Welfare Propositions of Economics and Inter-personal Comparisons of Utility

In the December 1938 issue of the Economic Journal Professor Robbins returns to the question of the status of inter-personal comparisons of utility.[1] It is not the purpose of this note to question Professor Robbins' view regarding the scientific status of such comparisons; with this the present writer is in entire agreement. Its purpose is rather to examine the relevance of this whole question to what is commonly called "welfare economics." In previous discussions of this problem it has been rather too readily assumed, on both sides, that the scientific justification of such comparisons determines whether "economics as a science can say anything by way of prescription." The disputants have been concerned only with the status of the comparisons; they were—apparently—agreed that the status of prescriptions necessarily depends on the status of the comparisons.

This is clearly Mr. Harrod's view. He says: [2] "Consider the Repeal of the Corn Laws. This tended to reduce the value of a specific factor of production—land. It can no doubt be shown that the gain to the community as a whole exceeded the loss to the landlords—*but only if individuals are treated in some sense as equal.* Otherwise how can the loss to some—and that there was a loss can hardly be denied—be compared with the general gain? If the incomparability of utility to different individuals is strictly pressed, not only are the prescriptions of the welfare school ruled out, but all prescriptions whatever. The economist as an adviser is completely stultified, and unless his speculations be regarded as of paramount aesthetic value, he had better be suppressed completely." This view is endorsed by Professor Robbins: [3] "All that I proposed to do was to make clear that the statement that social wealth was increased [by free trade] itself involved an arbitrary element—that the proposition should run, *if* equal capacity for satisfaction on the part of the economic subjects be assumed, *then* social wealth can be said to be increased. Objective analysis of the effects of the repeal of duties only showed that consumers gained and landlords lost. That such an arbitrary element was

[1] "Interpersonal Comparisons of Utility: A Comment," Economic Journal, December 1938, pp. 635–691.

[2] "Scope and Method of Economics," *ibid.*, September 1938, pp. 396–397. (Italics mine.)

[3] *Loc. cit.*, p. 638.

involved was plain. It seemed no less plain, therefore, that, here as elsewhere, it should be explicitly recognised."

It can be demonstrated, however, that in the classical argument for free trade no such arbitrary element is involved at all. The effects of the repeal of the Corn Laws could be summarised as follows: (i) it results in a reduction in the price of corn, so that the *same* money income will now represent a higher real income; (ii) it leads to a shift in the distribution of income, so that some people's (*i.e.*, the landlord's) incomes (at any rate in money terms) will be lower than before, and other people's incomes (presumably those of other producers) will be higher. Since aggregate money income can be assumed to be unchanged, if the landlords' income is reduced, the income of other people must be correspondingly increased. It is only as a result of this consequential change in the distribution of income that there can be any loss of satisfactions to certain individuals, and hence any need to compare the gains of some with the losses of others. But it is always possible for the Government to ensure that the previous income-distribution should be maintained intact: by compensating the "landlords" for any loss of income and by providing the funds for such compensation by an extra tax on those whose incomes have been augmented. In this way, everybody is left as well off as before in his capacity as an income recipient; while everybody is better off than before in his capacity as a consumer. For there still remains the benefit of lower corn prices as a result of the repeal of the duty.

In all cases, therefore, where a certain policy leads to an increase in physical productivity, and thus of aggregate real income, the economist's case for the policy is quite unaffected by the question of the comparability of individual satisfactions; since in all such cases it is *possible* to make everybody better off than before, or at any rate to make some people better off without making anybody worse off. There is no need for the economist to prove—as indeed he never could prove—that as a result of the adoption of a certain measure nobody in the community is going to suffer. In order to establish his case, it is quite sufficient for him to show that even if all those who suffer as a result are fully compensated for their loss, the rest of the community will still be better off than before. Whether the landlords, in the free-trade case, should in fact be given compensation or not, is a political question on which the economist, *qua* economist, could hardly pronounce an opinion. The important fact is that, in the argument in favour of free trade, the fate of the landlords is wholly irrelevant: since the benefits of free trade are by no means destroyed even if the landlords are fully reimbursed for their losses.[1]

This argument lends justification to the procedure, adopted by Professor Pigou in *The Economics of Welfare*, of dividing "welfare economics" into two parts: the first relating to production, and the second to distribution. The first, and far the more important part, should include all those propositions for increasing social welfare which relate to the increase in aggregate production; all questions concerning the stimulation of employment, the equalisation of social net products, and the equalisation of prices with marginal costs, would fall under this heading. Here the economist is on sure ground; the scientific status of his prescriptions is unquestionable, provided that the basic postulate of economics, that each individual prefers more to less, a greater satisfaction to a lesser one, is granted. In the second part, concerning distribution, the economist should not be concerned with "prescriptions" at all, but with the relative advantages of different ways of carrying out certain political ends. For it is quite impossible to decide on economic grounds what particular pattern of income-distribution maximises social welfare. If the postulate of equal capacity for satisfaction is employed as a criterion, the conclusion inescapably follows that welfare is necessarily greatest when there is complete equality; yet one certainly cannot exclude the possibility of everybody being happier when there is some degree of inequality than under a régime of necessary and complete equality. (Here I am not thinking so much of differences in the capacity for satisfactions between different individuals, but of the satisfactions that are derived from the prospect of improving one's income by one's own efforts—a prospect which is necessarily excluded when a régime of complete equality prevails.) And short of complete equality, how can the

[1] This principle, as the reader will observe, simply amounts to saying that there is no interpersonal comparison of satisfactions involved in judging any policy designed to increase the sum total of wealth just because any such policy *could* be carried out in a way as to secure unanimous consent. An increase in the money value of the national income (given prices) is not, however, necessarily a sufficient indication of this condition being fulfilled: for individuals might, as a result of a certain political action, sustain losses of a non-pecuniary kind—*e.g.*, if workers derive satisfaction from their particular kind of work, and are obliged to change their employment, something more than their previous level of money income will be necessary to secure their previous level of enjoyment; and the same applies in cases where individuals feel that the carrying out of the policy involves an interference with their individual freedom. Only if the increase in total income is sufficient to compensate for such losses, and still leaves something over to the rest of the community, can it be said to be "justified" without resort to interpersonal comparisons.

economist decide precisely how much inequality is desirable—*i.e.*, how much secures the maximum total satisfaction? All that economics can, and should, do in this field, is to show, given the pattern of income-distribution desired, which is the most convenient way of bringing it about.

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IN his paper on the "Scope and Method of Economics," Mr. Harrod contends that "some sort of postulate of equality has to be assumed"[1] by the economist acting as an adviser about policies which involve a redistribution of income. "If the incomparability of utility to different individuals is strictly pressed, not only are the prescriptions of the welfare school ruled out, but all prescriptions whatever."[2] Professor Lionel Robbins, however, "still cannot believe that it is helpful to speak as if interpersonal comparisons of utility rest upon scientific foundations—that is, upon observation or introspection."[3] He thinks that "the assumption of equality comes from outside, and that its justification is more ethical than scientific."[4] But he agrees "that it is fitting that such assumptions should be made and their implications explored with the aid of the economist's technique."[5]

The following notes are intended to show that economists can, without "assuming some sort of postulate of equality," give prescriptions about policies which involve a redistribution of income. Robbins' insistence on tracing economic effects back to the individual has apparently caused him to overlook the fact that in solving most economic problems we do not have to compare the utility of the marginal increments to two isolated individuals. We have to deal with the effect of changes in the composition of the national income on groups in a community. For example, we might have to consider the effects of a redistribution of income caused by a tariff or increases in wages or changes in rates of interest, or we might have to choose between various scales of taxation. In these cases we are concerned with the effects on various groups of people, some of whom are richer and some poorer.

In a homogeneous population we know that measurable characteristics are distributed in much the same way in any two

[1], [2] ECONOMIC JOURNAL, September 1938, p. 397.
[3] *Ibid.*, December 1938, p. 640. [4], [5] *Ibid.*, December 1938, p. 641.