) harms suffered from a game as consensual, we need to know not only that the game’s mechanisms afford all actors substantial “freedom to choose” within the game, but also that the participants freely choose to play it.

Extent and intensity of coercion to play any particular class of games. In assessing consent and coercion we need to investigate whether there are alternative *classes* of games, characterized by internal arrangements that are sufficiently diverse so that agents can avoid those games that threaten the grave hazards that agents seek to escape. It does the agent little good to exit one harm-inducing game only to find that the available options all entail similar harm-generating mechanisms. In this case, the exit option is formal rather than substantive, and consent to play the game is illusory. Participation in a game is genuinely voluntary only if an agent has before her the choice of many distinct classes of games that differ one from the other in salient respects, including the hazard profiles they embody.

Extent and intensity of coercion to participate in any particular economic system. Assessing the extent of freedom to exit a particular class of economic games entails mapping the distinct economic systems that constitute an economy. Until now I have spoken of the two interchangeably, but in fact, as prominent economic geographers are now finding, an economy may comprise multiple economic systems (Gibson-Graham 2006). This has normatively important because an economy that is an internally heterogeneous ecosystem, marked by multiple forms of economic provisioning, would on this account be deemed more consensual and less coercive than one that is an economic monoculture, in which just one form of provisioning dominates or excludes others. It follows, practically, that to the degree that economists influence the economic systems that constitute an economy, they should look to promote a flourishing of economic forms of provisioning rather than use their influence to promote one system that they take to be optimal. The gain in freedom from coercion may more than offset any loss of economic efficiency narrowly defined.

22.6 Conclusion

It is in the nature of economic practice that it causes harm. Econogenic harm results from the unevenness of the impact of even well-designed policy interventions and the inherent epistemic constraints presented by irreparable ignorance. It is important to face the fact that economists are in the harm business. *Better Living Through Economics*? Were it only that simple. The strategies that economists celebrate for having promoted economic welfare also induce suffering and sometimes that suffering is irreparable.

The ubiquity of harm presents formidable challenges to the profession, which I have examined here. One is theoretical: to displace the simplistic, reductionist welfare account with a more adequate account of harm that acknowledges its heterogeneity and complexity. An adequate account of harm recognizes that not all harms are reparable or compensable—and that, as a consequence, compensation tests cannot suffice as a harm management decision-rule.

(p. 493) Recognition of the prevalence of harm also presents opportunities for meaningful contributions: helping civil society to identify and eliminate gratuitous harms, prepare for unanticipated and unavoidable harms, ensure an equitable distribution of those harms, hold agents generating risk of harm accountable (in part by ensuring that they have skin in the game), and ensure that agents encounter a broad range of non-coercive economic arenas in which to participate. In short, the profession has the opportunity to theorize and work toward the design of more benign economy harm profiles.

Acknowledgments

Thanks to Katie Aldrich, Abbey Brown, Lauren Craig, Eugenia Goh, Amanda Hayden, Minsun Ji, Paul Kemp, Patrick Sutherland, Evan Williams, and Michelle Woodruff for wonderful research assistance; and to Mark White for insightful comments on a previous draft.

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Notes:

([1]) The economist might reply that triage necessarily occurs even in non-crisis situations in the form of allocation of scarce resources. A doctor treating *this* patient cannot at the same time be treating *that* patient.

([2]) And so is the past, and for similar reasons. Causal explanations of past phenomena require liberal reliance on counterfactual reasoning—on beliefs about what would have happened had the intervention under review (the policy that was introduced) not been introduced. This alternative universe is in principle unknowable since it was foreclosed as soon as the intervention was undertaken. For an early introduction to the literature on counterfactual reasoning that remains relevant see Goodman (1947). For a recent examination of causation in the social sciences that incorporates counterfactual reasoning see King et al. (1994: ch. 3).

([3]) Kaldor-Hicks and cost-benefit analysis prevail today in applied economics despite the effort of advocates of social welfare functions (SWFs) to displace them. See Adler (forthcoming), as well as his chapter in this volume, for an extraordinarily clear explication and compelling defense of the SWF approach.

([4]) Contingent valuation is central to Kaldor-Hicks, just as it is in some approaches to cost-benefit analysis and the Coasean tradition; all are grounded in welfarism. This feature emerges as critical when agents suffer "non-pecuniary" harms, such as increased morbidity and depression and the loss of job satisfaction, status, and social and self-respect that can occur in the context of unemployment (Sen 2000). That said, there are practical, technical, and normative differences between Kaldor-Hicks and cost-benefit analysis that are not relevant to this discussion (see Boadway 1974; Adler and Posner 2006). And unlike Kaldor-Hicks, the Coasean approach entails bargaining that in principle induces actual and not just hypothetical compensation.

([5]) Geistfeld's (2008) exposition of tort law also emphasizes the priority of the plaintiff's security from rights violations (harm) over the liberty of tortfeasors to pursue their interests (benefit). That said, the priority in torts is relative rather than absolute (see pp. 85–8).

([6]) See DeMartino (2015), which argues that Deirdre McCloskey's work is representative of the tendency to view all monetary transfers as "compensation."

([7]) Forensic economists treat the concept of harm much more rigorously. For instance, many take non-pecuniary harms to be noncompensable (Ireland 2010).

([8]) But see White (2015), which dissents from the standard economic view that the state is generally warranted in imposing external costs on the agents generating them. White argues that external costs resulting from wrongful (rights-violating) behavior should be addressed through tort litigation, while external costs resulting from nonwrongful behavior should not be internalized. An implication for the matter at hand might be that only those economic harms that result from wrongful conduct should be compensated—and that compensation should be addressed under tort litigation. The argument is consistent with White (2006), which rejects welfare-improving Kaldor-Hicks interventions that violate rights.

([9]) This section draws extensively on DeMartino (2018), where I explore economy harm profile analysis in substantially greater detail than I am able to do here.

([10]) Legacy admissions in the United States is one of a wide range of practices that together (if not individually) constitute structural violence against the disadvantaged. Structural violence often escapes ethical scrutiny (see Galtung 1969).

([11]) Predominant normative frameworks would align in this regard, though they differ from each other regarding which mechanisms are just and which are unjust. See Rawls (1971), Nozick (1974), and Sen (1992, 2009) for leading contributions to the debate.

([12]) Coercion is a contested concept, of course. See Wertheimer (1987) for a comprehensive treatment of the daunting questions that must be confronted in any satisfactory account.

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