

OPMERKINGEN EN AANTEKENINGEN – COMMUNICATIONS

PIETER HENNIPMAN ON PARETIAN WELFARE ECONOMICS: A COMMENT

It is hard to disagree with someone who calls you 'a great methodologist' but disagree I must. Pieter Hennipman (1992) claims that Paretian welfare economics is part of positive economics whereas I claim that it is inherently normative. I claim that the Paretian criterion is normative because it is based on several value judgments and because 'positive welfare economics' is an oxymoron.

Is this a purely semantic dispute? Yes, to some extent it is a mere quarrel about the words 'positive' and 'normative' but, like so many arguments about words, what is at issue is something deeper than the use of language. But let us deal first with semantics.

Professor Hennipman pays me the supreme compliment of examining my writings in painstaking detail and at considerable length but nowhere does he pause to accept or reject my definition of 'positive' and 'normative economics' or the critical distinction between 'value judgments' and 'methodological judgments' (Blaug 1992, pp. 112–116). I contend that 'positive economics' involves propositions that are either true or false, so that disagreements about positive economics can, at least in principle, be resolved by empirical research. 'Normative' economics, however, involves ethical propositions about what is good or bad which can never be in the nature of the case decisively resolved by factual evidence. This distinction cannot be made watertight but it is nevertheless a fundamental distinction between two quantitatively different realms of discourse.

Value judgments are first of all judgments, that is, statements that cannot be mechanically reduced to their individual components, and secondly, ethical assessments that something is either good or bad. It is perfectly possible to engage in rational debate about the merits or demerits of value judgments – what Max Weber called *Wertungs Diskussionen* – but to imagine that value judgements can be shown to be true or false is to commit a category-mistake.

Now, as everyone agrees, Pareto-optimally or Paretian welfare economics is grounded on three postulates: (1) consumer sovereignty – every individual is the best judge of his or her best interests; (2) individualism or non-paternalism – social welfare is the sum of and only the sum of individual welfare; and (3) unanimity – an optimal allocation of resources is one which meets with unanimous approval because every other allocation will meet with at least one person's disapproval. The first of these three postulates is clearly a value judgement in the sense that no observations about consumer behaviour could ever force us to abandon the belief that consumers themselves know best what is good for them. Since value judgments belong to normative economics,

Paretian welfare economics is necessarily normative. In one sense, this completes my case and no more need to be said to vindicate my position.

How can Professor Hennipman possibly deny that the premise of consumer sovereignty is a value judgment? Apparently, because the Pareto criterion takes the preferences of individuals as exercised in the market place as given and in no sense passes an external judgment on them; therefore premise 1 is not to be construed as a value judgment. Value judgments, we are told, are the sort of propositions we take for granted and do not criticise. This is indeed a strange use of language. If I accept your belief that 'eating people is wrong' and act upon it without question then apparently the universal taboo of cannibalism is not a value judgment but instead a positive proposition in the science of anthropology! My conviction that the notion of consumer sovereignty is indeed a value judgment is confirmed by the fact that we qualify it for children and lunatics and do not extend it to the consumption of drugs or driving on a personally preferred side of the road. In other words, we do not always take consumer sovereignty as given. This is hard to explain if it is not, in fact, a value judgment. It is a value judgment which I personally endorse but that of course is an irrelevant observation. Whether a judgment is a value judgment is a question of logic and not of personal conviction.

That brings us to premise (2) – individualism or non-paternalism, the utilitarian element in Paretian welfare economics. Professor Hennipman argues that no value judgments are involved in defining social welfare solely in terms of the welfare of individuals; the denial of any community interest over and above the interests of the individuals comprising that community – future unborn generations, the national heritage, *etcetera* – is apparently just a matter of definition. The notion that the organic theory of the state, and its denial in Paretian welfare economics and of course in the liberal tradition of government, involves no value judgments is so extraordinary to me that I shall resist the temptation to rail against it.

That leaves us with the most distinctive feature of Pareto's approach to economics: the unanimity premise, better known as the ban on interpersonal comparisons of utility. Interpersonal comparisons of utility are widely regarded as value judgments but they are nothing of the sort; they are statements of facts but they are untestable statements of facts (Blaug 1992, p. 119). A ban on invoking interpersonal comparisons of utility is therefore a sound 'methodological judgment,' promoting clarity of thought and argument in welfare economics. But methodological judgments are just as normative as value judgments, that is, facts and more facts can never persuade us to abandon them. It follows that even from the standpoint of the third premise, Paretian welfare economics belongs to normative economics.

There is no such thing as *positive* welfare economics. Professor Hennipman is wrong in logic as well as in language. But so what? Why should it matter what we call positive or normative economics? I think that it does matter. To call Paretian welfare economics positive economics suggests that ethics, morality and philosophy have nothing whatever to do with an economist's pronouncements in favour of, say, competition and free trade. Economics is a science and stands alone without assistance from these other disciplines. Such arrogance has long kept economics divorced from sociology and politics, not to mention law and public administration. Economics is in good part a policy science and a policy science which professes to reach significant conclusions about policy issues without ever invoking a single value judgment practicing deception. No wonder that

non-economists so frequently scoff at economics for lacking a 'moral dimension' (see Etzioni 1988).

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#### REFERENCES

- Blaug, M., 1992, *The Methodology of Economics*, 2nd ed., Cambridge.  
Etzioni, A., 1988, *The Moral Dimension: Towards A New Economics*, New York.  
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