

## Preview

### 1 VALUE JUDGEMENTS IN WELFARE ECONOMICS

Throughout this book emphasis is placed on the importance in economic policy analysis of the distinction between ‘positive propositions’, which rely on facts, and ‘value judgements’, which do not. Between them they provide the basis for ‘normative propositions’, which are propositions about what one *ought* to do, or what society *ought* to do. For example, the *normative* proposition that society *ought* to impose heavy taxes on tobacco could be defended on the basis of (i) a *positive* proposition that smoking is bad for people’s health and (ii) another *positive* proposition that better health makes people happier and, finally, (iii) the *value judgement* that being happy is *intrinsically* valuable, so that it needs no further justification (though it can still be disputed).

In this book I try to show how essential are these distinctions in welfare economics, which is about how a society’s economy ought to work. The next chapter of the book explains how these concepts are used. Later chapters show how ubiquitous are value judgements in the analysis of economic policy problems. This might come as a surprise to most people, including even some economists. For it is probably widely believed that economics is all about facts and statistics.

Alas, if that were only the case! But it isn’t. So here I shall summarise some of the most important of the value judgements that I shall highlight in the book.

## 2 THE WELFARE OF THE INDIVIDUAL

So let us start at the beginning, which is the ‘welfare’ of the individual. Probably most people intending to read this book will already be familiar with a central concept in economics, namely the concept of ‘utility’. (Every student of the subject has heard about the ‘law of diminishing marginal utility’.) Individuals are assumed to derive utility from various goods, services and activities. And the structure of theoretical welfare economics begins with an analysis of how a ‘rational’ consumer maximises his utility given his tastes, his income and the prices of the goods and services available on the market. It is generally assumed that he knows what he is doing and that the choices he makes really do contribute to his ‘welfare’.

But we have always known that this is not the case. We have always known that people often lack the necessary information to enable them to choose between various options according to how far they will actually add to their welfare. And we have all known a few people who we believe are incapable of always choosing as wisely as they should if their ultimate objective is to maximise their welfare. Consequently, in the last two decades or so a vast amount of evidence has been obtained, thanks to the work of behavioural psychologists and economists, that has confirmed in some detail the many reasons for the gap between people’s revealed preferences on the market and what is in the real interests of their welfare.

So right at the start of the analysis of any policy problems, we have to decide whether to accept (i) the normative proposition that society *ought* to accept consumer sovereignty as expressed in their market choices and the resulting pattern of prices, even knowing that this will often not promote their real welfare, or (ii) the normative proposition that we *ought* to take a paternalistic position and interfere with their market choices. This would depend on how much weight we attach to the value judgement that personal freedom to choose is intrinsically good as against the value judgement that raising people’s welfare is intrinsically good. This conflict of values is ubiquitous in policy. For example, ought society to impose heavy taxes on goods like tobacco, alcohol or fattening food? Or ought one oblige people to wear seatbelts in cars? And should there be safety regulations in places of work?

On top of all that we are faced with the fact that ‘welfare’ is not an objective concept anyway. We may all differ about what constitutes the real welfare of an individual.

### 3 FROM THE INDIVIDUAL TO SOCIETY

However this is just the start of our problems. For what public policy is about is what promotes the welfare of society as a whole. It is true that most works on ethics – going back as far as Aristotle’s *Nicomachean Ethics* (about 330 BC) – focus mainly on how *individuals* ought to behave in order to be ‘moral’ people and promote their welfare. But Aristotle also thought that ‘For while the good of an individual is a desirable thing, what is good for a people or for cities is a nobler and more godlike thing’.<sup>1</sup> Hence, the subject of this book is welfare of societies, although, of course, this has to be related directly or indirectly to the welfare of individuals.

And we usually cheerfully assume that the welfare of society as a whole is just some sort of aggregate of the welfare of the individuals in that society. But this is a bit vague. And on examination it turns out that to go from the welfare of the individual to the welfare of society as a whole raises the need to make a lot more value judgements.

The reason for this is that society does not have a ‘mind’ in the same way that an individual does – at least most of them. Yet we would like to think that there is some method by which the preferences of all the people in society could be combined and that respected certain compelling criteria of rational choice. For example, if an individual prefers X to Y and Y to Z, we would expect him to prefer X to Z. Respect for this ‘transitivity’ of preferences is assumed to be an axiom of rational choice.

And one could postulate other axioms of ‘rational choice’ for a collection of individuals, such as that if the welfare of any one (or more) of them increases and none of them suffers a decline in welfare, then we can say that the welfare of the whole collection has risen.

But it has been famously shown by Ken Arrow that it is impossible to construct a rule for aggregating the preferences of a number of individuals in such a way that it will respect all the axioms that one would normally demand of rational collective choice. The significance of this problem has been disputed. For it has been argued that one should not expect the concept of rationality that we demand for individual choices to apply to a whole society. This may well be so. But, nevertheless, it leaves one very uneasy about the legitimacy of drawing conclusions concerning the ‘welfare’ of a collection of individuals on the basis of any information about their individual welfares. Various constitutional methods have been adopted for this purpose, but the choice between them is ultimately a matter of value judgement, not simple logic.

#### 4 EQUALITY AND THE DISTRIBUTION PROBLEM

Anyway, few people would like to live in a society that simply maximised its aggregate welfare irrespective of the way that this welfare is distributed. Most people attach importance to the equality of its distribution. However, people differ greatly in the sort of equality that they think is desirable. The usual suspects are equality of opportunity, or of income, or of welfare, or of capabilities, or something else. Which one do you prefer?

And each of these concepts is subject to different interpretations. For example, should equality of opportunity mean only that jobs or other positions in society should only be given to the people who are best qualified for it by virtue of their talents and education? Or should society go further and seek greater equality in the opportunities open to people to attain such qualifications? And if one goes down this road where does one stop? People are born in different circumstances, in different countries, with different natural abilities and so on. Some people are just less careful than are others in the choice of their parents.

And when we have arrived at some value judgement as to what concept of equality we believe to be intrinsically 'good', we still have to decide whether its 'goodness' depends on whether it is distributed equally over whole lifetimes, or during any one particular time period, such as a year? For example, suppose people have exactly the same total incomes over their whole life, but their incomes start from a low level when they are young, reach a peak in, say, late middle age, and then decline in old age. At any one point of time, therefore, incomes will be distributed unequally. Should this matter? Should we ignore the plight of some destitute old person simply because he had not saved enough when he was young? Are we not concerned with possible poverty of some old people?

In fact, are we really concerned with equality at all, rather than just poverty? If we lived in a society that was generally very well off and there was no poverty would we still worry if the wealth of its inhabitants was unequally distributed?

This brings us to another question: do we believe equality to be *intrinsically* valuable rather than being solely instrumentally valuable? For it can be argued that our concern with equality arises purely because of its *instrumental* value in promoting harmonious working and living conditions, promoting prosperity, or preventing the sort of political frictions that seemed to have emerged as a result of increasing inequality in developed countries over the last few decades.

If we make the value judgement that equality is *intrinsically* valuable, then that is the end of the debate, apart from the need to spell out more precisely what particular concept of equality is the one that we think is intrinsically valuable. But if we believe that equality of some kind or other is instrumentally valuable then we are back in the field of ‘positive propositions’, where we are obliged to provide some factual evidence.

## 5 VALUING LIFE: THE ULTIMATE VALUE JUDGEMENT

Enormous amounts of money are spent on projects that, one way or another, are connected to life and death. The most obvious case is expenditure on the health services. Decisions are constantly having to be made about the relative amount of money to be devoted to different forms of health care. But in other fields of public policy, such as those related to transport expenditures, or regulations concerning safety at work, the analysis of certain projects has to take account of their effect on safety and risk to life.

But the fact is that there are many things in life that do not have a price. And life is one of them. For there is nothing that can be regarded as equivalent to it. And prices are just one way in which equivalence between different goods and services is expressed. So when decisions have to be taken involving life or death it is futile to try to attach a price to life. The decisions will therefore have to rely partly on what will invariably be painful value judgements.

What can be given a price, however, is how much people value differences in the *risk* to life. People may be able to say how much they are prepared to pay for an increase in their safety or how much they are prepared to accept as compensation for a decrease in it. Some of the methods used to make such evaluations, as well as the reasons why life itself cannot be given a price, are discussed in [Chapter 14](#).

## 6 NATIONAL INCOME AND GDP

There is one ingredient in most discussions of economic policy about which most people are fairly neutral – if not bored stiff. This is the concept of gross domestic product (GDP), which is closely related to a country’s national income. But the way that this ought to be measured has been the subject of continuous debate for many decades. And the fairly universal current agreement that now prevails about the correct way to measure

GDP means that most people are unaware of the value judgements that are reflected in it.

However, they need not detain us here since they are not the kind of value judgements that most need to be borne in mind in normal everyday economic policy analysis. So it must suffice here to give just two examples. One of these has, perhaps, the longest ancestry. It is the example given about a century ago by the great economist A.C. Pigou, who pointed out that if he married his housekeeper national income would be reduced. This is because the value of the work done in one's household by one's wife is not included in national income, whereas the wages of a housekeeper are included.

Another example is the inclusion in GDP estimates of expenditures on services like the maintenance of law and order. For it is often claimed that these are really just inputs needed for the operation of the economy and the viability of society. Hence, so the argument goes, their inclusion in the final net output of the economy is like including the value of the steel used in the construction of automobiles in the measure of national income or output as well as the value of the automobiles. Double counting! The cardinal sin of national accounts.

## 7 HAPPINESS

Anyway, why does public policy attach so much importance to GDP? Surely it is only *instrumentally* valuable? Isn't what we really want to measure is how happy people are? After all, aren't economists always talking about 'utility', and isn't this closely related to some concept of happiness?

Of course, measuring GDP and measuring 'happiness' are not necessarily mutually exclusive activities. Even if we accept that GDP is only instrumentally valuable, it would still be useful to know a lot about how it is doing – rising or falling; what determines it; and how it is used, since all these things will affect how it is making its contribution to happiness.

So in the last few years there has been an explosion of interest in what is known as 'happiness economics', and many estimates have been published that makes some people happier than others, and why it varies between countries, and how it has changed, if at all, over time in individual countries.

One thing has certainly changed over time, and that is the concept of happiness itself, which has changed considerably since the days of the ancient Greek philosophers. In those days the concept of *eudaimonia*,

which approximates to the modern concept of happiness, referred mainly to what would be a morally desirable way for a person to live. This concept of happiness is clearly a value judgement.

What value judgements are embodied in contemporary measurements of happiness is not very clear. They seem to follow Jeremy Bentham in accepting that society should aim at maximising the happiness (or 'utility', which Bentham regarded as its equivalent) of society as a whole. Apart from despots few people would contest this. Nevertheless, it does differ from the Aristotelian concern with what was morally 'good' for the individual. And it leaves little room for qualification along the lines of Amartya Sen's famous critique of welfarism.

It also seems to differ from John Stuart Mill's explicit distinction between more or less morally commendable ways by which people are made happy. But the distinction is probably implicitly in the choice of variables selected in these studies as being those that contribute to making people happy. For example, they include variables such as income, health, educational attainment, personal relationships and so on, but do not include drink, drugs or sadistic activities.

But I hardly need elaborate on the vast scope for different value judgements as to what particular concept of happiness is the one at which the authorities ought to aim. I am sure that any reader of this book is quite capable of doing so without any further assistance from me. So I shall now move on to another completely different set of value judgements that are much involved in many important areas of economic policy. These are judgements about the boundaries of the society the welfare of which we are interested in.

## 8 THE BOUNDARY IN SPACE AND INTERNATIONAL JUSTICE

How much ought we to spend on foreign aid? Should we allow imports of goods produced with the aid of child labour? Ought immigration policy to be based solely on economic calculation? All such questions involve issues of international justice and our moral obligations to citizens of other countries. In other words they raise the question of where, in space, we draw the boundary around the society the welfare of which we are seeking to promote.

As indicated earlier in connection with the problem of equality, the concept of justice is complicated enough when we limit its application to the way any individual society is organised. So it might be thought that it

would be even more complicated when we turn to justice between different countries. But, paradoxically, this is not the case!

The reason for this is simply that, with a few exceptions, philosophers have not yet had time to make it so. The problem of international justice has not been with us all that long. Until relatively recently it was limited to questions such as proper respect for international treaties, or deals made by trading partners across national borders and so on. But during the course of the last century the degree of economic interaction between countries has rapidly expanded.

So philosophers have only had a few decades in which to come to grips with the issues of justice that this economic integration has thrown up. By comparison they have had thousands of years in which to explore the question of justice within any society. Nevertheless, they have responded to the challenge brilliantly. So while no clearly exhaustive and mutually exclusive classification of different theories of international justice is possible some major strands of thought can be identified. The flavour of these is as follows.

At one extreme there are theories which may be described as ‘cosmopolitan’. The distinctive feature of these theories is that everybody, irrespective of their place of birth, has to be granted the same rights and privileges, has an equal claim on the riches of the world, and has an equal right to respect for his or her integrity and freedom.

This corresponds to the various declarations of human rights that have been proclaimed at various times and in various countries ranging from the French Revolution at the end of the eighteenth century down to the United Nations Declaration of Human Rights. Needless to say, as Hamlet would have put it, all these declarations have been more honoured in the breach than in the observance. This is chiefly because they are not usually accompanied by a corresponding declaration of ‘obligations’ which everybody and every country is bound to respect and implement, or by the institution of any international authority that can ensure this respect.

At the other extreme are ‘communitarian’ theories. A central feature of these is that the structure of rights and obligations within any society will legitimately represent the particular histories of the individual communities in which they have developed. In other words, there can be no compelling general theory of what principles of justice should apply to everybody in the world. This means that the particular rights and obligations associated with any theory of justice should not be expected to be the same in all communities.

Another crucial class of theories of justice that has been applied internationally is the contractarian class of theory, of which John Rawls has been the most influential in modern times. The essence of his theory is that the principles of justice are those that would be drawn up by rational participants in some imaginary ‘original position’ in which they did not know what position they would eventually come to occupy in the real world. Hence they would take an impartial view of the sort of society in which they would like to be born and the corresponding rights and obligations that ought to be specified in the principles of justice in that society.

But, whereas Rawls limited his analysis to the principles of justice that will prevail within any particular society, some philosophers have claimed that the participants in the original position will also take account of the possibility of being born in a very poor country. Hence, if they were – as Rawls assumed – both rational and risk averse, the principles of justice on which they would agree would include provision for assistance to poor countries.

Clearly, these and other theories of international justice present one with a choice of value judgement. And the same applies to the question of the boundary in time that we should draw around the society the welfare of which we aim to promote.

## 9 THE BOUNDARY IN TIME AND INTERGENERATIONAL JUSTICE

The problem of justice between generations that may not even overlap has been around for even less time than the problem of international justice. In the last few decades it has been sparked by growing fears that the world was running out of the natural resources required for economic sustainability. But more recently it has been reinforced by the more serious fear that excessive burning of fossil fuels and its concomitant emission of carbon molecules into the atmosphere will induce intolerable global warming. This would greatly reduce future standards of living and even threaten the continuous existence of the human race.

The gravity of this threat is a very complex scientific matter on which I would not attempt to pass judgement. But the value judgement involved is fairly clear. It is a question of how far we value the interest of future generations by comparison with our own. Earlier philosophers had little need to pay any attention to this question. It is true that John Locke is frequently quoted as having done so, but, as I explain in [Chapter 18](#), this is

usually based on a misreading (or often, not even any sort of reading) of what Locke actually wrote. A little later in the eighteenth century David Hume does make allusion here and there to the fact that we would normally attach more value to the welfare of those near and dear to us than to people who are more distantly related to us, if at all.

But contemporary philosophers have had to get to grips with the problem of intergenerational justice. It even plays a crucial role in the selection of the appropriate discount rate to be used in public projects the costs and benefits of which will be spread over many years into the future. Rawls did address intergenerational justice in a rather cursory manner and suggested that it was probably an intractable problem. And his somewhat half-hearted contribution to a solution, which was a theory of ‘just savings’, was never very convincing.

So we are left where we started. How far should we value the welfare of future generations relative to that of people alive today? Full-bloodied utilitarians would like to give them equal weight. But, in practice, nobody would do so in the ordinary course of their lives or even feel morally obliged to do so.

An alternative approach would be to follow Adam Smith and David Hume and recognise that justice does not exhaust the whole of morality. We frequently treat other people with sympathy and concern without limiting this treatment to the claims of ‘justice’ or respect for their rights. From this point of view, the claims of the welfare of future generations are very much like the claims of poorer countries.

Like other sentiments, such as love, loyalty, duty or aesthetic appreciation, they are unquantifiable. Seeking an objective scientifically defined number for, say, the value of a life, or the discount rate to be used in the economic analysis of public projects that may affect distant generations, or the proportion of national income devoted to aid for distant people in other countries is to pursue a chimera.

Thus we have to face the fact that although value judgements are not woven into the fabric of the universe they are woven into the fabric of welfare economics. So the art of economic analysis is to separate them out from the positive propositions. In the following chapters I try to spell out how to do this.

## NOTE

1. About 339 BC, *Nicomachean Ethics*, trans. Crisp, page vii.