Bearing the Burden of Reality:
Strengthening the Bonds between Economic Philosophy, Theory, and Practice

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ABSTRACT

This study fortifies the links between economic philosophy and theory and between theory and practice. Chapter I develops a modern definition of utilitarianism and determines that the current form of utilitarianism upholds characteristics of overriding objectives, equality, welfarism, consequentialism, aggregation, and maximization. By connecting the characteristics of utilitarianism developed in the first chapter, Chapter II composes a contemporary notion of welfare economics. This chapter constructs a utility function that depends on preference satisfaction of an individual and of other members in the community. From this concept of utility arises a social welfare function that interprets the economic conditions of a particular social group. Chapter III determines the problems that arise when welfare economists translate theory into reality. In assessing the problems of reality in terms of the six utilitarian characteristics, this chapter demonstrates that numerous practical and ethical issues arise because social values and basic human traits are extremely difficult to incorporate into a theoretical function. Finally, Chapter IV develops solutions for those problems in Chapter III. Economists agree that the need for reaching social decisions requires the formulation of a social welfare function, and the final chapter examines methods that allow for theory to serve as a more accurate basis for decision making.

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INTRODUCTION

Bentham distinguished between economics as a science and economics as an art...The science was the pure theory that shed light and served as the guide, while the art applied the science and produced the fruit of economic policy. It is impossible to have one without the other; but it is the fruit that makes the effort of understanding the science worthwhile (Bonner 1995, p. 31).

Economics is unique. While its roots are derived from traditional schools of philosophy and mathematics, the discipline of economics attempts to prescribe solutions for the most contemporary social dilemmas. Unlike most fields in academia where ideas flourish strictly in the abstract realm, economics serves both theoretical and practical functions, with the latter flowing from the former. As a result, modern economists view their work as a science and an art, much like Jeremy Bentham did two hundred years ago.

The goal of economics as a science is to explain those processes that economic agents undertake. Just as natural scientists deal with the laws of nature, economists develop their own rules that dictate how those agents will behave given a particular transaction. For instance, the Law of Demand assumes that a consumer will purchase a higher quantity of a good as the price decreases. Much like the law of gravity in physics, this law of quantity demand will always hold true. Economists desire to create and comprehend the underlying workings of economics so that they can use their rules to describe and predict economic behavior. And with these descriptions, economists develop their normative principles.

As an art, economics compares the relative merits of various alternatives and determining the outcome that will produce the highest overall level of economic benefits. Economics of this sort is categorized as welfare economics. As a normative study, welfare economics serves as a foundation for public finance decisions, cost-benefit analyses, and redistribution policies.
Welfare economists utilize the mathematically complex, theoretical tools to produce optimal social decisions. Unlike positive economics, which emphasizes an agent’s behavior in a theoretical world, economics as an art focus on socioeconomic problems. Welfare economics thus attempts to provide viable advice without violating economic laws.

The problem with the dichotomous nature of economics is that normative policies do not always flow accurately from theory. If transactions in reality had the exact mathematical formulations that they do hypothetically, then economists could deduce precise outcomes for social dilemmas. Often though, theory and reality diverge. Often, the assumptions that economists make in theory fail to playout in practice. For instance, the assumption that individuals act purely out of self-interest is not always true. However, economists base their normative conjectures on this type of premise. As a result, economists arrive at decisions based on unrealistic or inaccurate information.

The heart of the issue lies in the fact that welfare economic theory is not aligned closely enough to reality. If theory could develop a framework that incorporated more accurate characteristics of the workings of both agents and society, then the predictions and prescriptions would be more applicable. The links between theory and practice need to be fortified.

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This thesis attempts to strengthen the relationship between theory and practice. By beginning with the development of a contemporary definition of utilitarianism in Chapter I, we can more clearly identify the foundation of economic theory. Chapter II examines that economic theory by looking in depth at individual utility, the social welfare function, and the relationship between the two. Chapter III evaluates the problems that occur when economic theory is translated into reality, and Chapter IV provides a set of solutions to those problems. With these
solutions, economists can make theory more pertinent to social decision making. In doing so, we as economists are learning to bear the burden of reality.
CHAPTER 1: DEFINING UTILITARIANISM

Jeremy Bentham’s well-known definition of utilitarianism—the action that is best is one that procures the greatest happiness for the greatest number—has led to frustration, confusion, and contention. For a viewpoint of such simple structure, utilitarianism has consistently sparked forceful and subtle arguments from both defenders and opponents. Those who espouse a utilitarian viewpoint believe that this philosophy systematically resolves moral dilemmas and refuses to accept the authority of arbitrary moral conventions. Utilitarianism is logical and practical and upholds an empirical approach to social policy and decision making. Those against utilitarianism believe that this philosophy makes light of our most precious values by solely focusing on increasing well-being. As a result, utilitarianism lacks a complete sense of morality and fails to incorporate a realistic sense of the large range of thoughts and feelings that humans possess. Utilitarianism provokes strong advocacy and opposition because it is not a single moral concept. Rather, it is a family of theories. Therefore, utilitarianism is difficult to analyze because a person may agree with one part of the theory and not another. With such disagreement surrounding this moral philosophy, people are often unsure if they can even consider themselves for or against utilitarianism.

The problem of precisely defining what is meant of the term ‘utilitarianism’ has been plaguing philosophers for centuries. John Stuart Mill characterized Bentham’s philosophy in the following manner:

The creed which accepts as the foundation of morals, Utility, or the Greatest Happiness Principle, hold that actions are right in proportion as they tend to promote happiness. By happiness is intended pleasure, and the absence of pain; by unhappiness, pain, and the privation of pleasure (1861, p. 210).
While this setup of utilitarianism—which I will consistently refer to as the ‘Mill/Bentham Definition’—attempts to solve the premises of the philosophy, this definition may have stirred up more controversy than was intended. Can we so easily define happiness as Mill has done? Is it as simple as attaining as much pleasure as possible while avoiding those activities that cause pain? Should happiness be the end goal? Is happiness a state of mind or state of the world? Can happiness be a subjective feeling of well-being as well as the objective circumstances that satisfy desires for well-being? Can some types of happiness be more sophisticated than others are and therefore not comparable? And finally, how broadly can happiness be defined?

The overarching problem with this historical definition of utilitarianism is twofold. First, it is extremely difficult to determine if normative ‘what ought’ statements can be derived from descriptive ‘what is’ statements. That is, if individuals universally pursue happiness, a society may mistakenly assume that happiness is the only good. Second, it is impossible to demonstrate that the pursuit of self-interested, individual happiness leads to societal happiness. Instead, self-interested goals may result in a society of pleasure-hoarding miscreants.

The classic Mill/Bentham definition of utilitarianism is thus unattractive because it sacrifices all ideals except for the maximization of happiness. Only those actions that promote happiness are praiseworthy, and actions exercised under different goals become irrelevant. However, the fact that the Mill/Bentham Definition has been misinterpreted and criticized does not imply that we cannot attempt to characterize a modern sense of utilitarianism that extends beyond general terms like happiness.

Throughout history, there have been a variety of views regarding the concept of utility. Both Mill and Bentham represent the eighteenth century viewpoint that utility is strictly concerned with pleasure and pain. A utilitarian’s ultimate goal is to maximize those pleasurable
experiences and minimize those that produce adverse results. In his 1789 work, Bentham consistently and outwardly equates the term utility with pleasure, benefits, and good. Therefore, morally correct actions were those that objectively provided the greatest amount of happiness.

Some contemporary utilitarians, like David Brink (1989), continue to support the historical idea of an absolute standard by affirming that objectively determining certain facts about a person’s condition is more effective than assessing the history of his subjective states. Proponents of this theory are what Scarre calls objectivists (1996, p. 6), and they believe that an outside observer can create an objective standard of well-being. Supporters of objectivism further believe that even a rational, well-informed person’s evaluation of the worth of his life could in principle be wrong. Because even rational individuals could make mistakes about facts, objectivists must set standards to make judgements. Much like eighteenth century utilitarians, objectivists believe in creating a barometer of happiness that sets an indisputable standard. However, objectivists also uphold that more than a purely pleasurable experience is required to make a life worth living. In asserting this position, objectivists have included other aspects of well-being beyond happiness into their standards.

In response to the objectivist perspective of utility, philosophers like John Harsanyi (1976, pp. 31-32) have argued in favor of a more subjective account of individual utility on the ground that an impartial observer cannot necessarily determine what is good for different people without reference to a pre-existing moral standard. Scarre refers to these individuals as subjectivists (1996, p. 8), and they argue that we cannot refer to a gauge outside of the agents involved in the situation. We must only look at the revealed preferences of those agents when making a judgement.
As it breaks away from objectively measuring changes in well-being, the subjectivist method of evaluation has become extremely popular. This branch is liberal, as it attempts to avoid making judgements about the character of individual goals. Subjectivists associate utility with the achievement of a set of goals. The theory argues that the particular nature of an individual’s goals is irrelevant as long as preferences are satisfied. Subjectivists do not support the idea of the existence of a single, objective good life. Consequently, they do not outwardly describe the nature of happiness. There are no objective decisions about what human beings should want for themselves or others. Rather, subjectivism values individual preferences, and none are deemed as less suitable.

While the subjectivist viewpoint is liberal and individualist, it does have several setbacks. First, it is difficult to determine someone’s true preferences from their revealed preferences. Just because a person behaves in a specific manner in one situation does not necessarily imply that he will prefer the same alternative in another setting. Second, although subjectivism does promote the assessment of individual preferences, there lacks a method to determine if those preferences are rational and logical. While an agent’s preferences may be logical to himself, they may not be optimal from society’s perspective. Thus, a question arises: when we use the subjectivist approach, can we distinguish a rational choice when everyone’s preferences are deemed as valid? It seems as though some objective moral judgements would have to be made. Regardless of the type of approach whether it be an eighteenth century, objectivist, or subjectivist perspective, one fact remains certain—utilitarians choose the action that will enable them to attain the greatest potential level of well-being.
There are six common characteristics that differentiate utilitarianism from other branches of moral philosophy: an overriding objective, equality, welfarism, consequentialism, aggregation, and maximization. An overriding objective and equality have changed the least in form since the eighteenth century. Thus, little time will be devoted to these terms. The rest of this chapter will focus on exploring the other four characteristics.

An Overriding Objective

The Mill/Bentham definition exemplifies that utilitarianism promotes the formation of policies with single, overriding objectives. Utilitarianism has consistently defined what is in private interest and in public interest, and when one of those interests overrules the other. For instance, the government may believe than even though an additional highway through a suburban area will destroy private property, the construction of this highway will enable many more workers to be more mobile. In this example, the overriding objective is to increase worker mobility. Utilitarianism also enables us to decide when the private interest of some individuals can overrule the private interest of others. Wealth redistribution programs exemplify the typical policy objective that the income of the disadvantaged and the wealthy should not be as divided.

A single objective, like maximizing worker mobility or decreasing wealth disparity, enables us to reduce our policy decisions to an ultimate standard. As a result, we can assess the success or failure of our actions through a single measure. And while there are other notions to be taken into account when creating public policy decisions, such as justice and equality, there is an element of truth in the argument that the pursuit of some measure of happiness and the avoidance of pain are vital ingredients in most people’s lives.
Equality

Much like overriding objectives, equality has not changed in terms of its historical significance versus its contemporary importance. Aspects of equality are highlighted in the second half of Bentham’s statement, the greatest happiness for the greatest number. That is, equality declares that we must distribute happiness as widely as possible. The problem with this feature, however, is that a double maximization arises (Roemer 1996, p. 127): It is pragmatically impossible to maximize the level of happiness while simultaneously maximizing the number of people.

Contemporary utilitarianism is consistent with the historical definition of equality. Both Bentham and modern utilitarians would agree that the enjoyment of income or wealth increases at a diminishing rate as income and wealth increases. The poor will make better use of the superfluities of the rich than the rich can themselves. Furthermore, much like Bentham, modern utilitarians uphold the ethical principle that everyone’s interests are weighted equally. No single person’s utility is to be worth more than another individual’s utility. Since everyone’s utility is weighted equally, the modern form of equality upholds aspects of anonymity. The identities of those individuals who benefit from a higher utility are not important, given that they possess equivalent resources. For example, it should not matter if a rich agent were a Vanderbilt or a Rockefeller with all else held equal.

Welfarism

Welfarist utilitarianism, or welfarism, asserts that social welfare is a function of each individual’s utility and that these individual utilities are themselves functions of feasible preferences, like wealth, leisure, and education. Thus, the assessment of social outcomes is
restricted to the information contained within individual utility functions. Non-utilitarian factors, like democracy, rights, and social justice, are left out of the process of determining ethical value because our social welfare function is solely concerned with the satisfaction of individual preferences rather than with the achievement of certain social states.

The overarching challenge that all utilitarians face is how to measure individual utility when attempting to maximize social welfare. Utilitarians need to incorporate the preferences of individuals and make what is commonly known as interpersonal comparisons of utility. Interpersonal comparability asserts that we can make judgments about when it is appropriate for one individual to become better off than another person. Harsanyi (1976, p. 18) asserts that “interpersonal comparisons of utility are not value judgments based on some ethical or political postulates but rather are factual propositions based on certain principles of logic.” With more complete factual information and increased importance placed on the individual components of the social welfare function, utilitarians can make more accurate and efficient decisions.

A cardinal utilitarian assumes that individual utility is mathematically measurable, and eighteenth century utilitarians and contemporary objectivists would support this idea. Because of its objective nature, a cardinal utility function is closely associated with concepts of knowing the exact amount of utility per individual. In terms of mathematics, the notion of welfarism condenses the amount of ethically relevant information contained in a social situation to a matrix of utility levels with one vector representing each individual. Combined with a standard of happiness and welfare, cardinal utility functions take the form of objective indicators, and well-being becomes an objective measure much like the status of a person’s health (Cooter and Rappoport 1984, p. 309).
Cardinal utility concludes that we can measure individual utility and thus make comparisons between person $x$ and $y$. For instance, if we can mathematically witness that an increase in wealth raises person $x$’s utility more than person $y$’s, then giving more income to person $x$ itself is always more desirable than giving to person $y$. It also follows that if the utility of $x$ minus the utility of $y$ is greater than the utility of $v$ minus the utility of $w$, then the value difference between $x$ and $y$ is greater than the difference between $v$ and $w$. Thus, we see that cardinal utility accounts for both comparison and magnitude.

Whereas cardinal utility is mathematical and objective, ordinal utility is subjective in nature. Supporters of ordinal utility assert that utility must be derived from an individual’s preference ordering rather than from objective measures of satisfaction. Thus, utility cannot be characterized with both direction and strength. Instead, only direction can be derived from revealed preferences. The strength of those revealed preferences is meaningless because it cannot be accurately measured (Shoemaker 1982, p. 553). As a result, we can only rank various alternatives from better to worse rather than giving them a numerical assignment, and those cardinal utility functions require revision to represent reality. As they are revised, these utility functions become increasingly subjective in form.

The calculus of cardinal utility is extremely difficult to accomplish in our contemporary, liberal world where the subjectivist notion of utility dominates. Because philosophers focus on relative rather than absolute preferences, it is difficult to determine a mathematical ordering of preferences among alternative outcomes. Further, we face a problem when two compared outcomes may differ in more than one parameter. Since a *cetius parabus* clause does not exist in reality, a mathematical answer may fail to represent real-world decision making.
Nonetheless, utilitarians have shown that some standard of comparisons between utilities can be achieved. For example, A and B are similar outcomes, and C has a higher utility than D. Thus, when A is coupled with D and B with C, AD has a higher utility level than BC. From this sort of logic, utilitarians claim that we can determine which alternative will lead to a higher utility.

In conclusion, we see that the modern theory of welfarism requires a more expansive theory of human well-being—one that expends behinds Mill and Bentham’s interpretations of happiness. Even though subjectivism is the dominant branch in contemporary thought, welfarist utilitarianism, regardless of the categorization, consistently attempts to determine the inherent value of an individual’s decision making process.

**Consequentialism**

Consequentialism states that the choice between alternatives is determined by each choice’s consequences, and the value of one’s actions is to be found in the state of affairs that those actions produce. Individual behavior can be predicted once the set of consequences of alternative actions has been specified. As individuals will choose the best available outcome, consequentialism maintains that the proper response to its values is to promote them. However, this promotion takes two different forms: act utilitarianism and rule utilitarianism.

Act utilitarianism is simple to define. It states that an action is correct if it can be expected to create a state of affairs that is least as good as the alternative states of affairs that would have resulted from other alternative actions. For instance, an action that maximizes utility is preferred to an action that does not (Smart 1973, p. 42). An individual is evaluated based on every single action in which he partakes.
Rule utilitarianism is much more complicated, and the next several paragraphs will attempt to make sense of this branch of consequentialism. Most generally, rule utilitarianism asserts that actions are correct if they conform to rules whose general observance could be expected to result in a set of states of affairs at least as good as the sets of states of affairs that would have resulted from the adoption of alternative feasible rules. There are three forms of rule utilitarianism: idealistic, actual-state, and conditional (Scarre 1996, pp. 122-6).

Idealistic rule utilitarianism is the strongest form, and is supported by philosophers like Richard Brandt (1979, p. 304). It states that actions are correct if and only if they accord with a set of objectively determined rules whose widespread adherence maximizes utility. An agent is not permitted to break a rule in any circumstance provided that if everyone were to follow it, utility would be maximized. The fact that someone else does not abide by the rule is no excuse for the agent himself to break it. For example, if general utility were maximized if everyone kept their promises, a person must also keep his promises no matter what anyone else does. While this view may be optimal in theory, it is hard to determine its presence in reality: How can we consistently and objectively determine who is a promise keeper and who is a promise breaker? In addition, idealistic rule utilitarianism also fails to leave room for individual decision making.

Gertrude Ezorsky (1968) supports the second form of rule utilitarianism, referred to as actual-state rule utilitarianism. This form determines actions to be correct when they conform to rules such that only the relevant social group accepts them and that their acceptance then maximizes utility. Unlike idealistic rule utilitarianism, actual-state assesses rules that fit a particular social situation rather than the universal set. While real-world examples are impossible to find under idealistic rule utilitarianism, here we can observe actions that follow under actual-state: people generally fall into generally socially advantageous practices that are
dependent on the social situation. If in subset A, a socially acceptable and utility maximizing practice like promise keeping existed, then lie telling is not at all allowed in this subset. If in subset B, a socially acceptable practice is lie telling, then promise keeping loses its relevance. Thus, we observe that even if lie telling may maximize utility in one particular situation, this practice does not correspond with all universally accepted social norms. While this version of actual-state rule utilitarianism is more realistic than idealistic rule utilitarianism, it still lacks aspects of reality. Because lie telling may not actually have malignant effects on the general practice of truth telling in subset A, an even weaker form of rule utilitarianism becomes a more attractive candidate.

Conditional rule utilitarianism solves the problem that Smart (1973, p. 10) refers to as ‘rule worship.’ This form of rule utilitarianism states that an act should follow a rule only if its application maximizes utility. There is still a generally accepted set of rules that it thought to maximize social welfare for a specific subset. However, a particular agent can break a generally accepted rule to maximize his own utility. Unlike idealistic and actual-state rule utilitarianism, conditional rule utilitarianism allows for continual exceptions and adjustments to social norms like truth telling. In doing so, the conditional form rescues the utilitarian agent from the paradoxical situation of having sometimes to refuse to perform a utility maximizing action because it conflicts with a normally utility maximizing rule. It would be odd for a utilitarian to condemn a lie when telling it may enhance rather than diminish well-being. Therefore, we see that this modern form of rule utilitarianism converges with act utilitarianism in that both uphold the notion of subjectivity in their evaluation of an individual’s attempt to maximize utility. But unlike act utilitarianism where we judge the moral quality of the action itself, here we are assessing an individual’s decision to adhere to or break away from a particular rule. Whereas act
utilitarianism looks at an individual utility from action to action, conditional rule utilitarianism evaluates an individual based on rule keeping and breaking.

Even though rule utilitarianism is the more popular form of consequentialism, two problems arise. First, rule utilitarianism fails to determine a clear judgement regarding the morality of a given action because the actions appear to be correct under one form of rule utilitarianism and wrong under another. Rule utilitarianism may, in fact, provide inconsistent advice as a result of the three distinct forms.

A second problem arises when comparing individual and collective actions. Although an action may appear correct in the case of a single agent, the same behavior applied on a society-wide level could become detrimental. For example, a woman chooses not to have any children, and by choosing this path, she maximizes her own utility. However, if all women chose not to have children, the human race would be doomed. Therefore, this woman should have children because doing otherwise would be a disutility to society. Clearly, the answer to this particular problem is histrionic and unfair. Thus, an unrealistic clause, which defines how an individual’s choice is particular to his situation, would have to be added to the analysis of all rules in order to assess their morality. Otherwise, all paths of action could appear to endanger society.

Arising from the increasing liberal viewpoints within utilitarianism, modern consequentialism adopts a hybrid of act and rule utilitarianism. Act utilitarianism provides agents with rough pointers. The contemporary, predominant view of conditional rule utilitarianism upholds that those rules of thumb that normally promote utility should be readily abandoned when they do not maximize individual utility. If a person does not abide by the rules, it is because the practice of following them would cease to deliver the social benefits that justify those rules. In addition, the rule utilitarian aspect enables us to examine those actions given a set
of moral laws, rules, and principles. Thus, with this hybrid conception of modern consequentialism, we judge an agent’s actions according to their consequences under a particular set of values.

Given the hybrid definition of act and rule utilitarianism, we can lay out several more characteristics of consequentialism. Consequentialism does not take motives into account. For instance, if a nurse purposely prevented the miscarriage of baby Hitler during his birth, a deontologist would praise the nurse for saving a life. However, a utilitarian would chastise her actions, as the consequences of allowing baby Hitler to die would have salvaged millions of lives. We thus see that the path of actions that would have been correct in utilitarianism depends on how much utility is gained from saving baby Hitler versus not saving him. Utilitarianism supports the notion that the action has a higher utility is the one in which we should participate, even if it entails participating in what may seem to be morally wrong under other philosophical convictions.

While hindsight may prove to have a 20/20 perspective, we must attempt to evaluate only those immediate and indirect consequences of a specific action. We must judge the ethical quality of those actions to the degree to which they promote further actions rather than as isolated events. That is, if action A does not necessarily raise one’s utility level but it does cause action B, where action B does increase one’s utility level, then action A is deemed praiseworthy even though it did not directly raise the level of utility. We thus see that an action is good if a consequence is good as well.
Aggregation

Aggregative utilitarianism, or aggregation, assumes that it is possible to sum everyone’s utility into an overall utility total. Alan Hamlin (1986, p. 63) refers to aggregation as ‘sum ranking,’ which asserts that the appropriate method for establishing the value of a social situation is by literally adding up all utilities of those individuals within that situation. As a result of calculating net sums, the state of affairs can be assessed according to the magnitude of that sum. Specifically, when facing a choice of actions, an agent must estimate how much pleasure or happiness will flow, determine all affected subjects, and look at various available options. From this process, he can select the alternative most likely to produce the greatest amount of utility.

Individuals who support aggregation believe that its strength lies in the fact that an evaluation of a situation can be reduced to a theoretically simple matter of calculation. These proponents espouse the theory of cardinal utility and objectivism. Individual utilities can be measured and mathematically summed. Therefore, interpersonal comparisons of utility are feasible and accurate. And from these comparisons, we can work out the value of the consequences of various situations and identify the one that is the most optimal.

Those who reject aggregation often do so because it lacks aspects of realism. Aggregation falsely assumes that the utilities of different individuals can be calibrated, compared, and totaled. Cardinal utility is irrelevant because an objective measure of well-being is impossible to construct and because revealed preferences are the only true indication of a person’s utility. These opponents support the theory of ordinal utility and subjectivism. Thus, interpersonal comparisons of utility are impossible to perform, and aggregation is useless. Opponents further argue that even if we could measure an individual’s utility, we cannot ethically compare the utilities of different subjects.
As with the previous characteristics of utilitarianism, the modern form of aggregation results from decades of conflict. Harsanyi (1982, p. 50) devised a description of that modern form which he refers to as ‘imaginative empathy,’ which asserts that we can only judge the world from another person’s perspective and determine how much satisfaction we would gain in his circumstances. Only when we sincerely understand an agent’s position, education level, value set, and psychological attributes, can we make estimates about his utility. Harsanyi further remarks that we are certainly not perfectly equipped to make flawless interpersonal comparisons. However, with imaginative empathy, comparisons can be made roughly so that moral policy decisions can be reached.

**Maximization**

Maximizing utilitarianism, or maximization, upholds that if something is good, it would be irrational to choose to produce a smaller amount of it when one could produce a larger amount. Because utilitarians uphold that increasing human welfare is a valuable end, the more fully one promotes it the better off society will be. A large amount of work has been devoted to the problem of how to combine together the preferences of individuals to yield a reasonable collective choice. For instance, aggregation, as described above, upholds that the social welfare function is a sum of individual utilities. Thus, it is the sum that should be maximized.

Once the form of the social welfare function is specified, there is still the problem of determining what exactly should be maximized. While classical theorists assert that total utility should be maximized, the majority of twentieth century utilitarians declare that an average per capita utility is more applicable. However, there is no absolute solution exists on how to choose which type of social welfare function to maximize. Total utility is certainly applicable for an
impartial observer who delights in every increase in the amount of human good. On the other hand, average utility seems more appropriate for an individual concerned with maximizing his own expected utility needs.

No matter which approach is chosen, we must apply cost-benefit calculations at the social level. Rawls sums up this task in *A Theory of Justice*:

> Just as an individual balances present and future gains against present and future losses, so a society may balance satisfactions and dissatisfactions between different individuals. And so by these reflections one reaches the principle of utility in a natural way: a society is properly arranged when its institutions maximize the net balance of satisfaction (1971, p. 24).

An interesting issue arising from this selection is that utilitarianism may unintentionally permit unjust actions to be taken upon humans when aggregate utility sums require it. Later chapters will determine if utilitarianism is valid even though it may positively encourage the infringement of individuals’ rights in the name of the general good.

Aside from upholding the idea of maximizing human welfare, the modern conception of maximization has two additional characterizations. In addition, it promotes two further characterizations. First, many believe that limits should be placed on an overbearing responsibility for the well-being of the human race. For example, if there were no limits on this responsibility, then reading this chapter rather than saving a starving person would be morally wrong if the latter provided a greater level of utility than the former. However, there would be an excessive and unfair amount of pressure placed on the reader to save the starved. In situations like this example, maximizing human welfare becomes too demanding, as each person would have to uphold morality to an impossible level.
Second, the modern theory of maximization distinguishes between public and private goals. Contemporary philosophers assert that we exist in a world where we are permitted to take a special interest in our own projects. We must not consider ourselves as slaves to maximizing the general good.

* * *

The six features of utilitarianism were chosen because they all are concerned with human welfare, an ideal that has primary importance to society. The central concern of morality is that lives should go as well as possible. Whether ‘going as well’ implies the maximization of utility and happiness or the minimization of adversity and pain, we are all concerned with the quality of our lives. In addition, these six features are easy to understand. Whether or not one agrees with utilitarianism, these six features provide a rational set of criterion for appraising actions, practices, and institutions.

Finally, the six features all point towards the individual’s effort and motivation to maximize his utility. Utilitarianism has not required the presence of divine being to change the levels of well-being. Furthermore, the six traits never employ a moral law without a mortal judge. Utilitarianism avoids the metaphysical realm and transcendent sources of moral knowledge. Unlike other competing philosophies, utilitarianism still appears to be more grounded in improving the current state of existence. And for this reason, it has found its way into economics.
CHAPeR II: WELFARe ECONOMICS IN THEORY

Since Bentham’s time, the classic ideals of utilitarianism have remained influential within welfare economics: we still accept the idea that increasing human welfare is desirable. Basing policy decisions on theory, today’s economists attempt to maintain a connection between economic analysis and socially relevant themes. The first part of this chapter assesses the theoretical aspects of welfare economics and its utilitarian foundation. The second part discusses the relevance of welfare economics in reality.

Welfare economics is a study where the goal is to maximize social welfare. That is, economists determine and describe which set of alternatives procures a higher utility when compared to other options. Without any further analysis, we see that welfare economics is fundamentally based on utilitarianism. Recall that utilitarianism is consistent with the notion of maximizing total well-being. A similar process is adopted within welfare economics, as it assumes that we can calculate and maximize net sums. From there, the optimal state of affairs can be assessed according to the magnitude of that sum. When facing a choice of actions, a welfare economist evaluates how much utility will be gained, determine all affected subjects, and look at all various available options. From this process, he selects the alternative most likely to produce the maximum amount of utility.

Deriving Social Welfare

Building-up from the foundation of utilitarianism, we mathematically define social welfare in the following manner:

\[ W = f(w_1, w_2, w_3, \ldots, w_n). \]
Each lower-case $w$ is a measure of an individual’s well-being, which can be characterized as happiness or pleasure. However, as we discovered when attempting to make sense of the Mill/Bentham definition in the previous chapter, it is extremely difficult to be precise about the nature of well-being. Most contemporary economists are attracted to what Hausman and McPherson refer to as the formal theory of well-being (1996, p.72). While a substantive view of well-being sets a rigid standard for which activities are intrinsically good for people, the formal view attempts only to uncover what those activities are without making sweeping, objective standards. The formal view does not objectively declare what activities an individual should pursue but rather tries to understand what increases an individual’s well-being. This view relies on revealed preferences, much like the subjectivist theory of utilitarianism.

Contemporary economists argue in favor of a broader method of accounting for individual welfare because the notion of well-being is too limiting. As a result, economists have put more weight on unveiling an individual’s preferences rather than on supporting a vague notion like well-being. By adopting this perspective, economists leave the question of what is ‘good’ up to the individual making those choices, much like the formal theory of well-being does. In doing so, we no longer use a standard outside of the person involved. Because this method is similar to the subjectivist approach in utilitarianism, we will redefine an individual’s well-being less vaguely as his utility—a function of his preferences and an indicator of preference satisfaction. As a result, the definition of social welfare now espouses the following form:

$$W = f(u_1, u_2, u_3, \ldots, u_n).$$

Each $u$ in this function represents an individual’s utility.
Because the individual components of this revised social welfare vector are defined in terms of utility, economists no longer have to consider the vagueness of well-being. Rather, the social welfare function simply becomes an indicator of preference satisfaction through changes in individual utility. As a result, changes in the levels of social welfare are also dependent on the changes in individual utility. From this relationship, the social welfare function exemplifies how and why an individual makes his choices. Thus, we are no longer concerned solely if people are happy. Rather, welfare economics becomes the study of whether or not an individual is satisfying his preferences.

After having creating a social welfare functions, economists can then utilize derivatives to analyze the implications of maximizing social welfare. With the challenge of making a social decision, economists can determine by how much social welfare changes with each alternative. Specifically, a policy will change person \( i \)'s utility either positively or negatively. The change in social welfare depends on the differential movements in the individual's utility. That is, social welfare should be judged in relative rather than absolute terms. The rate of change in social welfare, given a change in person \( i \)'s utility, is provided by the following:

\[
\frac{\delta W}{\delta u_i}.
\]

When this partial derivative is positive, an increase in person \( i \)'s utility has increased social welfare. Thus, if a policy increases person \( i \)'s utility and does not decrease any other individual’s utility, then this policy will consequently raise the level social welfare. On the other hand, a negative partial derivative implies that an increase in person \( i \)'s utility will decrease social welfare. If a policy increases person \( i \)'s utility and does not increase any other individual’s utility, then this policy will lower the level of social welfare.
The partial derivative analysis above exemplifies a situation in which only one person’s utility is affected. However, a more interesting and controversial example occurs when two or more individuals are affected by a policy. For example, when

$$\frac{\partial W}{\partial u_i} > \frac{\partial W}{\partial u_j}$$

the contribution of person i’s increase in utility to the social welfare function is greater than person j’s contribution. There are two points raised from this example. First, all that we can observe from the above comparison is that person i induced a greater change to social welfare than did person j. The equations do not allow us to determine how much social welfare was gained, in absolute terms. For instance, if

$$0 > \frac{\partial W}{\partial u_i} > \frac{\partial W}{\partial u_j}$$

then both of these partial differential equations are less than zero, as noted below, and the policy was actually a disutility to social welfare. However, we cannot determine this situation from our analysis.

The second observation from this comparison is that only if the benefit to person i outweighs the benefit to person j has the policy been beneficial at all. However, all we have observed is a change in social welfare as a result of a change in various utilities. Thus, after determining if a project has a positive differential, the next step is to determine how to compare the effects on different individuals.
Interpersonal Comparisons of Utility

Because the social welfare function is aggregative, the individual utility indices are somehow to be summed given each alternative. To accomplish this task mathematically, we must ensure that the individual utility component is unit comparable to every other component. We cannot add two utility functions if they are not in consistent terms. Thus, economists attempt to determine those compatible terms by endogenizing a utility function with the same preferences:

\[ u_i = f(a_1, b_1, c_1, \ldots, z_1) \]

and

\[ u_j = f(a_2, b_2, c_2, \ldots, z_2) \]

Each variable in the utility function represents a unique set of preferences. For instance, \( a \) may represent an individual’s level of wealth, \( b \) is the level of schooling, \( c \) stands for the amount of material goods, and \( z \) is the number of leisure versus working hours.

When looking at two individuals’ preferences for a variable \( n \), the level of liquid assets, economists can analyze partial derivatives similar to the process for determining changes in social welfare. For example, from

\[
\frac{\delta u_1}{\delta n_1} > \frac{\delta u_2}{\delta n_2}
\]

we can observe how the same numerical change in \( n \) will affect both individuals.

We see that person \( i \) gains a greater amount utility from increasing \( n \) than person \( j \) does. For example, person \( i \) may prefer to hold a greater amount of bonds because he is risk averse. On the other hand, having a greater amount of bonds would not provide as much utility for person \( j \) because he prefers a riskier investment portfolio. Thus, a gain of a $1000 bond would provide
more utility for person $i$ under the *cetirus parabus* condition that the type of security and not the amount of money is the determinant of utility.

The *cetirus parabus* clause highlights that interpersonal comparisons of utility spark great dispute, much like utilitarianism itself does. Economists like Mark Blaug are concerned *cetirus parabus* clause implies that theory is only a weak explanation of actual events (1990, p. 109).

The following questions are often raised: can utility actually be measured? If it can, can it be measured without a *cetirus parabus* clause? If the answers to these two questions are ‘no,’ can we then rank utilities? Can we just measure the differences in utilities by just evaluating rankings? That is, is the mathematics even worth the effort?

The conflict over the meaning of utility arises because the term ‘utility’ itself is both a measure of subjective satisfaction and an indicator of objective choice. As a subjective index, utility represents the satisfaction of a unique set of revealed preferences (Harsanyi 1955, p. 53). These preferences, however, become objectified when they are aggregated and compared to each other in the form of partial derivatives. Thus, economists are forced to combine objective and subjective characteristics into a single economic measure.

Another conflict regarding interpersonal comparability arises from the disparity between measurability in principle and in practice. Theoretically, economists measure an individual’s utility by creating a vector of his preferences. An individual can then be compared according to various changes in his utility. We see this mathematically with the following description:

$$u = f(x, 0) > u = f(0, y).$$

An individual can choose to generate income by being an economics professor ($x$) or a literature professor ($y$). He cannot do both, however. Let us also assume that the salary earned from being
an economics professor is equal to that of a literature professor. Given these conditions in the above description, the individual chooses to be an economics professor because his utility is higher when doing so. We do not know absolutely the reasons for his decision, we assume that the individual attains a higher level of utility from teaching economics than he does from instructing a literature class. Furthermore, by looking at the partial derivatives of his utility choices, we can see that this individual consistently chooses to be an economics professor over a literature professor. Given an equal increase in both salaries ($\delta x=\delta y$),

$$\frac{\delta u}{\delta x} > \frac{\delta u}{\delta y}$$

These partial derivatives demonstrate that earning salary $x$ as an economic professor outweighs earning salary $y$. This individual’s revealed preferences exemplify this choice, as he continues to remain on the economics faculty rather than moving over to the Literature department, even with salary increases.

The problem, which Chapter III will cover, is that there is a great amount of inaccuracy when observing an agent’s revealed preferences. Although a person behaves in a specific manner in one situation, we cannot assume that he will prefer the same alternative in another setting. The economics professor could remain in his department because he enjoys his colleagues’ company rather than for teaching motives that we assumed above. If his colleagues left the department, he may prefer to transfer over to teaching literature. In this sense, we misjudged his preference for economics over literature as an enjoyment of teaching a particular subject matter.

Welfare economics attempts to conquer these problems of judging another person’s utility by creating three different levels of interpersonal comparability. Each level becomes
increasingly specific in what is being evaluated. The first of three levels is described as total comparability. It is the broadest form of interpersonal comparability, as it simultaneously examines all preferences in an individual’s utility function. The comparison between two individuals resembles the following:

\[ u_1 = f(a_1, b_1, c_1, \ldots, z_1) > u_2 = f(a_2, b_2, c_2, \ldots, z_2). \]

From this comparison, we see that total comparability refers to the assessment of total utility levels between individuals. That is, we must compare all variable preferences, which we labeled \( a \) through \( z \) in our endogenized utility functions. Total comparability asks the question “does person 1 have a higher utility than person 2?” Examining the functions above, we can conclude that person 1 is in fact the happier agent. Further, we see from this question that a *ceteris parabus* clause does not exist. Rather, we determine if person 1’s total level of utility is higher than person 2’s given every possible preference in every social situation.

The second level of interpersonal comparability examines how a change in a particular variable affects different individuals and hence is called incremental comparability. This branch enables economists to study the differences in utilities in specific situations. Incremental comparability takes the following form:

\[ u_1 = f(a_1 + \delta a, b_1, c_1, \ldots, z_1) - u_1 = f(a_1, b_1, c_1, \ldots, z_1) > u_2 = f(a_2 + \delta a, b_2, c_2, \ldots, z_2) - u_2 = f(a_2, b_2, c_2, \ldots, z_2). \]

From this comparison, we see that incremental comparability asks “who is better off from an increase in \( w \): person 1 or 2?” In this situation, we still assess total utility levels given all possible preferences. However, the difference here is that we are now looking at the way in which a particular change in a variable affects an individual’s total utility. In the equation above,
a change in variable \( w \) increases person 1’s utility more than it increases the utility for person 2. Returning to the example of the economics professor, lets assume that variable \( w \) is an economics research grant. The economics professor (person 1) would benefit more from an increase in economics grant money (variable \( w \)) than a literature professor (person 2) would, given that the two know lack knowledge about the other person’s academic discipline.

The third level of interpersonal comparability evaluates an incremental change in one variable but only while looking at select preferences. This form is called specific comparability, and it asserts that the components of a utility function depend on the evaluation of specific situations. By having unique utility functions, economists can tailor a policy to be based on the particular preferences of the participating agents. Analysis of the utility function resembles the following:

\[
 u_1 = f(a_1 + \delta a, b_1, c_1) \quad - \quad u_1 = f(a_1, b_1, c_1) \quad > \quad u_2 = f(a_2 + \delta a, b_2, c_2) \quad - \quad u_2 = f(a_2, b_2, c_2).
\]

This branch of comparability asks that question “is person 1 better off than person 2 examining only variables \( a, b, \) and \( c \) and given that both will experience an equal increase in \( \delta a \).” We no longer examine all possible variables, \( a \) through \( z \). Instead, we assess a change in utility given a specific situation. For instance, a welfare economist could determine how a $100 increase in income (\( \delta a \)) would affect a poor and rich person only looking at their annual incomes (variable \( a \)), family sizes (variable \( b \)), and household location (variable \( c \)). Working only under the constraints of these three preferences, we could determine if a $100 increase would make the rich person or poor person better off. As this example demonstrates, specific comparability places a limit on the number of effects that we must take into account when making a decision.
When welfare economists incorporate interpersonal comparability into their analyses, the process of evaluation resembles a similar method that utilitarians use to evaluate social decisions. Whether the process of interpersonal comparability resembles eighteenth century, objectivist, or subjectivist utilitarianism depends on how welfare economists approach those utility comparisons. If we choose to evaluate utility with total comparability, there is a single overriding objective to maximize total happiness without reference to any particular preferences. If my total utility is maximized, the means by which I ended up in this situation do not matter. The final result is that my total utility is higher and is perhaps higher than yours is. This view is similar to the eighteenth century perspective that the ultimate goal of utilitarianism was to maximize total happiness without much regard to the means to those ends.

If welfare economists choose to evaluate individuals under incremental comparability, they allow for a greater amount of specificity than under total comparability. We maximize and compare utilities given certain situational constraints, such as an increase in only one variable. But even with these particular constraints, the view of individual preferences remains broad and concerned with total utility. While the range of analysis has been tightened, there remains a large emphasis on overall well-being, much like with total comparability. Thus, this view is similar to the objectivist perspective of utilitarianism. Unlike eighteenth century utilitarians, objectivists are more specific about what is meant by the term ‘total happiness.’ Similarly, incremental comparability defines more precisely how to compare utility levels. Both objectivist utilitarianism and incremental comparability are still concerned with overall totals even though they have adopted more precise measurements.

Specific comparability resembles subjectivist utilitarianism in that both are sympathetic to specific situations and reject mechanisms that evaluate overall utility totals. Recall that
subjectivism asserts that an impartial observer cannot necessarily determine what is good for different people without reference to any pre-existing moral standard. In other words, we must look at a particular set of revealed preferences when making a judgement. Specific comparability espouses a similar view by ensuring that interpersonal comparisons of utility take place on a case-by-case situation. A utility function is defined only when an agent enters into a new situation. Just as subjectivism is currently the most popular form of utilitarianism, the same can be said about specific comparability. In our increasingly liberal society, the view that allows for an increasing degree of individuality prevails.

Two other considerations of interpersonal comparisons of utility must be examined for before returning back to deriving our completed social welfare function. First, an individual’s utility is affected by both his own and other agents’ preferences. For example, a wealthy person may vote in favor of increasing an income redistribution program even though this choice may consequently decrease his own personal income. However, his revealed preferences exemplify that his utility has actually increased even with a lowered level of income. The decrease in violence, crime, and poverty is associated with an increase in welfare programs outweighs the marginal cost of his payment. From this example, we can write an individual’s utility function in the following manner:

$$u_i = f(w_1, x_1, y_1, \ldots, z_1; u_2, u_3, u_4, \ldots, u_n).$$

In this function, an individual’s preferences are represented from w through z. In addition, other individual’s utilities are incorporated. Classical economics asserts that an individual is entirely self-interested and not concerned with another person’s welfare. The above utility function, however, stands as a more realistic interpretation of how an individual makes social decisions.
Each individual’s utility is dependent on economic conditions that affect both him and other members in his community (Harsanyi 1955, p. 315). That is, person 1’s utility may increase when person 2’s utility level rises even when person 1’s own utility was not directly affected. Therefore, much like with consequentialism, we must evaluate actions in terms of their consequences on other individuals rather than just in regard to an isolated event as it relates to ourselves.

The second additional consideration of interpersonal comparability reminds us that preferences of an individual may be irrational, and choices may occur out of ignorance. An example of rational behavior is in the following example. A father and mother choose to pay for their child’s college education even though doing so will place the family at a financial disadvantage. From this action, the child’s individual utility increases whereas the parents’ decreased. However, the parents go ahead and pay for their child’s education consciously aware of the hardship they must take-on. The family, though, implicitly knows that:

\[
\frac{\delta u_{\text{family}}}{\delta u_{\text{child}}} > \frac{\delta u_{\text{family}}}{\delta u_{\text{parents}}}. 
\]

In this case, the family’s utility function is composed of the parent’s and child’s individual utility functions. Thus, the parents act rationally knowing that even though their respective utilities decreased, the overall family utility has increased.

This example demonstrates rational, well thought out behavior. On the other hand, there are two explanations for irrational preferences. The first is that individuals may adhere to customs, principles, and superstitions even though doing so lowers their utilities (Ng 1980, p. 10). That is, people may stick to certain behaviors without thinking about the gains or losses of individual utility or social welfare. For example, an elderly person may not recycle simply
because he is not accustomed to it and does not know the benefits. Here, he is acting out of ignorance, and his behavior could be modified with an increased awareness. On the other hand, this person may not recycle out of custom even though he is aware that recycling increases overall utility. In this case, the person is acting irrationally because he consciously knows that behaving otherwise would increase the well-being for him and those around him.

A further example of irrationality is derived from the truth telling illustration in the prior chapter. A person may never tell a lie even though doing so may increase his utility. Thus, she is being irrational according to utilitarianism. This person could be better off by lying and breaking away from the overriding rule of truth telling. This example demonstrates the connection between modern rule utilitarianism and contemporary welfare economics. Much like conditional rule utilitarianism, welfare economics stresses that an act is correct if it conforms to a rule whose application always maximizes utility. Both utilitarianism and welfare economics thus allow for exceptions to social norms like truth telling. It would be odd for an economist to condemn a lie when telling it may enhance rather than diminish utility.

Excessive behavior is a second explanation for irrational preferences, and it usually arises in the form of fear of pain and lure of pleasure (Ng 1980, p. 11). For example, a person knows that he has an ulcer. However, he continues to eat spicy foods because he enjoys them. He acknowledges that the result is pain, which will certainly outweigh the enjoyment of the meal. This man continues to eat spicy dishes because he cannot help but relish in the flavor. Mathematically, even though his marginal utility from eating spicy foods is lower than from not doing so, he continues to act in a counterintuitive manner. However, the critical, underlying assumption that welfare economics makes is that an individual has the capability to exercise the satisfaction of his preferences both rationally and illogically. No powerful, ominous force
designates his fate. Instead, the agent knows what is best for him and may choose to obey or break away from making rational decisions.

_Social Welfare, revisited_

Overall, the social welfare function derived in the first part of this chapter is an objective one whose variables are endogenized by the subjective situations of the individual components:

\[
W = f[u_1(w_1, x_1, y_1, \ldots, z_1; u_2, u_3, u_4, \ldots, u_n); u_2(w_2, x_2, y_2, \ldots, z_1; u_1, u_3, u_4, \ldots, u_n); u_3(w_3, x_3, y_3, \ldots, z_3; u_1, u_2, u_4, \ldots, u_n); \ldots u_n(w_4, x_4, y_4, \ldots, z_4; u_1, u_2, u_3, \ldots, u_n)].
\]

This function allows for the analysis and comparison of individual utilities while maintaining the uniqueness and complexity of each participating agent. Therefore, disagreement over this social welfare function arises from contention over subjective judgements of fact rather than from differences in basic value judgements (Harsanyi 1976, p. 18).

An argument over basic value judgements is difficult to resolve because each person believes in his assertion for its own ethical appeal. For example, an economist may believe in giving every poor person $10 because it will make them happier. Although this economist may understand how expensive this redistribution plan would be, he continues to believe in it because it corresponds with his moral philosophy. Anyone who argues against him could not convince him otherwise because he consistently believes that making the poor happier is a moral benefit that outweighs all economic costs.

When two people disagree about a basic value judgement, there is no room for scientific explanation. The social welfare function eliminates all basic value judgements by endogenizing every preference of each agent. In doing so, all preferences are taken into account so that only
those questions regarding subjective values of fact remain. That is, the social welfare function attempts to argue that agent A prefers X more than agent B does. X is a subjective value of fact because it is not equally as good for everyone. Thus, when we argue about subjective value of facts, we lack definite knowledge about the nature of X. Rather, we can only determine the subjective relationship of how X relates to agent A and B. With our defined social welfare function, we can continue to use mathematical arguments, like partial derivatives, to prove the persuasiveness of one interpretation over another.

Allowing for subjective values of fact to characterize the nature of the social welfare function, contemporary economists accept that each situation is subjective and unique. Thus, the process by which economists maximize utility in welfare economics attempts to leave out personal values even in subjective situations. Welfare economics, much like utilitarianism, demonstrates aspects of equality, as defined in Part I. In Chapter I, the modern theory of equality in utilitarianism asserts that everyone’s interests are evaluated equally and anonymously. Because welfare economics operates with a broad spectrum of value judgements, no person’s utility is to be assessed uniquely. Instead, our partial derivative analysis applies indiscriminately to each component of the social welfare function.

Because each agent’s utility is based on commonly accepted ethical values and mathematical evaluations, the individual functions converge toward the objective quantity referred to as social welfare (Harsanyi 1976, p. 19). Therefore, when economists make an interpersonal comparison of utility to maximize welfare, theory suggests that they are no longer making value judgments based on their own ethical or political postulates. Instead, the economist attempts to determine propositions based on facts. Therefore, by ensuring that the concept of social welfare remains consistent with those widely acceptable beliefs and
uncontroversial sets of value judgements, welfare economics becomes a positive, descriptive study.

Positive Welfare Economics

One of the problems with the Mill/Bentham definition of utilitarianism is that it does not clarify whether ‘what ought’ statements can be derived from ‘what is’ statements. For instance, if individuals universally pursue happiness, a society may mistakenly assume that happiness is objectively ‘what is.’ Thus, ‘what ought’ in policy becomes an increase in those programs that strictly produce a higher level total happiness simply because the economic conditions provided that description. Currently, welfare economists face the same problem as utilitarians have: can ‘what ought’ statements be derived from the descriptive, theoretical aspects that have been described throughout this chapter?

Bentham encountered this precise conflict when he attempted to distinguish between theory and policy. He defined economics as two-fold: economics as a science and economics as an art (Bonner 1995, p. 31). Economics as a science is based on pure theory that should guide social decisions. Economics as an art is an applied science, mathematically guiding normative policy. Thus, Bentham’s approach to policy programs was influenced by his utilitarian theory. He was interested in the distribution of personal incomes, case for equality, institution of private property, choice in a market economy, and role of the government. The underlying assumptions that Bentham made about economics enabled him to arrive at his policy conclusions. It was how Bentham defined his science that enabled him to produce the art.

A similar approach must be taken with welfare economics. Economists must first define theory positively and then look at those factors that affect social welfare. The perspective of
welfare economics as a policy tool should always be positive and must veer away from the temptation of making value judgements. For instance, when economists create statements like, “which measure should be adopted to promote social welfare,” they become vulnerable to the criticism that they are creating basic value judgements rather than subjective judgements of fact. To avoid normative statements and retain the viability of welfare economics, modern economists must espouse a subjective view of positive economics that resembles specific comparability. That is, each attempt at prescriptive economics remains objective even in subjective situations. Economists approach policy questions in the following manner: “given that our objectives are \( x \) and \( y \) with preferences \( a, b, \) and \( c, \) should we adopt policy 1?” Much like specific comparability, the social welfare function becomes adaptable to different situations and involved agents.

**Applicability to Reality**

Recall that in theory, welfare economics is concerned with the attainment of the highest utility level for society via its individual participants. In practice, however, economists use welfare economics to compare the relative merits of various economic policies. As a positive study, welfare economics serves as a foundation for public finance decisions, cost-benefit analyses, and distribution policies. By comparing the levels of utility gained from different alternatives, policy makers can assess the level of welfare achieved with each alternative. This process is consistently dependent on the economic analysis developed throughout this chapter.

We observe that the theoretical work within welfare economics contributes to an economist’s ability to shape social programs. When purely scientific approaches prevail, theory concentrates on the complex mechanisms that are free from values and emotions. This process becomes meaningful as it is applied to the policy realm, and the center of interest moves from
theoretical utility to a socioeconomic problem. Welfare economics is unique because it attempts to overcome the conflict between the sterility of science and the necessity of determining practical decisions by attempting to provide theoretically viable advice. Our objective, then, is to use economic theory to find a solution to normative problems without violating those theoretical principles. However, this goal is not always accomplished.
CHAPTER III: THE BURDEN OF REALITY

Social choice theory, which encompasses the study of welfare economics, evolved out of an effort to construct tools to evaluate various policy alternatives. As policy makers, welfare economists must determine a ranking of social states based on the social welfare function. The purpose of discussing the social welfare function at all is to provide a framework to explore normative principles.

Early in the development of welfare economics, it was hoped that thinking in terms of a mathematical social welfare function could assist welfare economists in identifying plausible normative principles that relate individual utility to social welfare. If our function had precise mathematical formulations, then economists could deduce their precise implications. Most modern work in welfare economics, however, breaks away from this form evaluation because the basic framework is limited. This chapter explores the limitations of modern welfare economic theory as applied to reality.

The description of welfare economics in Chapter II raises several general questions. First, as we have noted before, the term ‘welfare’ can have a wide number of implications. The two dominant notions of the word ‘welfare’ are the idea of happiness and of preference satisfaction. The notion of welfare as happiness predominated in the eighteenth and nineteenth centuries whereas most contemporary economists define welfare as utility, or preference satisfaction. There are currently supporters of both definitions, and so the struggle to determine a plausible conception of welfare still continues. We lack a widely accepted definition of welfare that allows for accurate measurability to enable us to calculate the welfare effects of social decisions.
A second overarching problem is that the consequences of actions, policies, and institutions are uncertain and difficult to evaluate. An economist, using the social welfare function to prescribe a policy, may mistakenly believe that its consequences will be better than will any of its alternatives. However, we are uncertain if the economist made the correct policy choice because the expected consequences were better than the alternatives or if the economist actually prescribed the wrong policy because he lacked information regarding the consequences of alternative measures. We cannot determine the answer to this problem because future consequences of alternative actions are vague. Thus, we must rely on a large amount of speculation and uncertainty. The overarching problem is that welfare economics is construed as a theory of objective indicators of based on future subjective actions and consequences.

A third dilemma of the social welfare function is that we lack a practical method of measuring welfare changes. In theory, it is easy to designate welfare levels through rankings and calculations. However, numerically measuring the level of an individual’s welfare becomes increasingly difficult as we move into more realistic situations (Hausman and McPherson 1996, p. 76). Many economists raise the following moral objections: Is it accurate to assign rankings and numbers to an individual’s preference satisfaction? Even if it is accurate, is it just? There are further difficulties in making interpersonal comparisons of utility, and they will be explored later in this chapter.

Fourth, when we are dealing with the social welfare function, it is often unclear about which individual welfare functions should be included. Do we consider only current living humans? Those not yet born? And if we do consider those not born, how do we measure their utilities? What are the consequences if as a result of our actions, those non-born individuals remain unborn? Economists question if the interests of those non-born are adequately
represented via the concerns of those who are now living. And then how do we mathematically measure these concerns? Can we have a utility function of an individual’s preferences for a person who is not yet even an individual? We can see that the characteristics of equality, as discussed in Part I, here arise concerning the equal assessment of all beings—both living and nonliving. Furthermore, there is the concern for how we account for living beings, such as animals. Environmentally-aware welfare economists may raise the objection to commercial farming of animals. The problem is that the social welfare function does not account for environmental ethics outside of human preferences, but perhaps it needs to do so in order to measure social welfare more accurately.

A fifth concern is whether welfare economists should be concerned with total or average welfare. Because average welfare equals total welfare divided by the population size, total and average welfare will coincide when the population is fixed. But in reality, the population is not constant, especially when policies, like abortion rulings, have consequences for how many individuals will exist. When these types of policies arise, that which is permissible for a support of total welfare policies will be very different from that which is allowed under average welfare agendas. That is to say, a very large population supporting average happiness might have a larger total sum than a smaller population that has a high average amount of happiness. However, the latter may be more desirable. The use of average welfare indicators conflicts with Pareto-optimality. For example, suppose everyone is well off until a particular couple has a child who will have an excellent life but will bring down the average level of well-being. The supporter of average welfare would recommend against bringing this child into existence, whereas the advocate of Pareto-optimality would be in favor. As an extreme case, a welfare economist supporting an average welfare indicator would also be in favor of having half the
world disappear. Thus, we see the problem here is that the concept of human welfare has various interpretations of not only what the term welfare means but also how to measure it.

Finally, we are often unclear about how the process of individual choice making is supposed to guide social policy. It is true that actions and policies are obligatory if they maximize utility, but the calculation of the changes in social welfare is itself an action that is not bound to maximize utility, unless of course one is a welfare economist. In addition, not only is calculating consequences of the whole present human population filled with uncertainties, it is also likely to introduce a great amount of bias since people tend to take a more favorable view of the consequences of their own particular actions. Furthermore, uncoordinated actions of numerous individuals may lead to unintended aggregate consequences that could be avoided by having people follow simple rules. However, the problem is how to incorporate those rules into the social welfare function. And even if they were incorporated, it is difficult to ensure that the policy makers adhere to these rules.

Given these six concerns raised regarding the social welfare function, many philosophers and economists question the plausibility of welfare economics. Welfare economics seems to be an extremely powerful guide for social decision making with prominent ethical and moral implications. It is attractive to policy makers because it makes ethical questions matters of straightforward mathematics. However, these calculations are often difficult to execute and, in some cases, may not even provide definite advice. The remainder of this chapter will examine the cases when this problem occurs and the reasons for dissention over them.
Because welfare economics is based on utilitarianism, we will evaluate the problems of this theory in terms of the six characteristics described in Part I. We will question if these characteristics embedded in welfare economic theory are actually upheld in reality.

**Is there a single overriding objective in reality?**

The first of six objections to welfare economic theory is embodied in the following question: can the formulas provided in Part II be an adequate guide to policy decision making if the ingredients of a social welfare function are many and diverse, and vary from person to person? In theory, the single overriding objective is to maximize the social welfare function. It is implausible to prescribe the maximization of social welfare as the ultimate end goal when there is no simple blueprint to an individual’s utility in reality. If utility were reducible to happiness, then efficient actions can be identified as those that produce as much pleasure as possible. With such simplicity, a single overriding objective exists. Reality, however, does not match theory. As utility gains additional dimensions beyond happiness, the economist’s goal to maximize utility tends to be precise.

As a result, the overriding objective to maximize the social welfare function is vague and unclear because the individual components of the function—individual utility functions—are themselves vague and unclear. Because preference satisfaction implies different actions to different people, it is impossible to account for everyone’s uniqueness. Thus, it is difficult to provide realistic details about what activities objectively maximize individual preference satisfaction, and it is even more impractical to do the same with an all-encompassing social welfare function.
If maximizing social welfare only involved making people happy—as it would be defined in the most traditional of utilitarian views—then it would limit the social welfare functions objective. However, many of the most important components of individual utility could be maximized by the individual for reasons beyond happiness. For instance, only the individual can create a life of excellence, good character, spiritual perfection, and self respect. It is at the social level where we can assist the individual to maximize utility by creating the basic political, economic, and educational conditions that permit his chosen life to be realized.

Consequently, the notion of maximizing social welfare should become a means of facilitating an individual’s selected lifestyle. That is, we must depart from the idea of having a single overriding objective and instead allow for each individual to form his particular goals. The idea of social welfare, then, is simply to be a means of providing an optimal social framework within which people can pursue their own conceptions of welfare. Thus, it seems as though welfare economics is departing from single objectives by enhancing utility on broader goals, aimed at securing a political and social environment conducive to the realization of private ends.

There is a more prominent argument against having a single overriding objective. Specifically, many question if welfare economics can adequately accommodate the fact that many of the ends for which people strive are valued intrinsically as worth pursuing for themselves and not instrumentally as sources of maximizing welfare on the whole. At first glance, it would appear that the goal of maximizing the social welfare function is really just the pursuit of an array of valued ends that all consequently maximize well-being. However, this premise assumes that an objective is being sought for the satisfaction of social welfare. In reality, though, an end may be pursued because of its capacity to contribute to a complex of
goals that do not relate to the social welfare function. It is a mistake to believe that a goal is being pursued to increase the value of the social welfare function.

Many welfare economists assert that an action is of no particular worth and is only significant when it becomes part of a structured combination. However, if people actually believe this statement to be true, then the possibilities of motivating people to achieve personal goals would diminish. For example, an individual values environmentalism. He agrees that when there are more animal and plant species, the world is a better place. Thus, he supports the campaign to stop the poaching of ivory tusks, and he succeeds—the poaching ceases permanently. Welfare economic theory would not view this result is as a valuable end because it did not intentionally maximize social welfare. However, it did maximize this individual’s own utility. He is satisfied to know that future generations will be able to enjoy the salvaged elephants. Nothing in this environmentalist’s reasoning asserts that he worked to maximize social utility. Thus, traditional welfare economics may not support this environmentalist’s decision even though it did save an entire species and indirectly increase social welfare.

Because success in the attainment of one’s goals can be satisfying for reasons beyond the scope of the theoretical social framework, a welfare economist may mistakenly suppose that the pursuit of those goals should also somehow be instrumental in attaining a higher level of social welfare (Scarre 1996, p. 143). Goals are often worthwhile often because they contribute to satisfying an individual’s preferences outside of the realm of well-being. The environmentalist found that preserving the species pleased him precisely because he saw it as an intrinsically valuable goal even though it may have not maximized his own utility or the social welfare function. Thus, in attempting to impose a single overriding objective of maximizing social welfare, welfare economists may fail to acknowledge many of those actual ends that matter to us.
Is there Equality?

The modern conception of equality in utilitarianism asserts that no person’s utility is to be worth more than anyone else’s, and that the personal identity of the agent who experiences a greater amount of utility should not matter. This principle of equal consideration, however, is rather undemanding. All that it requires is that in dealing with various agents, we should not provide rationally unjustifiable favorable or unfavorable treatment to anyone. When applied to welfare economics, this principle states nothing more than each agent should have equal importance within the social welfare function.

We may be tempted to conclude that the principle of equality is morally binding. It seems both logical and fair that all agents are assessed equally. In democratic societies, we uphold virtues of equality in our political and social structures, and thus it seems obvious that we should maintain the same values in economics. However, in some decisions, we may have unlimited moral discretion and may be under no obligation to follow an objective and fair criteria (Roemer 1996, p. 127).

For example, a woman runs her own business and pays her employees out of her own pocket. That is, each employee’s salary is a personal expense. If one of the employees quits and a replacement is needed, the business owner is free to follow her own preferences in choosing a candidate for employment. She has no moral obligation to give both candidates equal consideration or to use any specific criteria to select the more deserving candidate. Using incremental comparability where variable $a$ represents employment, we see how

$$u_1 = f(a_1 + \delta a, b_1, c_1) - u_1 = f(a_1, b_1, c_1) > u_2 = f(a_2 + \delta a, b_2, c_2) - u_2 = f(a_2, b_2, c_2)$$
implies that person 1 would gain more utility from employment when compared to person 2. However, there is nothing in reality that forces the employer to satisfy the above comparison and hire candidate 1, even though welfare economics would prescribe to do so.

Instead, the business owner maximizes her utility and chooses a candidate how she pleases regardless of if her actions are morally praiseworthy or if she maximizes the social welfare function. There is no regard to equality, as she could have chosen the candidate based on a number of unfair factors, such as race, gender, or age.

In a second example, the woman is now a public official. Because public officials are supposedly agents of society, they attempt to follow standards of fairness and rationality. This assertion should hold true even if the private citizen, like the business owner, would not be absolutely required to do so. Therefore, it is certainly fair for this public official to assert that a more equal distribution is preferable to a less equal one. This declaration is true because of the diminishing returns to marginal utility of money and of more other items considered good. Here, the politician has followed welfare economic theory to make her assertion. For instance, a poor man, who is prone to spend additional income on important necessities, is more likely to derive a higher utility from an extra $100 than will a rich man, who is prone to spend this income on relatively unimportant luxuries.

But in reality, welfare economic theory and social policy may not always be in harmony. This public official generally favors policies of moderate redistribution of income and wealth even though doing so does not uphold an equal and anonymous assessment of all agents. It is true that society has an interest in maximizing the social welfare function. However, it is equally as important to invest in maintaining incentives for hard work, enterprise, and developing talents that could disappear with wealth distribution programs. Some mechanisms of distribution, such
as payroll taxes, may increase the incomes of the disadvantaged by a few percentage points but in turn may cause a negative substitution effect of labor for the rich. They choose to work less facing a lower implicit real wages as their taxes increase. As a result, the rate of growth in national income may actually decrease possibly making the disadvantaged much worse off in a few years than they would have been in absence of the policy. The social welfare function actually declined in value and allowing for a less equal assessment of individuals may have produced better results.

Another instance where equality and economic theory does not hold is in regards to extreme socioeconomic situations. Most policy analysts avoid instances of extreme poverty and extreme wealth, even though welfare economic theory may attempt to ignore these differences by holding everyone to an equal standard (Hamlin 1986, p. 66). However, extreme poverty leads to physical hardships and may paralyze the intellectual and cultural lives of its victims. As a result, moral attitudes may be poisoned. Similarly, extreme wealth may also lead to moral languor. Given these two extremes, we may not have the proper operation of democratic political institutions. Thus, when making social decisions, policy analysts may take special heed to extreme cases to ensure that these financial states do not occur. We see that theoretical equality, or in this case anonymity, is not upheld in our analysis of policy alternatives. Thus, components of the social welfare function are not completely unbiased as the theory would suggest.

Many argue that in a distribution of benefits, a poor person should be given priority over a rich person even if, for a given benefit, the former is not expected to derive a higher utility than the later (Harsanyi 1985, p. 125). This ‘fairness’ principle is a policy argument that is upheld in social decisions, like affirmative action for college admission. Suppose, in fact, that a university
must choose between a rich candidate and a poor one. Both candidates possess the equal qualifications for admission. Supporters of the fairness principle would assert that we should provide admission to the disadvantaged student rather than the rich student even though economic theory tells us that this choice is not rational. However, decisions in reality are often reached in this fashion.

   Overall, we see that there is a disparity between equality in economic theory and in normative practice. The business owner, the politician, and the university all demonstrate that the equal assessment of agents does not always occur. The application of welfare economics in reality often breaks from theory.

Is welfarism possible?

   Recall from Part I that welfarism states that that social welfare is a function of individual utilities and that these individual utilities are themselves functions of feasible preferences. The assessment of social outcomes is thus restricted to the information contained within individual utility functions. As we have seen in Chapter II, welfare economists use the social welfare function to examine the preferences of individuals and to make interpersonal comparisons of utility. Interpersonal comparability asserts that we can make judgments about when it is appropriate for one individual to become better off.

   Welfare economists make interpersonal comparisons of utility. They are made both in the sense of comparing different individuals’ total preference satisfactions and in examining increases or decreases in utility. As we know from the prior two chapters, two indicators of utility that other people attach to different situations are preferences revealed by actual choices and verbal and nonverbal expressions of satisfaction and dissatisfaction. While the use of these
indicators for comparing the utility that a single person ascribes to different situations is free of
difficulty, their use for comparing the utilities of different individuals.

The first issue is in regard to the setup of welfare economics as a theory where
individuals are easily comparable. We have assumed that we can compare the utilities enjoyed
by different individuals with identical preferences and expressive reactions. Thus, we can make
our standard comparisons of their utilities. However, even when doing so, it is not impossible
that these individuals will still have different susceptibilities to satisfaction and hence will assign
different utility changes to various situations. The issue, then, is that we are unsure of the
consequences of an action even if the agents are absolutely identical in their preferences and
behaviors. There are certain aspects for which we cannot account.

This second issue is that different people in reality are in fact not identical in their
preferences and expressive reactions (Rothschild 1983, p. 89). Even a twin has distinct traits that
differentiate him from him sibling. Thus, we see that different people have various preferences,
and hence their expressive reactions may be distinct as well. This problem of reality presents a
genuine difficulty in comparing people’s utilities because agents have immeasurable differences,
like sex, social status, ethnic background, habits, and superstitions.

The problem of reality takes the following form: if person A prefers situation x to y, we
do not truly know if this is so because person A attaches a higher utility to x or because he
attaches a lower utility to y. We are further unsure if both of these two factors simultaneously
influence his preferences. In a given situation, if person A shows more forcible signs of
satisfaction than person B does, is this because the former feels more intense satisfaction or
dissatisfaction? Or is it that person A is simply psychologically inclined to emit stronger
expressions than is person B?
The issue is that the psyche of expressions and choices is only accessible through direct empirical evidence. In theory, we can create the psychological and behavioral make-up of our agents to fit our models. However, in reality, we are forced to make numerous assumptions. If two individuals have distinctly opposite preferences between two situations, we will attempt to determine the psychological differences responsible for this disagreement of satisfaction on the basis of our general knowledge of the human mind. We must make certain underlying assumptions to judge to what extent these psychological differences are likely to increase or decrease the satisfaction derived from each situation.

In doing so, though, there exists a margin of error. For each variation in unobserved psychological, biological, cultural, and social traits, that margin of error increases (Harsanyi 1955, p. 57). And since these characteristics differ greatly in reality, our margins of error are quite large. Thus, reliable proofs are not attainable, as there is no secure basis for scientific interpersonal comparability with so many unobservable human differences. We can see that the theoretical interpretations of interpersonal comparisons of utility breaks down, and our calculations are becoming less accurate.

So far, we have analyzed the problem of reality in regards to observing the agent’s psychological complexity. However, there are also problems that arise with the capacity of the observer (Hausman and McPherson 1996, p. 74). For instance, how do we know when our general knowledge of psychological laws are complete enough to make accurate comparisons? All of our knowledge regarding psychological laws of satisfaction is ultimately derived from observing how changes in different variables affect the satisfaction that an individual obtains. However, the observer lacks direct evidence on how people’s satisfaction levels are affected by those variables that are not capable of change, like race. Thus, we are trapped into measuring the
influence of unchangeable variables solely on the basis of the correlation found between unchangeable and changeable factors, whose influence we can directly observe.

As a result, the use of personal value judgements may sometimes arise due to the lack of information needed to provide interpretations on a more objective basis. For instance, we may not know anything about the relative urgency of different individuals’ economic needs. However, government officials still must make a fair and efficient policy decision, which takes time to consolidate. Thus, we cannot avoid acting on the basis of personal guesses.

In sum, given the critique of the agent and observer, we can derive three overarching and insolvable issues that surround the use of interpersonal comparisons of utility. First, it is impossible to derive a solid method that provides objective proofs. The statement ‘good x may provide a higher amount of utility for person A than for person B’ may appear objective. But declarations of comparisons are always subjective given psychological, cultural, and social variations between individuals. There is no way to get around the fact that observers are constantly working under assumptions, and thus observers may never be able to accurately express the reasons for an agent’s satisfactions of specific preferences.

Second, interpersonal comparisons of utility are not truly based on firm facts. Rather, they depend on certain conventions that are in themselves quite unrealistic. For instance, as mentioned much earlier in this section, welfare economists must often assume that two individuals will attain identical amounts of satisfaction from a given situation. The presumption that individuals have identical reactions may allow for the calculation of marginal gains. However, with the increased dependency on math, we can see a decrease in the ability to use interpersonal comparisons of utility to explain reality.
From this discussion, we see that the root of our problem is that in reality, our economic agents are heterogeneous in terms of their preferences and capacities for satisfaction. If one is overtaken by these differences, then all hopes for interpersonal comparisons of utility must be abandoned. There is no point in comparing two individuals if the differences between them are so intense that any sort of comparison would be inaccurate. However, we must question if these differences run so deep and serious that they exclude any possibility of arriving at some generalizations regarding utility and satisfaction. Perhaps the differences are only superficial. In this case, we could create a standard of comparability for more deeply rooted human issues. For instance, we must determine if it is truly impossible to find people within similar cultural and economic backgrounds that would enable us to look at their particular needs. Given a group with similar preferences and satisfactions, can we not find a conclusion even then?

Interpersonal comparisons of utility are complicated and difficult. The vagueness and complexity of the problem makes it impossible to obtain clear-cut, unequivocal indices and results. Yet, interpersonal comparability stands at the crux of the analysis of social programs. If welfare economics is to arrive at relevant valuations and conclusions, then interpersonal comparisons of utility are necessary. Perhaps then it is justified to attempt answers in this field even when the data and methods are far from perfect.

**Should consequences count?**

Recall from Part I that consequentialism asserts that the value of one’s actions is derived from the state of affairs that those actions produce. As individuals choose to pursue optimal outcomes, consequentialism maintains that the proper response to its values is to promote actions that lead to that end. In terms of welfare economics, the actions of those consequences that
maximize individual utility and hence increase the value of the social welfare function are the only ones worth pursuing.

The main argument against consequentialism is that consequences are often irrelevant in the evaluation of a situation. For example, in ancient Rome, Romans considered it a sport to throw individuals to a hungry pack of lions. In this case, throwing a person to the lions increased the social welfare function because of the mass enjoyment of this activity. The decreased utility of the victim was outweighed by the increase in utilities of those people who enjoyed watching the death. Therefore, because the practice of this sport actually increased the value of the social welfare function, not throwing the person to the lion would be inefficient, according to utilitarianism.

It is true that the welfare economist may reply to the lion example by saying that he also finds the suffering of the victim to be repulsive. However, this is not the issue because while the economist may reject the outcome, his axioms and formulas did in fact prescribe it. Welfare economics implies in principle that members of society must evaluate every possible situation resulting from an action to determine the value of further consequences and circumstances. Welfare economists and utilitarians often approve of actions that may appear outrageous. However, if the action promotes consequences that raise the social welfare function, then that action is efficient. That is, if action A does not necessarily raise one’s utility level but it does cause action B, where action B does increase the social welfare level, then action A is deemed praiseworthy. But what if action A, like above, is intentional murder?

Let us examine two detailed examples that Scarre (1996, p. 163) provides to highlight situations in which a group maximizes social welfare. In example A, a group of ten, weaponless travelers get lost in the African desert. A pack of hungry cheetahs are on the prowl for food, and
it appears to the group that the animals are ready to attack. The leader of the group says they should abandon one traveling member to distract the cheetahs from attacking the nine remaining members. So, they tie up the plumpest traveler—as he provides the greatest amount of physical bait—and run for refuge. Here, the group maximized their social welfare function. By implicitly evaluating the two alternative outcomes of consequences, they determined the optimal decision. In one outcome, no traveler is tied up for the cheetahs but as a result, all ten members are eaten. In the second outcome, one member is intentionally tied up, but the remaining nine survive. In the former outcome, nine lives are spared whereas in the first alternative all ten individuals die. The group determined that given the consequences, the social welfare function increases the most when the plumpest individual is intentionally killed.

In example B, a tribe genuinely believes that if they do not sacrifice a member to the gods each week, then the world will be destroyed. So, in order to save the world, the tribe performs a blood sacrifice by killing one of the members of its community. As a result, the world continues to operate in order and is not destroyed by a divine wrath. In this example, the tribe also examined two sets of alternatives. First, the tribe could not sacrifice someone. As a result, the entire world would be destroyed according to their convictions. The second alternative is to kill in an individual in order to save everyone else from dying. Much like the African travelers, the tribe implicitly determined that their social welfare function is maximized under a situation of intentional murder. Thus, the sacrifices continue each week.

It is difficult to condemn this tribe when they truly believe that they are maximizing all of humanity’s welfare. However, if intentional murder is wrong no matter what the situation may be, then examples A and B are evidence of crimes though they may be economically efficient. Example A may seem a bit extreme in its premises, and many thus would support the group’s
decision. The plump travelers’ death was intended to save additional lives. It was not for sport, as in the ancient Rome example earlier in this section. Many would also see the group’s actions as reprehensible. For instance, did the group as a whole consider the plumpest man’s fate? Did they consider how unethical it is to prevent a person from making his own decisions? It seems as though the group decided the plumpest man’s fate rather than allowing him to choose to give up his life for the other nine members. Furthermore, there was certainly the possibility that all ten members would have survived if they ran. In this case, the social welfare function would have increased more than anyone in the group could have predicted. The consequences were not completely certain even though alternatives were assessed and a decision was made.

Because no one can accurately predict future consequences, all attempts at evaluating them are unrealistic (Hirschman 1983, p. 24). We have already questioned how the group knew that the nine other members would be saved. Similarly, we should have considered the fact that the cheetahs could have eaten all of the travelers even when the plumpest man was tied up. In this case, there was a decrease in the plump man’s self respect followed by his intentional murder and the death of the other nine members. Now, the social welfare function declined more than it would have had if each of the ten travelers had fended for his own life because at least everyone would have kept their self respect. Additionally, consequentialism asserts that we are only to look at actions and consequences. Motives are not relevant. So if it turns out that the group ties up the plumpest person and all ten people survive, should we not condemn those nine people with intended murder? According to welfare economics, we should not. However, our legal institutions may disagree.

Welfare economics is often criticized for having a narrow view of value. Given the examples above, welfare economics is often viewed as reprehensible for being able to reduce the
consequences to a simple counting of corpses versus living bodies. However, this evaluation is necessary but not sufficient in making social decisions. We must also look at the utility gained from surviving rather than from dying. If the ten travelers had time to assess who would gain the most utility from living, then the person with the lowest utility would be sacrificed to the cheetahs. It may or may not have been the plumpest. While this system is also flawed, it is a more fair procedure than just tying up the most attractive morsel. However, counting the utility gained from living is also an unrealistic proposition, especially in the face of danger. In addition, this system runs into the problems faced when making interpersonal comparisons of utility. With so many unrevealed preferences, it is impossible to determine justly who would be tied up for the cheetahs.

In sum, this section has addressed two different questions. First, do consequences matter? The answer is ‘yes’ that they do. In the cheetah example, it was important to know exactly why the group had tied up the plumpest man. It was not for some sadistic sport but rather for survival. The second more important question asks if measuring consequences is possible? The answer is ‘not always.’ The reality of actions cannot always be predicted or hypothesized as they can be in theory. We were unsure about the consequences of tying up the plumpest man. The cheetahs could just eat him or they could attack the entire group. The chain of events is too uncertain for an accurate prediction. In theory, the vacuum in which the social welfare function operates allows for the maximization of utility. However, reality has its imperfections.
Is aggregation plausible?

Aggregation assumes that it is possible to combine everyone’s utility into an overall welfare total. With the tools of welfare economics, the state of affairs can be assessed according to the change and magnitude of that sum. Thus, the methods underlying the social welfare function are distinctly axiomatic. The relevance of social choice theorems to morality depends on what is being aggregated and for what purpose. The first part of this section looks at the technical problems of aggregation as applied to welfare economics. The second part explores the moral problems of aggregation.

As far as the technical aspects of aggregation are concerned, the most praiseworthy decision rule is not necessarily the one that forces us to choose the best method for aggregation. For instance, there could be more than one evaluative standard and thus there is no best method at all. Hence, it is difficult to create a single function because there lacks a single basis for decisions. Further, decision rules are not always as simple as summing utilities because there may be procedural values attached to decision making. For instance, governments prefer majority rule as an attractive method for making decisions. Thus aggregation fails here because the social decision was not based on the best of all alternatives but was rather founded in the process of the decision.

Another technical problem arises when what is being aggregated comes into question (Hausman and McPherson 1996, p. 170). For instance, when we say we are aggregating utilities, are we aggregating interests, preferences, judgements, views, capabilities, endowments, or some sort of combination of these characteristics? Generally, welfare economists prefer to aggregate preferences but there is no clear-cut rule designating this choice to be the case in all situations. Tensions may arise within welfare economics as to what truly represents the aggregate measure
of utility. For instance, there may be a conflict to the extent that people’s preference satisfactions depend on non-economic factors like justice and self-respect.

Even more important than the technical objections to aggregation are the moral objections that social welfare function raises when it is applied to reality. The most common objection is that the social welfare function does not express plausible normative principles. Treating the relationship of individual preferences combined into an aggregate sum as a function unfairly objectifies the individual components. Further, we question whether a particular aggregative mechanism is socially acceptable. The process of aggregating interests for the purpose of decision making is unfair because it may not accurately represent minority interests. The process is always unwise because it accounts for quantity and fails to respond to the quality of the arguments supporting a particular judgement. Furthermore, we must question the interests, preferences, and judgements upon which collective evaluations are made because the information basis of the aggregated items may not be accurate.

Let us assume that the set-up of the aggregated social welfare function does pass through the scrutiny described in the above paragraph. If we accept the axioms of the function, then we must be willing to support the conclusions. Logic asserts that we cannot accept all of the premises and then reject any of the conclusions. It would not make sense to assert that A equals B, B equals C, but that it is morally wrong to assert that A equals C. Similarly, our confidence in policy decisions is based on how reasonable the social welfare function seems to be in its own right and how reasonable are the conclusions. If the social welfare function asserts a disturbing conclusion, as it often does, it is the premises that are wrong and not the conclusion. In other words, perhaps the aggregation of the components in the social welfare function needs reevaluation.
In the process of reassessment, however, ambiguities arise because social decisions are often only loosely based on the conclusions prescribed by welfare economics. We see this case with moderate redistribution of wealth in order to preserve work incentives for the wealthy. While welfare economics would assert that a larger redistribution would maximize social welfare, policy makers are more realistic than economically efficient.

These problems of ambiguity arise as a result of relying on the ordinal view of utility. Modern theory asserts that individual rankings rather than mathematical values are interpreted. In the formulation of the modern social welfare function, it is the rankings that specify individual preferences. Thus, ordinal utility cannot provide an acceptable basis for aggregating and evaluating alternatives because it is subjective. If we believe that preferences are composed of rankings but regard the social welfare function as an objective, decision-making indicator, then there is no acceptable solution for reconciling conflicts among individual interests because of the incongruity between an objective function created by aggregating subjective components. The ordinal utility functions provide little information concerning the relative importance of different situations (Hausman and McPherson 1996, p. 173). The individual matters but social decisions become impossible.

On the other hand, using cardinal utility would solve the problem of aggregation because the social welfare function would be an objective indicator of objective components. However, having objective arguments of individual utility is unrealistic. It is not accurate or fair to assign a numerical value to an individual’s preferences. Neither the agent nor the observer has the capacity to make such calculations. Thus, while this method of aggregation via cardinal utility would be more accurate, it is entirely unrealistic.
Overall, it appears as though the formal characteristics of the social welfare function are only useful in establishing the basic theorems in welfare economics. When applied to reality, the idea of efficiency is of little help because of the vagueness of aggregation and of its ordinal components. Welfare economics thus seems to break down when trying to assess the normative claims of its analyses.

**Is maximization possible?**

Recall that the utilitarian and welfare economic strategy is to increase the greatest amount of good for the greatest number of individuals. In theory, even if an individual solely cares for others wholly out of self-interest, it does not matter because maximization still permits us to retain an agent-centered prerogative while avoiding the stigma of selfishness. That is, acting in our own interests may in fact maximize the social welfare function. At the same time, though, maximization does not justify the pursuit of a lavish lifestyle by the affluent while many others only attain subsistence level.

The problem with maximization, however, is that it often threatens our personal integrity by compelling us to think only of public welfare (Scarre 1996, p. 194). For instance, we must determine when an agent should regard his own special concerns and commitments over those of public interest. Should he pursue an object about which he is passionate only when he sees nothing else to do which would promote utility more effectively? In addition, by warranting his pursuit of private goals through exclusive reference to the social welfare function, the agent runs the risk of becoming alienated from his own projects. An individual who is estranged from his personal goals may come to be detached from his human character. Therefore, even though the social welfare function in theory incorporates the maximization strategy found in both
utilitarianism and welfare economics, maximizing in practice may be a threat to personal development.

A major problem arises when individuals justify their actions from the perspective of anonymity, as described in Chapter I. For instance, an agent may claim to be a good friend because if he does not act in a noble manner to his companions, no one else will either. In a sense, the agent feels as though he is stepping up to responsibility. The problem with this argument is that the agent may not truly respect his friends but only acts positively towards them out of a duty to maximize the social welfare function. This behavior does not allow for altruism but instead forces people to act in emotionless utility maximizing behavior. The conflict here is that the principle of equality asserts that we should in fact espouse a person-neutral perspective of equality when assessing the components of the social welfare function.

Another problem is that not all self-interested concerns contribute to the maximization of the social welfare function. Even though classical economics tells us to act in our own self-interest whereas welfare economics simultaneously advises us to act in favor of maximizing social welfare. For instance, an egotist may possess disregard for everyone’s interests except for his own. Unless the satisfaction of his preferences outweighs the lack of satisfaction of everyone else’s preferences, this individual is not maximizing social welfare. Even when an individual does maximize the social welfare function, laudable private interests may decrease the function if they are not kept within proper bounds. The dilemma, however, is that basic economic theory advises each agent to act in his own self-interest. By doing so, the individual will come to terms with an efficient outcome simply by the nature of his transactions. Hence, we see two different forces at work within the same social science.
Leaving the dilemma of economics aside, maximization asserts that utility is most thoroughly maximized by individuals who possess a certain sophistication of character. These people are guided in their actions by a sense of virtue rather than by selfish considerations or strict consequential reasoning. When these people uphold universal values, such as happiness and knowledge, they will act in ways that indirectly improve the quality of their own and other people’s lives (Railton 1984, p. 141). For instance, if a person believes in the pursuit of knowledge, then going on for post-graduate degrees would increase his knowledge while simultaneously providing him with a more financially secure lifestyle that will indirectly enable him to make more educated decisions. When individuals act in this fashion, they are working under the laws of indirect maximization. This theory has the attraction of leaving room for agent-centered prerogatives, virtues, and admirable motives while retaining the indirect pursuit of maximizing the social welfare function. Consequently, this behavior claims to release the threat of self-alienation without compromising the essential perspective of anonymity upheld in welfare economics.

Although indirect maximization sweeps away the problem of alienation, it implicitly provokes deception and self-deception in an agent’s behavior (Williams 1973, p. 124). It encourages people to place intrinsic value on certain motives and conceals the truth that their only role really is to maximize the social welfare function. Indirect maximization would assert that the pursuit of knowledge in itself is a good end. However, the truth is that the end is not one of self-improvement but rather one that maximizes the public welfare. Indirect maximization has simply disguised public ends as self-interested goals. When this ulterior motive is unveiled, the agent will find it psychologically impossible to assume that his agent-centered concerns are worth pursuing because he will realize that their values are only instrumental. He will then have
to make himself believe that the anonymity quality of maximizing social welfare is false. Otherwise, the agent will not see his own concerns as valuable on non-neutral grounds.

Because there would need to be a mental buffer secure enough to prevent the agent from discovering the true end of indirect maximization, it is not an attractive theory (Scarre 1996, p. 198). It relies not only on the idea of achieving psychologically impossible tasks but its central recommendation is for its agents to engage in a form of self-deception. Thus, indirect maximization is hardly more appealing than the alienation that it is meant to avoid. As a result of maintaining this unrealistic psychological condition, the agent faces the difficulty in upholding these subjective, non-consequentialist ends. And when the agent realizes that his tasks are only means to enhance social utility, he is back to being alienated from his personal goals and integrity.

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Even though we have scrutinized welfare economics, most economists agree that the practical need for reaching decisions on public policy will require us to formulate social welfare functions. Even if we lack the factual and empirical information required to create interpersonal comparisons of utility or to construct an accurate aggregate social welfare function, welfare economists are still looked towards for creating efficient and fair social policies in spite of the theoretical and practical problems mentioned in this chapter.
CHAPTER IV: SOLUTIONS

The first three chapters demonstrated that a rift exists between welfare economic theory and practice. On one side, there are the philosophical and theoretical traits, which compose the scientific nature of the social welfare function. The goal of striving towards an unbiased description of social policy has lead to economic theory that is concentrated on complex calculations and relationships. The result, as we have seen in Chapter II, is supposedly free of emotions and values. On the other hand, welfare economics also upholds applied, or normative, aspects. With a prescriptive view, the center of interest becomes the derivation of realistic solutions that solve socioeconomic dilemmas. This aspect of welfare economics incorporates valuations and recommendations. Because economic theory serves as a basis for this decision making, normative economics attempts to solidify its validity by basing its policies on these scientific principles. But as we have seen, problems arise when theory is forced to operate in reality.

Chapter III described the numerous problems that arise in social choice theory when welfare economics is applied to realistic situations. These issues become prominent because social values and basic human traits are extremely difficult to incorporate into a theoretical function. Thus, our goal is to find a coexistence of economic theory and normative prescriptions. What is crucial is that the value judgements that arise from welfare economics can be supported by our social institutions. Thus, in this final chapter, we look to find solutions to those problems in Chapter III and derive methods that allow for theory to serve as a more accurate basis of social decision making.

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Solving Overriding Objectives

Recall from Chapter III that the dissatisfaction with having an overriding objective was that it is illogical to prescribe the maximization of social welfare as the ultimate goal when there is neither a single nor a simple blueprint of an individual’s utility in reality. If utility is reducible to happiness and pleasure, then efficient actions can be identified as those that produce as much pleasure as possible. With such simplicity, a single overriding objective exists. However, as utility acquires additional dimensions beyond happiness, then the economist’s goal to maximize utility tends to lack precise specification.

There are two solutions to solving the problem of having a single overriding objective. The first is that we can accept the fact that the traditional view of maximizing utility is not the ultimate objective. We must reevaluate welfare economic theory to make room for other intrinsically valued ends. A second solution is that we can reject the objections mentioned in Chapter III and continue to believe that nothing matters besides the maximization of the social welfare function. The remainder of this section evaluates these two solutions.

Towards Different Ends

We must accept that no one valuable end exists but rather there are many valuable ends worth promoting. Although traditional utilitarians and welfare economists uphold that the maximization of social welfare is the most crucial end, we must admit that this case may not be true. There are often instances when a valuable end does not involve happiness or utility. For instance, recall from the last chapter the environmentalist who saved elephants simply because biodiversity in itself was an end worth achieving. Here, the maximization of social welfare was unimportant in making the decision to save a species. Instead, he acted from a motive beyond
the satisfaction of his self-interested preferences. Thus, we see that preference satisfaction is not
the only activity that can beneficially change the current state of affairs. Admitting this fact, we
incorporate the intricacy and reality of human values into our normative policies.

The problem that arises when we accept this level of complexity, however, is that it is
more difficult to determine a criterion that would enable us to make comparative value
judgements about alternative ends. Our goal in welfare economics is still to maximize some
metric. However, we have opened up the range of what can be maximized. But with so many
different ends, we may fall into the trap of simply accepting and promoting different valuable
states of affairs because we do not want to subjugate any one end by maximizing a different one.
Thus, we may inadvertently fail to maximize anything at all in our decision making process. For
instance, should we allow for a disparity in wealth simply to support liberty as a valuable end, or
should we support the notion of equality and redistribute income? Without a single overriding
objective, this question becomes difficult to answer.

Without a maximization standard, it is difficult for us to assess which choice would be
better. The maximization of utility in theory was like our currency and medium of exchange. It
enabled us to establish value of different policies. However, this unit of value disappears when
we take into account multiple valuable ends. As a result, we demand a non-arbitrary criterion
capable of rationally evaluating every question of comparative value. To avoid this situation, we
must determine a method that will allow for multiple ends but will also enable us to make
comparative judgements.

Specifically, we need a standard that acknowledges the partial immeasurability of values
and the lack of a determinate answer to many dilemmas. In this case, immeasurable values are
those that we cannot rank on a single scale (Scarre 1996, p. 145). With this standard, we
condemn those activities that clearly do not increase utility. For instance, playing basketball outside while our sick friend needs aid would certainly be a poor choice. In addition, this standard leaves room for interpretation as to those values that we do not want to rank. We may not easily be able to determine if the government should distribute money based on liberty or equality. However, a definite answer is no longer necessary.

I will refer to the standard above as our ‘diluted objectives standard,’ as it allows for both comparability and interpretation. When comparative judgements are possible, the diluted objectives standard allows us to choose the most productive option. However, when judgements about values are not possible, then any path we choose is considered to be maximizing. If we choose to uphold liberty in income distribution, then our subsequent choices should maximize this value. If we choose to uphold equality, then income distribution must maximize this objective. Thus, all moral dilemmas have a unique overriding objective and solution. We can never say that liberty is a better value than equality. However, the diluted objectives standard does not require an absolute answer because we are not attempting to maximize the social welfare function. Instead, we are looking at values and case-by-case ends. Thus, even though our values may be impossible to rank, we can now judge if a major loss of liberty is a reasonable price to pay for a minor increase in equality.

The diluted objective standards solution thus takes into account the ways in which humans actually think about values. Because we many not be able to rank values as we could with individual preferences, this solution appeals to common beliefs about ends that are worth advancing and the degree to which we can do so. Further, by allowing for case-by-case analysis, we can reject the rigidity of the traditional approach in which only happiness is valuable. Thus,
this solution moves beyond the conventional notion of maximizing utility by allowing for less clear-cut criterion.

**Upholding the Status-Quo**

In response to having multiple objectives, which requires a solution such as a diluted objectives standard, we can assert that pursuing any other end besides maximization of the social welfare function is an inaccurate goal. By supporting that maximization of utility is the most important objective, welfare economists uphold pure theory in making normative statements. The reason for their rejection of any other valuable end is because utility is in fact a combination of all other goals. By satisfying preferences, attaining happiness, and striving for freedom, equality, justice, art, love, and aestheticism, we are in fact maximizing our utility both directly and indirectly. According to this view, pursuing anything would maximize utility since all values and goals are theoretically incorporated into the agent’s utility function. Similarly, supporting the maximization of utility will also enhance those other values. We see that utility maximization and the promotion of values work hand-in-hand.

We continue this argument by asserting that the values themselves are useless unless they promote individual and social utility. Going back to the environmentalist example, we can ask what is the purpose of promoting biodiversity as an end unless it contributes to an increase in someone’s utility? This goal is only worth promoting as an end, which combined with other ends, when it leads to preference satisfaction. Biodiversity in itself is not a valuable objective if it does not satisfy the social welfare function in the same way.

Under this viewpoint, our tendency to extract satisfaction from the pursuit of worthy objects is irrelevant without an overriding objective. The real question is then whether the
pursuit of objects can plausibly be regarded as either proper parts of maximizing the social
collapse function or as productive causes of parts of individual utility maximization. For
instance, biodiversity is a valid end when saving the elephants allows more people to enjoy their
beauty or if this species keeps the food chain in tact so that future lives, both human and animal,
will be more fruitful. Therefore, welfare economists declare that intrinsically valued ends are
those that maximize the social welfare function, even if the agent may or may not see this as the
objective.

There are two major objections to the idea that all objectives lead to the maximization of
social welfare. The first problem is that this view forces agents to falsely believe that there are
intrinsically valuable ends beyond maximization of social welfare. Thus, the larger number of
activities which people can be persuaded to think are worth pursuing for their own sake, the
greater maximization will be. Since all activities lead to someone’s preference satisfaction, this
principle claims that we should teach people to think falsely that every ends is valuable and
distinct (Scarre 1996, p. 149). Thus, this solution is manipulative and could appear to be an
attempt by a knowing group of welfare economists to instill faulty ideas of valuable ends into the
populace.

The second objection follows from the first. If every action leads to preference
satisfaction, then all activities should be welcomed. This view may unintentionally invoke an
overflow of self-interested actions because they will somehow be a valuable contribution to the
maximization of social welfare. As a result, this view seems to promote the idea that only
happiness is an important factor in all activities. Certainly, though, there must be ideals beyond
the value of satisfying preferences. Equality and justice, as mentioned earlier, must have some
role in making decisions. Thus, we see a divergence of two worthwhile activities: those to do,
which involve preference satisfaction, and those to be, which support the promotion of ideals. In order for the maximization of social welfare to remain the single overriding objective, we must have the freedom to make our own choices and the satisfaction of fulfilling them. However, this solution is unable to make sense of valuation attitudes because it does not place value on anything because simple satisfactions.

Overall, the conclusions to both sets of solutions have been negative. It is extremely difficult to define a concept of utility that meets the conclusion of maximizing an objective regardless of what that objective turns out to be. The problem is that we can either have an objective view of maximizing utility or a completely subjective one. With an objective standard, we certainly fulfill the hierarchical conditions of comparisons and value judgements. However, this perspective ignores what we think is important to humans. On the other hand, a subjective account does accurately represent our value set but it lacks important aspects of welfare economic theory. The solutions in this chapter have attempted to remain loyal to welfare economic theory while taking into account the human value set. They certainly have their flaws, and finding solutions to these solutions remains one of the most crucial tasks still facing contemporary welfare economists.

**Solving Issues of Equality**

As we saw in the last chapter, adhering to strict principles of equality and anonymity was both impossible and impractical in reality. In some cases, like political decisions, equality as seen in theory is more prominent. However, we still try to deter from having groups of extreme poverty and extreme wealth. Upholding equality is often impractical. In other cases, equality completely lacks influence. The business owner example in the last chapter demonstrates that
the equality of agents played no part in her decision making. Here, equality is impossible, as the business owner cannot evaluate the utilities of her candidates and determine whose welfare would be more greatly increased. Therefore, while important in theory, equality is not as much of an intrinsic component of the social welfare function in reality.

To make equality a more influential factor when assessing realistic situations, it must be assessed on a case-by-case basis. In such a way, moral consideration can vary by topic, as it is certainly different for a business owner than for the government. In such a way, we are not discriminating against situations of extreme wealth in our political decisions, but rather determining how we can put everyone at a position at which they can be evaluated equally. In order to work on a case-by-case basis, we must break equality into four different categories. They are the equality of welfare, of resources, and of opportunities of welfare (Hausman and McPherson 1996, p. 138). Both Hausman and McPherson (1996) and Sen (1992, p. 49) evaluate a fourth form, the equality of capabilities. The remainder of this section assesses each of these proposed categories.

*Equality of Welfare*

Equality of welfare is the traditional view of equality, as described in Chapters I and II. Because the idea of welfare is central in both theoretical and normative welfare economics, economists may naturally interpret their goal as aiming to equalize welfare. However, this idea, as we have seen, would involve making interpersonal comparisons of utility, which have practical concerns that cause many economists to reject the notion of policy conclusions relying on them. Further, as we have seen in Chapter III, equalizing welfare may destroy work incentives for those on the advantaged side of the income spectrum. Equality of welfare provokes questions
like “why should those who are have work incentives pay for those who lack them?” Thus, this case of equalizing welfare is not an attractive ideal to work under and should be abandoned.

There is the argument that equalizing individuals on a welfare basis would promote fraternity in society. By equating the components of the social welfare function on a welfare-related basis, this solution may result in increased respect among interpersonal relations, as everyone would literally become more equal. However, it is quite difficult to imagine this solution to procure fairness even with fraternal characteristics. Instead, as we have seen, this solution sparks further debate about policies like income distribution. It does not seem as though a valid solution under this condition would appease both theorists and policy makers. Thus, most philosophers and welfare economists rarely defend equality of welfare.

**Equality of Resources**

Rather than being concerned with welfare levels, we should assess the resources that people possess to pursue their goals. We must provide the tools for preference satisfaction rather than providing the preference satisfaction itself. That is, we should not give poor individuals checks for $100 but rather give them the resources to attain that $100. If the resources are unequal, then it is a policy maker’s duty to change that situation by equalizing resources before value judgements and comparisons can be made regarding social welfare.

Under this solution, we desire to provide bundles of resources that are equivalent but not identical. We will define an efficient resource bundle as one whose owner would not want to trade it for anyone else’s. From this definition, any resource distribution satisfying this envy-less condition could be reached through a sequence of Pareto-improving trades so that the end result is that everyone will prefer his own bundle. At that point, we can make decisions based on the
social welfare function because everyone will be equally satisfied with their resources. In a sense, every person has become both equal and anonymous because selecting any person to evaluate will result in choosing an agent with an efficient equivalent bundle.

The problem that this solution faces is as follows: we can certainly equip people with efficient resource bundles, but how much welfare they achieve from those bundles is their own affair. Individuals have varying intellectual and physical capabilities and may be more apt to maximizing their resource bundles. But in rejecting the idea of equalizing welfare, we can no longer step in after those bundles have been equalized.

The solution to this particular problem relies on a more in-depth analysis of those Pareto efficient bundles. When determining how to allocate resources to individuals in order to make them equal in the social welfare function, we also consider inherent abilities as a resource and compensate for any inequality. To do so, we break our efficient bundles into internal and external resources. Internal resources include items like intelligence and physical attributes with which people are born. External resources are provided to the individual from a source like the government. Thus, the goal is determine combinations of internal and external resources that equalize the bundles. Our provision of external resources is thus dependent on the quantity and quality of internal resources. For example, if more talented people need less external resources to achieve goal A, then those leftover external resources should be distributed to the less talented so that they can achieve goal A with the same level of effort.

The issue that policy analysts must address with this internal / external perspective is that we need a standard to decide which internal differences can be compensated with external resources. For instance, we must decide if being born blind is equivalent to being born without ambition. If not, how do we compensate differently for these internal resource disparities?
Articulating and defending the distinctions between internal resources is a crucial but unfinished task. It is extremely difficult to accomplish because we distinguishing between abilities and preferences. Also, we are often not certain when we are adequately compensating for involuntary disadvantages so that we can compare individuals and make interpersonal comparisons of utility. For example, it is very difficult to determine when a person born blind has equivalent resources to a person born deaf. It is even more difficult to then compare their utilities.

Recall that the purpose of equality in utilitarianism and welfare economics is to evaluate individuals anonymously. Thus, we must draw a line between ability and individual responsibility. In doing so, we can make a distinction between internal and external resources, determine what external resources are appropriate, and equalize individuals sufficiently enough to make value judgements. As a result, we can move towards a more fair evaluation process.

*Equality of Opportunities of Welfare*

Building on the equality of recourses, proponents of this third type of equality propose that we need to equalize opportunities rather than resources. In this way, the social welfare function becomes more accurate because it looks at what people can attain rather than what they possess. That is, everyone must face an array of options that is equivalent to every other person’s in terms of the potential preference satisfaction that it offers (Arneson 1989, p. 85). Rather than having efficient resource bundles, we must possess efficient opportunity bundles. When we treat everyone as equal in the social welfare function, it is not their resources but rather their opportunities upon which our evaluations should be based.
By following a solution that equalizes the opportunity for welfare, we can then evaluate what resources are important. Thus, equality of resources flows from the equality of opportunity. Because the resource needs follow from the equality of opportunities, we can weigh each resource’s importance only after looking at what opportunities the agents have. Thus, we can examine preferences, determine how different individuals can achieve equal opportunities to satisfying those preferences, and then provide the external tools as mentioned in the preceding section.

This solution upholds the traits of equality found in utilitarianism and welfare economics. First, it allows for anonymous evaluation resulting from the use of efficient resource bundles. Their advantages have already been discussed. Second, equality of opportunity enables the process of evaluation to be similar for each individual, as we attempt to determine efficient opportunity bundles. We are not trying to satisfy one individual’s preferences more than for another. Instead, we are enabling each individual to receive proper evaluation of his present opportunities so that future ones will be equalized in terms of the proportion of preference satisfaction.

The problem with this solution, however, is that the differences in what provides people with preference satisfaction could lead to what differences they receive in the shares of society’s resources. For instance, a poor person may require much more from society than a wealthy person does in order to have equal opportunities of welfare. As a result, the wealthy person may see redistribution as unfair for the same reasons that equality of welfare is unjust. However, as long as the evaluation of individuals remains true to the equalization of opportunities, then the issues that surround equality of welfare should remain absent from this solution.
Equality of Capabilities

Both Hausman and McPherson (1996, p. 145) and Sen (1992) argue that components of the social welfare function can be evaluated equivalently only when each individual has equal capabilities, such as the ability to read. Because equalizing welfare often demands too much whereas equalizing external resources seems to do too little, many economists argue that equality should be measured in terms of the capabilities that an individual possesses. That is, rather than equalizing the array of options that a person faces to maximize welfare, social policy should be concerned with human functions. With equal capabilities, the agent then has sole responsibility to increase his level of utility.

Under this form, welfare economic policy no longer emphasizes equal means to achieving certain capabilities nor does it focus on what the agents do with those capabilities after attaining them. Rather, equality of capabilities stresses that it is those capabilities themselves that are equalized from the start. As a result, this form takes hardships, like handicaps, into account. For instance, this form of equality would attempt to equalize a healthy person and a diabetic person. Because the latter has a metabolic disorder, equality of capabilities would assert that this person requires more resources to equalize him to the healthy individual. In this example, we no longer are concerned what how the healthy and diabetic person are made equal or what each can do with his resources. Instead, we evaluate individuals based on functions.

This solution upholds the traits of equality because it enables anonymous evaluation of each individual. Because every agent has the same capability as every other agent, this solution resembles economic theory, which upholds aspects of uniformity between individuals. Once
individuals have equal functions, their preferences should also be more similar. This solution thus facilitates social decision making, as both human characteristics and preferences converge.

The problem with this particular approach is that it faces both measurement and ethical concerns. As for measurement, it is difficult to determine precisely when capabilities are actually equal. While an economist can determine when a diabetic and normal patient are equally capable of metabolic functions, more complex capabilities, such as information processing, are difficult to measure. Thus, the welfare economist would have to make assumptions when guiding social policy. As for moral concerns, we are often unsure as to how to weight the relative importance of different capabilities. In other words, how can we objectively state when a capability is a strength and not a weakness? For instance, many would argue that left-brain capabilities are more important than right-brain functions while others would argue the opposing viewpoint. With scarce resources at hand, welfare economists would have a difficult task when trying to reconcile these two contradictory viewpoints. Some sort of value judgement would be necessary to make complex, moral decisions.

* * *

From these four definitions of equality, it is important to determine how equality is embedded in the social welfare function. Whether we imply equality of welfare, of resources, of opportunities of welfare, or of capabilities, equality remains crucial in making value judgements and comparability statements. Thus, it is not a question of if the notion of equality is at all relevant to our social welfare function but rather how to apply it.
Solving Welfarism: Interpersonal Comparisons of Utility

It is understandable that attempts at interpersonal comparisons of utility begin with the assumption of identical preference and utility structures. Even though this practice is strictly theoretical, one could argue that the preferences of people living in similar environments show similarities. Realistic or not, the assumption of uniform preferences has the advantage of simplicity (Rothschild 1993, p. 90). And a more simplistic theory can lead to clearer results in normative practice. However, this uniformity assumption can only serve as a benchmark. It cannot be directly transcribed from theory into reality simply because human beings are not uniform. Therefore, we must give meaning to our analyses by deriving indicators that have valid comparability relevance for different people. A problem, however, arises from the fact that human beings are complex and partially unobservable. The remainder of this chapter examines solutions to overcome this problem.

Empathy for Extreme Cases

As observers, we need to obtain insights into other people’s feelings. It is not sufficient to determine mathematically the levels of utility that individuals gain from different social policies. Rather, we must look carefully at the types of individuals involved in our decision making. In the case of comparing extremities, such as between rich and poor individuals, we rely on our capacity to make genuine comparisons on the basis of introspection and empathy (Gordon 1995, p. 141). Even if we are not similar to the agents whom we are studying, we must attempt to detach from our own personal preferences and values in order to determine accurate conclusions. For example, we must understand how a $1,000 increase in income would affect a rich person versus a poor person. Clearly, any one of us could see that providing $1,000 to a rich
person would have less monumental effects than to a poor person. Thus, in performing introspection, we can rationally communicate and discuss issues of comparability.

The sympathetic observer can form ideas about people’s states of mind and preferences. As a result, interpersonal comparisons of utility can be made more accurate. Even though these comparisons are not testable, as they are based only on abstract intuitions, they are also not meaningless. In extreme cases, it is less important to have testable conclusions. We can all agree that giving $1,000 to that poor person is a more efficient and fair social decision. Proofs are unnecessary in this example of interpersonal comparability. Thus, with some enlightened compassion for the involved agents, welfare economists can make successful comparisons between individuals. It is when situations are less extreme where this system of sympathy fails.

**Material Factors**

As with the solution of equality of resources, which provides efficient resource bundles to individuals to evaluate social policy decisions, physical resources also play an important role in making comparisons between individuals. As far as comparability is concerned, we deal with observable and measurable items as approximations for preference satisfaction (Rothschild 1993, p. 92). In this case, we evaluate situations based on observable indicators instead of on abstract factors like introspection. More importantly, this solution allows us to assess situations that are less extreme.

For example, we can look at the redistribution of income from a moderately wealthy person to a middle class worker. The redistribution of physical wealth will have different proportional changes on the individuals’ spending patterns. That is, the rich man may not change his spending pattern at all when losing $1,000. On the hand, the middle class worker
may increase his spending because an increase in income can provide more services to him than to the rich man, where $1,000 is a smaller proportion of his budget. In this example, we can physically watch the movement of income and observe a change in spending patterns.

To make use of the relationship between material factors and revealed preferences, we can take the change in spending patterns as a proxy for the marginal utility of money and the change in bank account levels as a proxy for a change in individual utility. As a result, we can observe how the redistribution policy affects the individuals’ utilities differently. The rich man’s utility may not have changed due to the loss of $1,000, as his spending does not change. On the other hand, the middle class individual has increased his spending, perhaps indicating that his utility has increased. Thus, observing the effects of material factors enables welfare economists to accept the notion that the utilities of different individuals are not identical. Further, if we can say that the lack of a change in spending for the rich man is outweighed by the spending increase for the middle class individual, then we can also account for changes to social welfare. In this case, the transfer has a positive effect.

The problem with using material factors to represent utility, however, is that we are basing utility differences strictly on the narrow realm of material goods. However, there may be differences in utility and various capacities of deriving preference satisfaction that are linked with factors that may not have a material presence. Perhaps the rich man may derive psychological satisfaction from an increase in his physical amount of wealth. Thus, even though his spending pattern does not change with a decrease in $1,000, his utility may decline because of the unobservable dissatisfaction that he incurs from the decrease in his bank account. Thus, we must also account for these non-material factors.
The first set of indicators that accounts for non-tangible factors includes those that are involved in ‘fight or flight’ human processes. We must determine a hierarchy of psychological and biological needs and then structure them according to intensity. For example, the desire to quench one’s thirst may be a more important preference to satisfy than receiving a $100 transfer. Although $1,000 may be generally preferable, thirst quenching will take precedence if it is a more immediate concern. Thus, by looking at psychological and biological factors, welfare economists can introduce a time constraint on interpersonal comparisons of utility.

But for however influential this time constraint is, a hierarchical ordering of preferences becomes far less concrete and reliable when moving beyond basic needs (Sen, 1977, p. 93). Much like with sympathy, this solution works best with extreme psychological and biological cases. It is easy to determine that a medical patient with a severe wound needs an immediate blood donation whereas a person who will be having an operation a week later has a less urgent preference to satisfy. However, the less extreme cases of psychology and biology create unsolvable dilemmas. For instance, it is difficult to determine if self-actualizing is more important than companionship needs. We do not always know what solutions will satisfy which psychological aspects when a solution is not immediately required. ‘Fight or flight’ dilemmas are easier to solve, and when we broaden the spectrum of psychological and biological traits, comparisons become much more difficult. Therefore, we must broaden the method of evaluation.
Revealed Preferences

In order to obtain a greater sense of a person’s psychological and biological make-up, welfare economics must derive more accurate conclusions from actual behavior (McPherson 1983, p. 106). This method is known as examining revealed preferences. Because economics works in markets, we should observe market behavior and obtain pointers regarding the relative importance of various needs and preferences. By looking at demand structures and willingness to pay, we can determine what an individual prefers, the strength of this preference, and its urgency. How much people are willing to pay may be an indication of time preferences. In this sense, we can use demand as a proxy for less extreme psychological and biological factors. A person willing to spend more on anti-depressants in the winter may exemplify that he has some sort of seasonal depression. Although this problem is not urgent, it is still observable and thus enables the welfare economist to provide more accurate judgements when comparing this agent to another.

Rothschild (1993, p. 93) highlights the objection that interpersonal comparisons of utility should be left to other branches of the social sciences because the nature of comparing individuals is much more applicable to psychology or sociology. However, the solution of observing revealed preferences makes welfare economics more similar in form to other social sciences. By observing the choices that an individual makes in a competitive setting, welfare economists can perform field research. Thus, actual observations can lead to more accurate interpersonal comparability, as we are no longer making theoretical assumptions about human behavior. Instead, we can account for individual differences and compare people on a case-by-case basis. Our analysis becomes more complete when we first observe individual behavior and then determine fair and efficient social policies.
Once we have completed the examination of revealed preferences, we can then make scientific assertions about gains in utility based on sympathy, material resources, and ‘fight or flight’ factors (Rothschild 1993, p. 96). Thus, it is still possible to incorporate traditional utilitarian and welfare economic notions of pleasure and pain, which can lead to positive and negative changes in utility. That is, we can look at psychological phenomena to draw conclusions about preferences. For instance, a smile generally implies pleasure, and tears usually indicate pain. Thus, based on our introspective attitude and observations based on material resources and participation in the market, we can attempt to make pleasure/pain conclusions. But only with the solutions described above can we create scientifically based revealed preference conclusions.

Looking at the four solutions proposed in this section, we see that interpersonal comparisons of utility are difficult and complicated. The fact that our subjects are human beings makes our task of finding clear-cut, unequivocal indicators of individuals almost impossible. However, interpersonal comparability lies at the heart of welfare economics. Because normative statements and recommendations arise from welfare economic theory, interpersonal comparability remains influential in reality as we continue to make comparisons about preferences, utilities, and advantages. Thus, we must abandon the idea of creating expert, theoretical answers since our empirical methods are incomplete. Instead, we should look at the four solutions proposed in this section and create indices based on sympathy, science, and observation.

Furthermore, we must critically interpret our results but not hold them to be purely scientific answers. Our conclusions only approximate a human being’s choice capacity. However, the four solutions in this section have certainly expanded on the traditional notion of
utility by incorporating a wide spectrum of human characteristics. By making utility a more applicable indicator, our interpersonal comparisons of utility can become more convincing.

Solving Consequentialism

The problem of consequentialism is that it is extremely difficult to predict accurate future consequences, and all attempts at evaluating them are often unrealistic. The reality of actions cannot always be predicted or hypothesized as they can in theory (Hirschman 1983, p. 24). We have seen that we are unsure about the consequences of tying up the plumpest man in Chapter III. The cheetahs could just eat him or they could attack the entire group. Further, what if the man whom the group tied up actually would have found the cure for AIDS had he had the choice to live? Clearly, the chain of events is extremely unpredictable and could even continue on indefinitely.

A solution to the problem of unexpected and indeterminate chains of consequences would involve an indicator that could simplify those chains. We need a method to simplify and evaluate consequences to assess realistically if and when utility has been maximized for an individual, a particular group, and society in general. For instance, under consumer theory, utility maximization would imply that a consumer prefers to possess additional units of available commodities rather than being content with his current consumption. More is assumed to be better. From this example, it is clear that any action that increases his consumption would satisfy his preferences and maximize his utility.

What we need in welfare economics is an explanation that is as simplistic as the one provided in the consumer theory. A man purchases more of commodity $x$. Commodity $x$ has satisfied his preferences. Thus, buying more of commodity $x$ is a good action. This type of logic
avoids the problem of an endless chain of events. It does not matter what consequences the purchase of commodity x has on a social welfare function. Rather, all that is important is that commodity x has or has not been acquired. The problem in welfare economics is that the chain of events looks something like the following: Action A leads to an increase in the value of the social welfare function. However, A leads to action B, whose greater negative effects on the social welfare function outweighs A’s positive effects. But in the end, B leads to action C, which has positive effects that outweigh the negative effects from action B. Clearly, the chain could continue.

The solution to this problem is what Bernard Hodgson (2001, p. 52) refers to as Equation Q (from this point forward Equation Q will be referred to as Q). Fundamentally, Q is defined as the following:

\[
Q = \frac{\text{fulfilled preferences}}{\text{unfulfilled preferences}}
\]

A higher Q implies a greater level of satisfaction, and whatever action the agent executed to procure this higher Q has increased his level of utility. Thus, Q is our consequences simplifier.

The benefits of using Q to determine the effects of our actions on utility are threefold. First, an agent can increase fulfilled desires or decrease unfulfilled desires. Theoretical maximization of utility ignores the idea of unsatisfied preferences. Only those preferences that are satisfied become indicators of a change in utility. However, decreasing the amount of preferences that are not satisfied can also increase utility, as Q demonstrates. Thus, an agent is no longer bound to the idea of strict preference satisfaction. Rather, the agent can also minimize preference dissatisfaction.
Each agent is evaluated based on his attempt to integrate into a single policy both the numerator and denominator of Q. Seeking to increase the number of fulfilled preferences and to decrease the number of unfulfilled preferences is the action that we should evaluate. The consequence is strictly a change in Q rather than another action. Welfare economists should not look beyond this change in Q to determine the effect on utility and the social welfare function. Perhaps, then, the social welfare function should be defined as a sum of individual Q’s rather than as a sum of individual utilities.

A second benefit is that Q is a more realistic formula for policy than is a utility function. Because of the unintended actions resulting from public policy, the paths of consequences can appear to be endless. With equation Q, however, we can examine just one point in time. For policy, that one point in time could be at the execution of the social change. If the policy increases the number of fulfilled desires of its recipients, then the policy was good. If it decreases each individual Q, then the policy was not effective. In addition, because policy makers have difficulty demonstrating to its constituents the value in accepting a current dissatisfaction for a larger future pay-off, equation Q enables the common person to adopt a more near sighted view. That is, although Q may decrease now, it will increase by a greater amount in the future. This logic may be easier to relay to the common voter when compared to a discussion of theoretical utilities.

The third benefit of Q is that it eliminates the need for evaluation of cumulative actions. The traditional view of consequentialism asserts that the securing of one set of preference satisfactions will prompt the promotion of other preference satisfactions. But this logic in turn implies that as fulfilled desires increase, so do unfulfilled desires. Increased preference satisfaction does not necessarily imply a minimization of unfulfilled desires. Thus, under the
analysis of $Q$, $Q$ would remain constant or fluctuate within a narrow range of values. Under the new idea of having agents possessing a near-sighted perspective of their actions, an individual’s $Q$ would increase or decrease greatly because we are looking at preference satisfaction or dissatisfaction at a given point in time. That is, action $A$ increased an individual’s level of fulfilled desires. $Q$ increases, and thus action $A$ is good. On the other hand, action $B$ led to an increase in the individual’s level of unfulfilled desires. $Q$ decreases, and action $B$ is not beneficial. Even though action $A$ may have led to action $B$, this chain of events becomes irrelevant. We assess actions as to whether they increase or decrease $Q$. We can see that the analysis begins to resemble the clear-cut evaluations of consumer theory, as described earlier in this section.

Overall, then, equation $Q$ avoids the possibility of having an agent contract his level of preference satisfactions because he fears the unintended consequences of his choices. In the case where the travelers who tied up the plumpest traveler to save everyone else’s lives, nine $Q$’s went up, and only one decreased. The analysis does not continue past this juncture because both we the observers and the travelers are unsure of what the future may entail. But no longer are we concerned with those chains of consequences. Instead, we simply we will be evaluated on the change of the value of $Q$, where a bigger $Q$ is better. Every consequence to follow a change in $Q$ will thus have its own change in $Q$.

**Solving Aggregation**

The problem with aggregation, as we saw in Chapter III, is that the formal aggregative characteristics are only helpful in setting up the social welfare function. But when the function is applied to reality, the model breaks down because of social aspects, like justice and equality, that
cannot be easily aggregated into a single indicator of welfare. In other words, the social welfare function is distinct in theory but vague in reality. Much like other characteristics of welfare economics, aggregation is not easy to formulate and test in precise relationships. Even more difficult is the role of providing quantitative estimates of the importance of explanatory factors.

The solution to aggregation must somehow incorporate social aspects into welfare economics. To do so, we must regard the economic model as part of a larger social model. By working within a wider social framework, welfare economists can find links between values in society and the social welfare function (Nankivell 1995, p. 178). Specifically, the social framework sets the context within which values can be addressed. If this framework is broader than but yet incorporates the social welfare function, then the model itself must also contain aspects of social concerns. This set-up is similar to a Venn Diagram where the smaller circle A, being the social welfare function, is within the larger circle B, the social framework. With this perspective, it would be illogical for us not to consider social concerns when we aggregate individual components of the welfare function.

The social framework provides values against which we can evaluate if the social welfare function accurately represents society’s goals. For instance, if we value equal rights, but the individual preference for equal rights is not incorporated into our social welfare function, then the model is inaccurate. We must go back through the premises of the social welfare function and determine precisely why the preference for equal rights was not aggregated. On the other hand, if equal rights are not a value that society upholds, then this preference can be left out of the social welfare function. Thus, the social framework provides the criteria that indicate which components need to be aggregated in the social welfare function. As a result, only the most
accurate and relevant components of an individual’s preferences and interests are to be combined into the economic model.

This framework also enables the social welfare function to be more adaptable to change. Because certain value sets are adopted at different periods or subsections of society, they have important consequences as individual and institutional behavior develops around them. A change in the social framework implies an alteration to the social welfare function. Thus, the advantage to placing the social welfare function in a wider framework is that as values change in the social framework, the social welfare function can change along with it. The social welfare function is no longer a rigid theory that attempts to fit values within it. Rather, the framework fits in the social welfare function. For instance, if a society begins to weave the notion equal rights into its framework, then welfare economists must be sure to aggregate the preferences of equal rights into the social welfare function. Otherwise, the economic framework would be an inaccurate description of reality.

This adaptability solves the technical problem addressed in the last chapter where we saw that the process of choosing alternatives matters as much as the alternatives themselves. The example provided was that the political process of majority rule should be valued as greatly as the result at which the process arrives. This issue has been reconciled here because as the social framework upholds a preference for majority rule voting, so should the social welfare function. If society values a sum of individual utilities, then the social welfare function should also be a sum and resemble the formulas discussed in Chapter II. The overall point is that as subsets and values change so do the parameters of the social welfare function.

The problem with incorporating the social welfare function into a wider social framework is that the function is at the mercy of inherent inconsistencies due to different, rivaling value sets.
For example, having different political parties and religions makes a coherent value set very challenging to describe. Some may claim that their ideology is fundamentally superior to someone else’s. In order to create the social framework, we would need to reconcile these conflicts so that all different viewpoints can coexist. However, knowledge of everyone’s values may be limited, understanding of all desired social objectives may be blurred, and comprehension of everyone’s ideologies may be convoluted. Thus, it may be difficult to determine a social framework in which the economic model should be defined. The social framework may end up being more trouble than it is worth.

Furthermore, ordinal utility cannot provide an acceptable basis for the aggregation of individual preferences. Using the social framework solution, however, we can create adaptable, subjective social welfare functions. Thus, the ordinal utility functions fit into their larger social welfare functions which themselves fit into the larger picture of society. With or without a social framework, aggregation is necessary in welfare economics because welfare economics is in fact a social choice theory. We are not strictly assessing individual behavior but rather determining what decisions are best for a social group.

**Solving Maximization**

The problem to which maximization leads us is as follows: that acting from a person-neutral perspective causes the estrangement from one’s own personal projects and identity. If an agent is supposed to value everyone else’s project impersonally, then he would also logically adopt the same approach with his own interests (Brink 1989, p. 276). This question logically proceeds from the idea that a person-neutral perspective will maximize the value of the public good. Unfortunately, maximization often forces an individual to believe that he should strive to
become an efficient servant of utility. In order to find a solution, we must ask if this instrumental view of one’s projects is the only possibility from the person-neutral perspective. Is there a less personally damaging way of maximizing utility? As we have seen in Chapter III, indirect maximization was at worst psychologically damaging and at best psychological impossible.

The solution to the problem of estrangement and indirect maximization is to view maximization of individual utility as an end beyond the specific end of the individual. In other words, whatever people do is to be evaluated according to the general impact on social welfare. It is not merely that an agent’s own interests are outweighed by the combined interests of others. Rather, it is as if the combined utilities of others were beyond everyone’s ends to a compound end, where individual utility is a constituent part of the goal (Scarre 1996, p. 200). An agent must still be ready to sacrifice his own interests for the sake of this general social welfare function. However, the agent is also fully entitled to regard his own good as a proper part of the public good. I call this principle direct maximization, and under it, an agent can serve his own interests because it is a legitimate method of promoting and maximizing social utility. Thus, we can eliminate aspects of alienation from one’s personal goals because the agent now understands that the satisfaction of his own interests, much like with everyone else’s, is part of a greater end and not as a means to something else. With direct maximization, the agent can possess a degree of self-centeredness because in effect it promotes public good.

If individual utilities are part of a compound end, then the contrast between personal and person-neutral points of view needs to be reevaluated. It is true that welfare economics stresses the person-neutral perspective. However, with the idea of a compound end, both points of view coincide more often. Before, the agent espoused the personal viewpoint with his own projects and the person-neutral with the interests of others, and this disparity led to personal alienation.
With direct maximization, however, the agent can espouse the person-neutral perspective when he considers his own interests alongside those of other people because he looks at his own utility as a constituent part of the public utility. In a sense, then, the agent’s private interests are part of what he neutrally upholds. Thus, the agent can adopt a person-neutral perspective for those individuals around him yet keep a personal interest in his own goals without becoming detached from them.

Even though we evaluate our projects from a neutral point of view, they are not just instrumental pieces of a greater social welfare function. Rather, we can take personal interests in our own projects because the fulfillment of personal goals is part of increasing social welfare. So what we must now consider from the person-neutral perspective is the relation of our personal projects to those of other people. We must always keep the idea of maximization in mind because it enables us to pursue our own projects. However, if achieving our own goals is too costly to others, we may be morally required to give them up.

With direct maximization, the effort to deceive ourselves into thinking that what we should pursue has nothing to do with our utility is no longer necessary. Previously, when we pursued ethereal goals like self-worth and intelligence, indirect maximization made us believe that pursuit of knowledge in itself is a good end only if it contributed to the maximization of public welfare. If self-improvement increasing the agent’s utility but did not maximize the social welfare function, the activity was not seen as good. Self-improvement was only good for the individual to pursue if it maximized the social welfare function via his individual utility. With direct maximization, however, self-improvement is a valuable end because anything that maximizes an individual’s utility maximizes the social utility.
As a result, nothing is alienating about promoting one’s ends knowing them to be part of an overall composite utility. Thus, agents can retain full consciousness without being estranged from their own self-interest. They can seek to develop fine characters without having to pretend that they are guided by non-consequential ideals, such as self-improvement for the sake of personal enrichment. Becoming a better person maximizes utility, enhances the general good, and consequently promotes further utility maximizing acts.

The problem of determining where to draw the line between legitimate and illegitimate acts of self-interest still exists. At what point does the agent’s promotion of his own private interests cease to maximize the social welfare function and become purely self-indulgent motives? For instance, how much wealth an agent decides to keep and give to the poor is extremely difficult to answer because we do not always have a non-arbitrary set of criteria for evaluating these dilemmas. Keeping wealth for himself would certainly promote his own interest and thus increase the level of public good. But would providing income to less advantaged individuals increase public good more than keeping it? This problem is best solved by interpersonal comparisons of utility as described in an earlier section.

Overall, the theory of maximization is complex. It needs to do more than merely tell us when to forgo our advantage in order to increase the level of public good. Because we need sufficient private space, maximization must ensure that each agent can lead personally fulfilling lives that are free from alienation. Maximization must then also be psychologically realistic. Self-deception, as a result of indirect maximization, is not healthy. Thus, we see that maximization is not an easy principle to digest in reality. However, we should not make the mistake of thinking that a care for one’s self interest cannot figure among a society’s most deeply
felt concerns. Likewise, it should not be difficult to include among one’s personal projects a commitment to aiding those who are worse off.

Maximization does not demand the impossible. The advice that you should take away from this section is to increase your well-being because in doing so, you are making the world a better place in which to live for all of us. In increasing your well-being, remember not to have strict self-centered concerns, but make sure not to exclude them when thinking about social welfare. We must all look to promote general utility of which our own personal utility is a component. These are not unreasonable demands. Instead, they simply ask us to satisfy our own interests while taking humanity into account.

* * *

As we have seen throughout this chapter as well as the entire text, prescriptive valuations based on welfare economic theory lead to complex results that affect the interests of different people and groups in very different ways. Normative statements involve ethical and moral systems burdened by the conflicts between aims in theory and values in reality. Thus, theoretical calculations and abstract functions spark enormous political debate in social and political arenas. This conflict arises from the fact that welfare economics is a social science yet relays its theory to us in a purely scientific manner. Unlike the natural sciences, the subjects of study here involve human beings and their propensity for well lived lives and adversity to grief. In biology, we can absolutely declare that second-hand smoking is bad for one’s health, and so there should be bans on smoking in public places. This conclusion sprouts from biological theory and thus translates easily to policy making. Welfare economics, though, cannot make such absolute statements. Instead, the implications of fairness and efficiency arise when transcribing our theories into reality.
Welfare economics in general has attempted to overcome this problem of inapplicable theories. This last chapter in particular has attempted to find solutions to ways to overcome the problem of having the sterility of theory embedded in theoretically grounded normative policies. But the consequences of such a unique field of study have been complex. The solutions in this chapter have been continued attempts within welfare economics to solve these complexities by putting additional human aspects into our theoretical analyses. These solutions have urged welfare economists to adopt a greater sense of term ‘social’ in social science. In doing so, perhaps we are finally overcoming the daunting task that Bentham faced when he attempted to determine the role of ‘what is’ and ‘what ought’ statements as they applied to human welfare.
BIBLIOGRAPHY


