THE REASONING OF A GREAT METHODOLOGIST: MARK BLAUG ON THE NATURE OF PARETIAN WELFARE ECONOMICS**

BY

P. HENNIPMAN*

'... a majority of economists seem to regard welfare economics as normative. This seems to be a little curious, as a majority also regard economics as a science. If economics is a science (which is positive), then welfare economics, as a part of economics, should also be a positive study. But is welfare economics perhaps not a part of economics? There is an apparent inconsistency.'

Y.-K. Ng (1979, p. 6; 1983, p. 6).

1 POSITIVE OR NORMATIVE

The discussion of the logical status of Paretian welfare economics in Mark Blaug's standard work on the methodology of economics is largely concerned with what he calls the 'Archibald-Hennipman argument' (1980, p. 146). These authors owe this distinction to their critique of the prevailing tendency to regard welfare economics as a normative doctrine incorporating specific value judgments. They have argued that it is a neutral or positive economic theory in which these judgments have no place (Archibald, 1959; Hennipman, 1976). Blaug's appraisal results in a rejection of this contention; he places Paretian welfare economics 'firmly within the camp of normative economics' (p. 148). Some pages on, his judgment of the opposite view appears to be wholly uncompromising, condemning the idea 'of *positive* Paretian welfare economics,' which is entirely free of value judgments as 'a brand of self-deception' (p. 152).

Despite the negative outcome his ample attention to the 'heretical view' (p. 143) compares favourably with the not uncommon practice to declare it out of hand 'impossible' or to denigrate it as useless (*e.g.* Black, 1986, p. 5). Curiously, Blaug lapses into such a dismissive manner as well. In striking contrast to the treatment in *Methodology* where the neutral theory is, at least to a certain extent, taken seriously, in his magnificent historical treatise *Economic*

* Emeritus Professor of Economics, University of Amsterdam.

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Theory in Retrospect[1] it receives, in some apodictical paragraphs, short shrift as if it were a cranky invention (1985, pp. 591/2, 608). It is proclaimed curtly that 'there is no such thing as "value-free welfare economics" and, indeed, the phrase itself is a contradiction in terms' (1985a, p. 592; also p. 708). This has at any rate the virtue of being a falsifiable proposition.

Blaug's authority as an outstanding methodologist and his sure tone may readily give rise to the supposition that he has finally refuted the neutral conception and thus the quarrel could be laid to rest. Such a conclusion would be far from the truth. To view the state of the discussion in the right perspective one should be aware that the two authors on whom he focuses[2] are not such lonely dissenters as his picture may make it appear. To begin with, those who are so bold as to maintain that the allegedly non-existent entity can and in fact does exist, have unimpeachable historical credentials. As Walker has demonstrated, Walras's theorem of maximum satisfaction is part of his positive theory (1984, pp. 458 *ff.*; likewise De Gijsel, 1989, pp. 135 *ff.*). They are also, as Blaug himself notes (1980a, pp. 142, 145), true to the theory's spiritual father (see also Cirillo, 1979, p. 24; Tarascio, 1968, pp. 77 *ff.*; 1974, p. 373).

In the more recent literature this tradition has always had its followers. When in 1962 the present author criticised the ethical conception of welfare economics in a Dutch study, he could refer not only to Archibald but also to a number of other like-minded economists. Since then the same view has been briefly voiced by, among others, Buchanan (1968, pp. 6/7), Ferguson (1972, pp. 2/3) and Hicks, who remarked that there is 'nothing especially normative' about welfare economics (1981, p. 228). The positive interpretation has been more extensively espoused by Ng (1972; also succinctly 1983, pp. 6 *ff.*). It has found wide support in The Netherlands (Hartog, 1973, pp. 2 *ff.*; 25; Van den Doel, 1979, pp. 9, 36/7; Van den Doel and Van Velthoven, 1990, p. 43; Heertje, 1989, p. 2; Wolfson, 1990, p. 111). There are also some who, without embracing it, have acknowledged it as one of the possible approaches (Head, 1974, pp. 56, 260, referring to Archibald; Feldman, 1980, p. 2).

1 In the first edition, where the question is not explicitly discussed, it is said correctly that Paretian welfare economics 'achieves a stringent and completely positivist definition of the social optimum' (1962, p. 552; not in Blaug, 1968). On the other hand the 'true function of welfare economics' is seen as an ethical one (1962, p. 541/2; 1968, p. 596), but this seems to relate to income distribution which lies outside the Paretian theory. The issue is raised for the first time in the third edition with a clear preference for the normative position (1978, pp. 626, 709), expressed somewhat more strongly in the fourth (1985a) which will henceforth be referred to.

2 Blaug also mentions them elsewhere (1985b, p. 30, n. 12; 1990, p. 184, n. 12) as representatives of a minority. They are indeed at one in their principal thesis but there are some dissimilarities, ignored in this paper in which I only speak for myself. Archibald's article has also been commented upon by Dick (1973, pp. 23, 28); Weber and Hoksbergen (1984, p. 191, n. 7) and Mingat *et al.* (1985, pp. 522 *ff.*).

This array of names, incomplete as it may be, is by itself enough to cast doubt on the assertion that 'there is no such thing as....' But a more important reason why Blaug's verdict cannot be accepted as conclusive is that, even in his endeavour to assess the neutral formulation 'with some care' (1980a, p. 143), in effect he had not done full justice to it. He has neglected essential points and his evaluation is not free from misunderstandings. So a further clarification is called for.

Such an attempt is not superfluous after the fruitful exchange of views on the problem I conducted some years ago with Mishan, a prominent adherent of ethical welfare economics (Mishan, 1981, 1984a, 1984b; Hennipman, 1982, 1984a, 1984b). Mainly owing to his open-mindedness it brought about a large measure of agreement. Even apart from his provocative manner, Blaug's counter-attack has sufficient traits of its own to invite a separate thorough examination.[3] This necessitates some repetition of the argument in the paper he criticizes.

2 SOME FEATURES OF BLAUG'S ARGUMENT

The dispute about the character of Paretian welfare economics centres on the concept of Pareto optimality and related concepts like the Pareto criterion, Pareto or allocative efficiency and Pareto improvements. In the normative interpretation they carry an ethical meaning signifying approval of the indicated state or change. By making this judgment its own, welfare economics assumes a normative function; it favours Pareto optimality as the proper goal of allocation policy and advocates measures to bring about Pareto improvements. The rules it establishes to attain this end are proposed as definite prescriptions; since they reflect agreement with the aim they are 'ought statements' (Blaug, 1980a, p. 130).

The ethical quality attributed to Pareto optimality is generally seen as a composite of more specific value judgments, corresponding with fundamental characteristics of the ideal. These judgments, often unhistorically dubbed 'Paretian,' are the vital ingredients of the normative conception. As Blaug puts it, they 'inevitably enter into welfare economics' (1985a, p. 591); he stresses that they permeate it in its entirety: 'Welfare economics, whether pure or applied, obviously involves value judgments' (1985a, p. 708).[4]

3 As indicated the subject under discussion is Paretian welfare economics and not the Bergsonian branch, whose ethical purpose is not in dispute. In a somewhat cryptic statement Blaug seems to hold the questionable view that the introduction of the Bergsonian social welfare function rendered welfare economics as such, and not just a particular approach, 'avowedly and unashamedly normative' (1980a, p. 143). Yet for the rest he rightly deals with the Paretian theory as independent from this notion, of whose practical significance he expresses elsewhere a poor opinion (1985a, p. 591).

4 It is therefore a bit odd that he also says 'value judgments cannot be avoided in practical welfare economics' (1985a, p. 598).

Blaug lists 'three assumptions which are undeniably judgments of values: (1) that every individual is the best judge of his own welfare; (2) that the social welfare is defined only in terms of the welfare of individuals; and (3) that the welfare of individuals may not be compared' (1985a, pp. 591/2). These postulates, as he also calls them, are somewhat differently formulated elsewhere (1980a, p. 144) and summarised as 'consumer sovereignty, individualism in social choice, and unanimity' (1980a, p. 148). The first two are, with minor variations, standard items in the ethical interpretation. The third one, which he christens 'the First Commandment' of Paretian welfare economics, laying down 'Thou Shalt Not Make Interpersonal Comparisons of Utility' (1985a, p. 606; 1950b, p. 24; 1990, p. 179), is a more personal touch.

Apart from other possible objections to the inevitability claim it may at first sight cause wonder that the assumptions are presented as value judgments. On the face of it they read more like neutral statements, respectively a hypothetical or factual judgment (*cf.* Mishan, 1981b, p. 10), a definition, and an inference from the fundamental Paretian thesis that welfare comparisons across individuals are impossible. Yet Blaug's description of the first and second assumption makes sense if it is understood as tacitly presupposing that Pareto optimality is an ethical concept and a favoured policy objective. Even then, however, the third assumption is not 'undeniably' a value judgment.

Pareto's argument that the ophelimity of one individual and that of another are heterogeneous quantities and therefore cannot be added or compared (1927, p. 765) is evidently advanced as a scientific truth. It is difficult to see how, with the ethical transfiguration of his welfare economics, it could be recast as a value judgment. Accordingly, normativists as a rule accept the validity of Pareto's dictum. To explain Blaug's divergent interpretation one might connect it with the fact that with regard to the most distinctive Paretian tenet he is not a strict adherent. As he sees it, interpersonal comparisons are not impossible, nor are they, as Robbins and many in his wake would have it, value judgments, but 'merely untestable statements' (1980a, p. 137). This is a respectable opinion[5] but such an idiosyncratic version is of little help to his apparent concern, the defense of the normative Paretian theory as normally practised. Besides, his deviation from the straight Paretian line does not prove that the 'First Commandment' could be turned into an ethical judgment; it would rather amount to the methodological judgment that welfare economics may not make use of untestable assertions.

The exclusion of interpersonal comparisons, far from being (in the context of the ethical paradigm) a normative principle, restricts the scope of permissible normative propositions on a non-normative ground. Aptly phrased, 'a *move* to a *state* of Pareto optimality may not itself be a Paretian improvement' (Baumol and Oates, 1975, p. 193). As often formulated, the Pareto criterion (in

5 It resembles that of Ng, who calls the comparisons 'just subjective judgments of facts' (1982, p. 15). Yet in some other places Blaug calls the comparisons value judgments (1985a, pp. 591, 708).

its normative as well as in its positive shape) provides only a partial ranking or ordering of economic situations. Consequently, as a normative rule it allows only recommendations to bring about real or actual Pareto improvements and disallows prescriptions to realise potential improvements which would make some people worse off. The notion that hypothetical compensation of losses makes such policies desirable 'is fundamentally opposed to the Paretian position' (Hamlin, 1986, p. 71).[6] As will be seen in section X, this limitation perturbs Blaug a good deal. It does not however, as is sometimes believed, disqualify the effectuation of potential improvements as undesirable, nor does it advise against them; doing so would involve interpersonal comparisons (and quite arbitrary ones at that) and thus be self-contradictory.[7]

Owing to its self-imposed prohibition the Paretian theory must keep silence on policies causing gains and losses for different individuals. As a matter of logic this abstention does not entail a value judgment. Equally, if the third postulate is couched as 'only unanimous reallocations count as improvements of social welfare' (Blaug, 1980a, p. 144), it does not imply a negative judgment of changes which do not satisfy this condition; it merely states that the Paretian theory refrains from judging them. Hence, contrary to Blaug's and in accordance with the more usual approach, only the first two postulates are relevant to the normative programme.

It is a noteworthy aspect of Blaug's insistence on the ethical content of welfare economics that he strongly upholds the possibility of value-free or objective social science and emphasises, in the spirit of Max Weber, the importance of the distinction between positive and normative statements (1980a, pp. 130, 134 *ff.* 140, 156, 260; 1985a, p. 706/7),[8] though granting 'that there is no absolutely watertight distinction between positive and normative economics' (1980a, p. 140).[9] Hence allocation theory (Sohmen, 1976 passim; Hicks, 1981, p. 228) or allocation economics (Mishan, 1981, p. 259), as Paretian welfare economics has been named more appropriately,[10] is for Blaug an exception to this principle. In this respect his position is similar to that of Robbins, the great champion of *Wertfreiheit*, who considered the Pareto criterion as 'clearly a judgment of value' (1981, p. 5), with the unfortunate result cited in note 6.

6 Robbins, who makes the same point, draws the wrong conclusion that to fulfil the Pareto criterion 'the compensation should actually be paid' (1981, p. 6).

7 So the complaint that the Pareto criterion (in its normative sense) is a conservative rule, preserving the status quo, is a misunderstanding; Melck (1987, p. 260) offers a flagrant specimen.

8 It is left to his readers to reconcile this view with the statement that 'value judgments are involved at the very foundations of the science' (1985a, 706) which, by the way, closes a passage as a *non sequitur*.

9 Blaug's treatment of this issue has been briefly but sharply criticised by Hands (1984, p. 121).

10 Though seemingly more neutral, these terms do not prejudge the character of the subject; Sohmen and Mishan employ them in the context of the normative view.

This illustrates that the question whether allocation theory is really so different must be strictly distinguished from the more comprehensive and hotly disputed one whether value-free or objective economics is conceivable at all. Even if it is true that '(t)he normative and the positive are inextricably intertwined in each area of analysis' (Wilber and Hoksbergen, 1984, p. 191) and '(e)conomic theories cannot be objective' (Klant, 1988, p. 113), the commitment of welfare economics to the so-called Paretian value judgments would still be a special case. With regard to this problem the expressions positive, value-free or neutral welfare economics, as used by Blaug and in this paper, merely mean that it is not attached to these specific values, without excluding the possibility of other impairments to its objectivity, however defined.

3 BLAUG'S THREE VOICES ON INEVITABLE VALUE JUDGMENTS

With Blaug's rhetoric about the inevitability of value judgments in mind one is not a little astonished to read: 'On purely logical grounds the Archibald-Hennipman argument is impeccable' (1980a, p. 146). It is true that Blaug could scarcely conclude otherwise after his account of it, which, although not flawless, shows unmistakably that the two relevant postulates and the Pareto criterion 'may be interpreted in a positive sense' (1980a, p. 145). In this form they are much simpler than Blaug's corresponding assumptions, saying respectively that individual preferences are taken as given, with no judgment passed upon them, and that the economic welfare of a group of individuals consists of the welfare of all its members. Blaug misrepresents the latter as 'denying the existence of independent community interests (such as the interest of the 'State')' (p. 145) and as 'treating social choice as being made up entirely of individual choices' (p. 146). The neutral allocation theory does nothing of the kind; these questions lie outside the scope of its inquiry. It looks as if Blaug is unable to free himself from his own normative assumption, related to a recommended policy objective. One has reason to be afraid that this misapprehension is symptomatic of a more general lack of understanding.

Conceding a bit grudgingly that these notions are not value judgments, Blaug regards them as methodological judgments. This the second one is certainly not; it is no more than an arithmetic truism, for which even the term postulate is too ponderous. The first is not specific to welfare economics but a general convention in economic theory. It would be more to the point to consider the choice between either neutralism or normativism as the relevant methodological judgment.

Welcome as the impeccability certificate may be, it would have been more satisfactory still if Blaug had recognised that the neutral theory is no less impeccably grounded on economic theory and methodology. But above all his acknowledgment is only moderately gratifying because in other places he retains the views conflicting with this correct insight. There the logically impeccable argument is condemned as a contradiction in terms and thus logically

faulty, and the value judgments here shown to be redundant are nonetheless repeatedly pronounced inevitable. The first contradiction is blandly ignored; with regard to the second Blaug, in his further comments, increases the confusion.

After admitting the logical validity of the neutral formulation Blaug at once goes on to belittle its importance. He depicts the elimination of value judgments as highly artificial and their acceptance as virtually irresistible. This downgrading turns out to be a self-defeating exercise. In a somewhat rambling paragraph Blaug resorts twice to a *petitio principii*, advancing as incontrovertible truths the very propositions which are contested. The positive argument is called 'strained' because the concept of Pareto optimality 'is so patently shot through with value judgments.' He also states that 'to speak of *positive* welfare economics is literally to revel in paradoxical language,' for welfare economics is, 'after all,' the branch of economics concerned with ethical criteria. It does not occur to him that to others the normative language may sound strained and paradoxical and the neutral one perfectly natural. One may of course also argue that since allocation is 'after all' a central, if not the quintessential subject of economics, it seems anomalous that, of all its topics, this must be the one that depends on ethical postulates.

Further, Blaug observes that 'it requires simply superhuman detachment' not to consider Pareto improvements desirable, a pleasant but undeserved compliment to his opponents, who can reassure him that it is quite easy to resist the temptation.[11] Finally, he brands the distinction between the value-free and value-laden interpretations of Pareto optimality as an abuse of linguistic conventions and as 'splitting hairs,' which sits awkwardly with his endorsement of the Weberian dichotomy and overlooks how normal it is that the same matter can be looked at from both points of view.

Nevertheless, after this indictment the neutral theory gets another chance which will be the subject of section VI. Unlike this sequel Blaug's objections do not constitute a genuine theoretical and methodological argument. Having granted the impeccable logic but unwilling to accept its implications, he could not in the same breath defend the logical inevitability of value judgments as he does elsewhere. By way out, they are now presented as linguistically and psychologically inevitable, a rather subjective judgment which seems to reflect a preference for the status quo as Blaug perceives it. It is a moot point whether the two quite distinct grounds for inescapable value judgments can be seen as complementary. At all events Blaug offers three options: value judgments are

11 More precisely, Blaug refers to the elimination of potential improvements, in particular if, in contrast to the third postulate, compensation payments are allowed for. (This remarkable point will be further considered in sections X and XI.) With regard to the remark about the superhuman effort Mingat *et al.* point out that one might in the same way move the whole of macroeconomics and, pushed to the limit, all of economics into the normative camp (1985, p. 524).

theoretically and logically inevitable, they are not necessary from a purely logical point of view, and they are in fact hardly avoidable.

This dissonance, and in particular that of the two modes of inevitability, does not facilitate an orderly probing of Blaug's position. Sometimes these two Blaugs must be kept apart, in other cases they may be counted as one. To complicate matters further, Blaug sustains the rightful presence of value judgments with a variety of reasons, not a proof of strength as their interrelationship and relative weight are far from clear. Then there are, beside the shortcomings alluded to in section I, still more ambiguities, textual discrepancies and circularities, even difficulties with elementary notions. Who is to be blamed if unravelling all the loops and knots in detail looks like nit-picking and repetitive pedantry at inordinate length?

4 THE MAGIC OF WORDS

To substantiate his case Blaug relies heavily on the vocabulary of welfare economics. In his opinion it is evidently value-loaded, incorporating the Paretian value judgments, which are therefore naturally part of the theory. This argument figures frequently in expositions of the normative conception, but rarely so prominently as in Blaug's. For him the crucial words in this respect are 'welfare' and, to a larger extent, 'efficiency' (other authors also mention the term 'optimum' in this connection). Blaug sometimes writes as if he regards those words as determining the nature of welfare economics, but this would be hard to believe. More plausibly, what he really means is that the persuasive language truly expresses or reveals, perhaps confirms, the purport of the discipline. Anyhow, many passages suggest that it all hinges on a couple of words.

'To say that something is an improvement in "welfare" is to say that it is desirable' (Blaug, 1985a, p. 592). This statement, meant to demonstrate the inevitability of value judgments, typifies Blaug's semantic reasoning. It is far from being as persuasive as he supposes. The favourable associations the word 'welfare' admittedly tends to invoke are not necessarily relevant to allocation theory. Here the term has the specific meaning of economic welfare, which is the same as utility or satisfaction. In economic theory, according to a long-standing and, for the soundest of reasons, near-universally adopted definition (which one feels embarrassed to remind a superb historian of), the concept implies no judgment of wants or satisfactions. This practice is in accordance with the rule that 'all motives, rational or otherwise, that are shown to be significantly related to economic behavior ought to count in economics' (Blaug, 1985a, p. 503, contradicted in an opaque statement on p. 706). As Marshall put it, the correlative terms wants and utility have 'no ethical or prudential connotations' (1920, p. 92, marginal note). Hence an 'improvement in welfare' will not generally and without qualification be considered desirable; it cannot be deduced from the concept of welfare or utility as such that all preferences ought to be satisfied.

Normative welfare economics likewise takes the individuals' preferences as given without inquiring into their quality, but it adds a value judgment like Blaug's first postulate. The presumption that 'every individual is the best judge of his own welfare' sanctions all preferences as they are and thus justifies the unlimited consumer sovereignty required by Pareto optimality, also called non-paternalism and defined as the value judgment by which 'the household's welfare is identified with its own perception of its utility' (Boadway and Bruce, 1984, p. 31; also pp. 8, 39). By means of this formula the term 'welfare,' substantially synonymous with utility in its amoral economic sense, is given an ethical significance. This fictitious construction plainly does not warrant to maintain that the word 'welfare' by itself suffices to show that it is desirable and therefore welfare economics is inevitably normative. One has only to replace 'welfare' by Pareto's ophelimity and Blaug's verbal proof collapses.

The neutral theory of allocation has none of these complexities. As an integral part of economic theory it sticks to the conventional meaning of utility and economic welfare, defining Pareto optimality accordingly.[12] This interpretation is based on the simple fact that, in Pareto's words, 'the individual is the sole judge of what he likes and dislikes' (1927, p. 62). Why this conceptual unity, faithful to an old and ongoing tradition, should be rebuked for abusing 'linguistic conventions' remains something of a mystery.

'Efficiency is necessarily a value-loaden concept and cannot be freed from the notion that efficiency is somehow more desirable than inefficiency' (Blaug 1985a, p. 608; 1985b, p. 27; 1990, p. 181). Or, in other words: 'the very terms "efficient" and "inefficient" are terms of normative and not positive economics,' and 'immense confusion has been sown by the pretense that we can pronounce "scientifically" on matters of "efficiency" without committing ourselves to any value judgment' (1980a, p. 148).

It is astounding news which these all too lapidary sentences tell about things like Keynes's marginal efficiency of capital, the theory of the firm dealing with the efficient combination of inputs or X-efficiency[13] and the notion of efficient markets, all of them on account of a fatal word debarred from positive economics. But of course it is not a credible tale, suggesting as it does that innumerable economists have been guilty of falsely pretending that efficiency can be used as a descriptive, purely economic concept. How could it be that Blaug is the only one to have noticed the resulting 'immense confusion,' though lamentably secretive about where to find its manifestation?

The real danger of such an effect would arguably arise if, following Blaug, economists were to attach an ethical meaning to efficiency, acclaiming it

12 This neutral usage with regard to 'economic welfare,' equated with 'utility' and 'satisfaction,' was also followed in Pigovian welfare economics (Pigou, 1932, pp. 11/12; Robertson, 1952, pp. 29/30).

13 Ethical overtones are absent from the publications on this idea by its originator and in further discussions (Leibenstein, 1976, 1987).

unreservedly as desirable. This would be most injudicious because while one may regard efficiency in many cases as meritorious, it is not always true that efficiency is 'more desirable' than inefficiency. In general its moral value obviously depends on the ends, means and ways of action. One may very well prefer an inefficient to an efficient Gestapo. It is therefore feasible as well as important to distinguish between the positive study of efficiency and its ethical standing. The appraisal of slavery from both points of view is a well-known example.

Allocative efficiency, the basic concern of welfare economics, can no more than other kinds of efficiency be considered inherently valuable on semantic or ethical grounds. That is why in the neutral theory the expression is devoid of ethical pretensions (Buchanan, 1968, p. 4). It only reflects a value judgment through a prior decision to dress up utility or welfare as possessing ethical worth. So the mere term 'efficiency' too is a poor witness for Blaug's inevitability thesis. With regard to the two concepts as used in economic theory, the value judgments exist largely in the eyes of the beholder.

Blaug's semantic method to demolish neutral allocation theory must by its very nature be ineffective. It testifies to a curious belief, smacking of essentialism, in a uniquely correct significance of words, revealing the true nature of things or ideas. In consequence, the spectre of circularity looms again if those who oppose the 'linguistic conventions' Blaug adheres to as the correct ones are censured for not respecting them. This unprofitable line merely detracts from the real issues. From Blaug's defence of positive economics one might rather expect that he would have been more in sympathy with the view that it is appropriate to expurgate everyday value connotations as much as possible from scientific terminology.[14]

It is ironic to catch Blaug, of all people, on the verge of falling into the essentialist trap, for he does not like this philosophy at all (1980b, pp. 34 *ff.*; 1990, pp. 38 *ff.*). All the same, as will be seen, more traces of its influence are noticeable. This propensity also provides the key to the solution of the supposed 'contradiction in terms.' Since the terms are defined in a normative sense as the only proper one, the seemingly lethal charge is a patent tautology. On reflection Blaug will surely agree that the dispute cannot be settled by the inviolable meaning of words.

5 TWO KINDS OF EVALUATION

The rather arid verbal tussle owes what real interest it may have to the fact that it reflects substantial underlying issues. A look at these may therefore kindle a sensation of *déjà vu*.

In Blaug's exposition a major source of trouble appears explicitly in a single

14 See also Archibald's pointed comments on 'emotive language' (1959, pp. 323/4) and, on the importance of its 'neutralisation,' Hutchison's persuasive argument (1964, pp. 66 *ff.*).

sentence: 'the question of efficient allocation of resources among competing ends cannot even be raised without a standard of evaluation' (1985a, p. 706). This is of course true. Welfare economics is indeed deeply involved in making evaluations, ranking, by means of the theorems and rules it has developed, allocations as more or less efficient, that is, as resulting in more or less economic welfare. It is impelled to perform these comparisons because of the direct link existing between allocation and welfare, which in effect imparts a distinctive character upon the subject.

It is a regular theme in the normativist literature that the evaluative function necessitates a recourse to ethical value judgments. Along this line Blaug assumes as self-evident that the standard he mentions must be ethical. One suspects that this reason for the inevitability of value judgments has a more substantial influence on his thinking than its casual presentation suggests. It certainly touches the heart of the matter.

Agreement exists that in allocation theory the fundamental standard is want-satisfaction of the individuals in society. It has not been chosen on ethical or political, but on strictly theoretical grounds. The application of this standard to allocation problems has always been seen as the particular province of welfare economics (Hicks, 1956, p. 6). So there is no need to look further for the meaning of the standard. It is clear and substantial enough to obviate the intrusion of value judgments. Specified as the Pareto criterion in its neutral shape, adhering to the traditional economic utility concept and doing without Blaug's second value postulate, the welfare standard perfectly serves the purpose of evaluation Blaug talks about. Hence this function is no independent reason for an ethical interpretation of allocation theory.

Consumer sovereignty is also in this approach a property of Pareto optimality; contrary to what Blaug seems to think when he mentions it as a value postulate, the notion can and often is used in a descriptive sense (Rothenberg, 1968, p. 327). Likewise 'social welfare,' sometimes presented as if it were axiomatically normative (*e.g.* Holcombe, 1990, pp. 159, 171, 181), is in this context a neutral economic concept, like Pareto's 'collective ophelimity' (similarly Ng, 1983, p. 2). Robbins pointed out as much with regard to 'social utility' (1935, p. 142), which makes it all the more amazing that he called the Pareto criterion a value judgment.

It is of the utmost significance that the propositions on allocative efficiency obtained on this base must consequently be seen as economic and thus obviously positive evaluations. This characterisation does not conflict with expressions like Pareto improvement, which must not be understood as unconditional approval; they rate such changes not in an absolute sense but only from a specific economic point of view.[15] In this respect the findings of allocation theory are

15 '... a Pareto-"optimal" allocation of resources is "good" only in the limited sense that not everybody can be made better off. It may in fact be very undesirable in some other way' (Lockwood, 1987, p. 811).

on a par with statements about the causes of changes in other economic variables, such as the profits of a firm and their possible improvement. The distinction between economic and ethical evaluations is pivotal to the neutral position and justifies the priority it assigns to economic judgments. This principle is of quite another order than a matter of words or at best of impeccable but impractical logic.

The position of positive welfare economics cannot be adequately discussed without an earnest consideration of this argument. Keeping the two kinds of evaluation apart is all the more necessary since, as has been observed with regard to utility and efficiency, they may very well be contradictory. It is not far-fetched to hold that it is the primary task of allocation theory to furnish economic knowledge and not ethical evaluations, without in the least denying their importance. Normative welfare economics has rendered a useful service by exposing the relevant value judgments, but it has largely spoiled this contribution by installing them in the place belonging to economic judgments.

The recognition of economic evaluations as a separate category in welfare economics is not an eccentric novelty thought up in the 'Archibald-Hennipman argument.' One may go back at least as far as Walras who introduced the normative judgment about maximum satisfaction as a clearly distinct second stage after the theoretical proof (Walker, 1984, pp. 459/60). The same can be said about Pareto who 'put forward an economic "welfare" criterion' which would in practice be subject to non-economic considerations (Tarascio, 1968, p. 82). Robbins indicated the difference in his comments on 'social utility.' A telling instance in the Pigovian style dates from about the same time. Meade called it 'a purely economic judgment,' independent of 'ethical considerations,' that an equal marginal utility of income for everyone is a condition of maximum satisfaction (1937, p. 210). From this perspective one may justly opine that the 'main concern in welfare economics has been with the development of a criterion for making *economic* welfare judgments' (Tarascio, 1968, p. 77).

All this is elementary, but it has been spelt out once again because it is an endemic failing of ethical welfare economics, causing 'immense confusion,' that it turns a blind eye to the possibility and indispensability of positive economic judgments in welfare economics. Unfortunately, Blaug falls into the same error, which vitiates to a high degree his critique of positive welfare economics. A successful refutation would have to show that economic judgments on allocation, untainted by ethical considerations, are senseless or useless. Since he is barely aware of them, he does not even begin to tackle this problem; he obfuscates it by sterile semantics and evasive allegations, disparaging a much-needed clarification of prevailing misconceptions as strained and paradoxical. A most disturbing element in his tactics is minimising the significance of the positive-normative distinction. That he brushes off its application to Pareto optimality as 'hair-splitting' is a case in point.

A similar tendency comes to the fore in comments on the 'new welfare economics' of the thirties. Blaug characterises Kaldor's and Hicks's view that

indicating a potential Pareto improvement does not involve a value judgment but recommending the payment of compensation to the victims of its implementation does so, 'a subtle distinction between a positive improvement and a desirable one.' He deprecates it as 'the slender foundation' of 'the new value-free welfare economics' (1980a, p. 142). It remains obscure why in this case the difference between 'possible' and 'desirable' is less robust than that between positive and normative generally.[16]

Blaug clouds the issue again in his 'note of warning about the quaint notion of the "new" welfare economics that propositions about "efficiency" are somehow value-free, while propositions about "equity" are necessarily value-laden' (1985a, p. 591). Here Blaug, once more begging the question, tacitly presumes as established that propositions on efficiency cannot be positive. When it is recognised that this view is mistaken and that Kaldor and Hicks regarded (correctly or not) interpersonal comparisons of utility (to which the word 'equity' apparently refers) as value judgments, the distinction they made between the two categories is by no means 'quaint.' Its meaning has been elucidated by Kaldor who pointed out that, while propositions on allocation have an unquestionable 'scientific status,' 'it is quite impossible to decide on *economic grounds* what particular pattern of income-distribution maximises social welfare' (1960, pp. 145/6; emphasis added).[17]

The two kinds of evaluation, persistently disregarded by Blaug, are also neatly distinguished by Hicks who in retrospect noted that when in his earlier studies he spoke of improvements in efficiency he did not mean to imply that these 'were necessarily improvements in any wider sense' (1981, p. 101). There is no reason to ascribe a different opinion to Kaldor (see 1960, p. 145, n. 1). This also shows that the founding fathers of the new welfare economics did not see positive statements on efficiency as the only possible ones, as Blaug seems to suggest; nor, as the preceding pages make clear, is the later neutral theory so short-sighted.

Altogether, Blaug's less than impressive methodological reflections on the questions relating to the 'standard of evaluation' of allocative efficiency leave positive welfare economics undented.

16 Blaug suggests that in 'a sentence that ought to be underlined' I called the introduction of the value judgment that Pareto improvements are desirable 'a minute variation' (1980a, pp. 145/6). But in the context this expression does not mean 'unimportant.' It was used to illustrate 'the core of the controversy' by the difference of a few letters between the italicised words in the statement that something may be *desired* and the value judgment that it is *desirable* (1976, p. 58).

17 He did not literally relate his compensation test to efficiency but to 'aggregate real income' and similar magnitudes; yet it may be best regarded as a test of efficiency (de Graaff, 1989, pp. 19 *ff.*).

6 AN APPEAL TO GIFFEN

As if he senses the weakness of the attempts to discredit the positive theory discussed so far, Blaug advances in *Methodology* an argument of a heavier calibre. After pooh-poohing the merit of logical impeccability he shows that the 'invisible hand theorem' (an equilibrium under perfect competition is Pareto optimal) can be couched in objective terms, so that it 'seems to be a theorem of positive economics, in which case Archibald and Hennipman win the argument hands down' (1980a, p. 147). Strikingly, this statement appears to declare by implication his other objections null and void, as well it might.

The victory dangled before the presumed winners is, however, at once snatched away from them on the ground that the theorem is not falsifiable and therefore 'does not belong to positive economics but to normative economics.'[18] The snag Blaug discovers is that the Giffen paradox makes the theory of demand and, in consequence, the theorem irrefutable. More particularly, in equilibrium a Pareto improvement is possible through a reduction in the price of a Giffen good, 'which contradicts the invisible hand theorem.' For good measure Blaug adds the stern admonition that the concepts of Pareto optimality and improvements '*should* never be confused with theorems of positive economics.'

This objection is at last a methodological one. The charge of nonfalsifiability against positive welfare economics is not new and has been discussed by Archibald (1959, pp. 324/5), but to base it on the Giffen paradox is Blaug's idea. He apparently considers it as the decisive blow, invalidating neutral welfare economics completely. All the same, the reader may feel somewhat bewildered. He may wonder how such a fatally flawed construction could on the preceding pages be called logically impeccable. Also, if this fault clinches the issue, why does Blaug stress the practical inevitability of value judgments and put the emotive vocabulary in the limelight?

For several reasons Blaug's initial concession proves to be a hazardous move threatening to backfire. To begin with, Blaug does not prove that the Giffen paradox makes welfare economics as a whole nonfalsifiable. Trying to do so he should better have heeded Archibald's examples of refutable propositions in allocation theory, such as the technological theorems (1959, p. 325). Even the Pareto criterion as such is not affected by the paradox. So this can at best to a limited extent be used as a rebuttal of positive welfare economics, which may for this reason claim at least a partial victory.

More seriously, the peculiar identification of nonfalsifiable and normative propositions is highly contestable. It has been cogently opposed by Archibald (1959, pp. 325/6) and Ng (1972, pp. 1013/4; 1983, p. 23; see also Mingat *c.s.*, p. 526), while Blaug himself has informed the reader some pages earlier that 'not all untestable statements are value judgments' (1980a, p. 137). This leaves room for untestable propositions that are positive in the sense of non-

18 Elsewhere (1980a, p. 190) he calls it either descriptive or evaluative.

normative, which is confirmed by Blaug's discussion of a number of theories of this kind (1980a, part III). The 'invisible hand theorem' resembles them so closely that it would appear logical to have it included among them. Blaug does not bother to explain why he omits doing this and classes the theorem as belonging to the normative category of untestable propositions. Perhaps his choice has been determined by the theorem's concern with Pareto optimality, but that would only be a valid reason if this concept has been defined beforehand as a value judgment, and then circularity rears its head once more. On the other hand he muddies the waters by failing to distinguish two meanings of 'positive' (on this Machlup, 1978, pp. 428/9; 438/9). When he contrasts positive and normative he defines it as falsifiable (p. 147), but in the debate about positive or neutral versus normative welfare economics, and also in Blaug's other contributions to this, it denotes the absence of value judgments.

Apart from these difficulties and inconsistencies the equation of untestable and normative tends to obscure the real problem. Its implications border on the bizarre. On account of the putative deficiency, allocation theory acquires the capacity to pronounce ethical judgments and to provide policy prescriptions which it would lack if it were testable. It may furthermore be asked whether, if the conclusions of the ostensibly positive theory are indeterminate, the same defect would not equally cripple it when unmasked as normative.

All in all Blaug's response to the challenge he clearly perceives is so far off target that the other side can surely claim a victory 'hands down.'

The episode has its piquant aspects. It is revealing that to stave off defeat Blaug is forced to summon a phenomenon of such slight factual significance as the Giffen paradox, according to expert opinion 'a pathological case' (Silberberg and Walker, 1984, p. 693), of which there exists no empirical verification and which 'remains an elusive possibility' (Walker, 1987, p. 524; see also de Marchi, 1987, p. 798). If one is therefore inclined not to take its alleged destructive consequences all that seriously for the normal practice of welfare economics, one may enjoy the satisfaction of meeting Blaug as an ally. He keeps a discreet silence on the question while discussing the theorem in *Retrospect* (1985, pp. 594/5)[19] and is equally reticent in an essay on the marginal cost rule for public utilities, where demand is an essential element (1985a, 1990; a shorter version in 1985a, pp. 605*ff.*). Even more tellingly he later on refers to Walker (1987) in support of the view that we do not on account of the Giffen case 'abandon the presumption that demand curves are highly likely to be negatively inclined' (1988, p. 33; 1990, p. 224). Why, one may ask, should this not apply to the 'invisible hand theorem'? His making an exception just

19 That Blaug considers the theorem meaningful is shown by his remark that it is 'the gist of (...) the only *theory* of socialism that has yet been forthcoming,' namely 'the Lange-Lerner version of market socialism' (p. 595).

once here is obviously a stratagem *pour le besoin de la cause*, to discredit positive welfare economics.

Finally, and obligingly just in time for this paper, Blaug himself delivered the death-blow to this ploy by counting the Giffen case among economic hypotheses which have been 'decisively refuted' (Blaug, 1991, p. 510). Strictly speaking this avowal makes all the other discussions about the possibility of a positive allocation theory redundant. But it is instructive to follow Blaug along his further winding paths.

7 DEALINGS WITH THE NON-EXISTENT

Blaug's masterly article on the marginal cost principle, his only study of a special topic in welfare economics, is apt to encourage, in a much more profound way than through its negligence of Giffen, those who are not impressed by his dictum 'there is no such thing as "value-free welfare economics."' It does so because the essay as a whole clearly contradicts Blaug's negation. Reading it one looks in vain for a trace of ethics, unless predetermined to detect it in some key words. Only at the end of a 'long and complex story' comes the obligatory reminder that the concepts of Pareto optimality and efficiency embody value judgments (1985b, pp. 2657; 1990, p. 181), but whether one believes this or not makes no difference to the economic argument which stands on its own.

It is of special interest that even if Blaug's affirmation about value judgments could be accepted, the scope of the ethical element appears to be severely restricted; a large part of the analysis remains immune to it. Not only does the subject have the conceptual apparatus of demand and cost functions in common with positive general economic theory, the exercises Blaug skilfully performs with these tools and the conclusions he arrives at also bear the unmistakable stamp of strict economic reasoning. In view of his reiterated disdain for positive welfare economics (in both senses) it is reassuring to read that the theory of marginal cost based on Pareto optimality yields some 'simple truths' (1985b, p. 29; 1990, p. 183). So there exists 'after all' on his own pages and within his own normative conception 'such a thing as....'

The same conclusion can be drawn from the sections on consumer's surplus and particularly the survey of Paretian welfare economics in *Retrospect* (1985a, pp. 355 *ff.*; pp. 585 *ff.*) At every step in this excellent review, from the venerable theory of optimum exchange and its contract curve to policy problems as those regarding externalities, public goods and again the marginal cost rule, one encounters purely economic concepts, arguments and results. If some interspersed exhortations on the inevitability of value judgments are skipped and Blaug's semantic predilection, which does not bind others and anyhow affects only a minor part of the text, is discounted, the economics remains complete in itself. So his exposition gives little support to the claim that welfare economics 'whether pure or applied, obviously involves value judgments.'

The preponderance of unalloyed economic analysis is not only imposed by the nature of the subject-matter, it is also an indispensable base for the normative task dear to Blaug. Without solid economic knowledge of the numerous intricacies of allocation problems, normative propositions would be vacuous. This function is in evidence throughout the entire normativist literature. Some authors have explicitly recognised this intrinsic dualist structure (*e.g.* Mishan, 1981a, p. 22). On this ground the subject has been depicted as 'a varying blend of positive and normative economics' (O'Connell, 1982, p. 2) or as resting on 'twin pillars of positive economics and ethical premises' (Boadway and Bruce, 1984, p. VII). It may also, as in section V, be figured as consisting of two tiers. Blaug's practice fits the dualist model and hence is more sensible than his strictly monistic precepts which disavow the principal and much the better part of his work on the subject.

This is not, however, the whole story about his strongly proclaimed monism. Not for the first (nor the last) time the loudest Blaugian voice is contradicted by a second one. Immediately after one of the harshest denunciations of positive welfare economics he states, as were it fully compatible: 'Economic advice must ultimately rest on the falsifiable hypotheses of positive economics' (1980a, p. 154). In the same vein he observes that 'when economists make policy recommendations, they should distinguish as strongly as possible between the positive and normative bases for their recommendations' (1985a, p. 70 *ff.*). These *obiter dicta*, in fact commonplaces, raise the unanswered question where, 'pure' welfare economics being disqualified, the required positive foundation is to be found and how it could be dressed in a neutral vocabulary. However that may be, one feels encouraged to read Blaug as has just been suggested.

Blaug's ambivalence regarding this cardinal issue is particularly noticeable when, in *Methodology*, he confronts the value-free treatment of allocation policy (1980a, pp. 149 *ff.*), the topic in which the divide between the warring parties manifests itself most sharply. It is another occasion where, too perceptive not to discover now and then the non-existent creature in welfare economics, Blaug quickly expels the apparition on some ingenious pretext.

The neutral approach takes allocative efficiency as a given end in the sense that it may be a desired objective, without itself endorsing the Paretian value judgments (Archibald, 1959, pp. 320, 327; Ng, 1973, p. 1017). This procedure is in accordance with the maxim tersely phrased by Robbins: 'Economics is neutral as between ends' (1935, p. 147). Or, in connection with welfare economics: 'Economists, in their role as economists, cannot establish objectives for a society' (Ferguson, 1972, p. 3, likewise J.M. Buchanan, 1968, p. 7). This way of handling policy problems is in line with the general idea that 'economics is the science of the *instrumental*, of the choice of proper means for given ends' (Hirshleifer, 1976, p. 443).

In consequence, the positive theory does not aim at offering categorical policy prescriptions, it only gives recommendations that are conditional on the

acceptance of the postulated goal. They are, in more weighty wording, hypothetical imperatives (Körner, 1955, pp. 136/7). Propositions of this kind are based on economic judgments as discussed in section V, which, from the policy point of view, are known as instrumental judgments. They can also in normative welfare economics be interpreted as positive statements, distinguished from ethical judgments about Pareto's optimality as a policy objective (Mingat *et al.*, 1984, p. 525).[20]

This simple scheme definitely refutes the view that welfare economics is necessarily normative because it 'deals with policy' (Hébert and Ekelund, 1984, p. 47). It is also a misunderstanding that the neutral theory of allocation policy is not concerned with everyday practical affairs (Feldman, 1980, p. 2). It is not shut up in an ivory tower, but is constantly inspired by and applied to current problems. Talk about the 'emptiness' of non-normative welfare economics (Black, 1986, p. 5) and its qualification as 'entirely vacuous' (Hammond, 1985, p. 408) merely display a less than blissful ignorance.

Blaug, too clear-sighted to pass the matter off so superficially, comments on the instrumental method, with special reference to allocation policy, under the heading 'The economist as a technocrat.' He calls it 'the textbook message' and 'the traditional argument' (1980a, pp. 149 and note 43). He starts with coolly announcing: 'Even those who reject the notion of Paretian welfare economics as positive economics believe that there is much that the economist *qua* economist can usefully say on questions of public policy without invoking value judgments' (1980a, p. 149). Blaug's awareness (which one might expect) of the simple truths expressed in this and the two similar quotations makes it hard to determine where exactly the inevitable value judgments, also said to be pervasive, come in. In any case his own indubitable affirmations justify a reversal of the verdict on the non-existence of value-free welfare economics into 'there is no such thing as' an exclusively ethical allocation theory.

Blaug then sketches the neutral way of reasoning about policy in remarkably favourable terms. He qualifies the Robbinsian ends-means distinction, corresponding to normative and positive, as 'a clarifying and therapeutic methodological convention,' allowing that policy problems, not excepting allocation, can in principle be treated in a neutral manner. But on the brink of surrender he manages an escape by designating the instrumental method as 'an ideal at which to aim rather than a description of what actually takes place.' In practice, he argues, 'the purist view à la Robbins that draws a rigid distinction between ends and means' cannot be maintained by the economist in his role as policy adviser because he will inevitably get involved in giving advice on the ends as well (1980a, p. 180).

20 It is very confusing that instrumental propositions are frequently also called normative. The difference has been explained by Machlup (1978, p. 435); on the 'unfortunate' terminology also Stewart (1979, pp. 100/1). The distinction is blurred in a place where one might expect better (Wong, 1987, p. 920).

This may be true, but by focusing on the 'technocratic' activity Blaug eludes the question at issue and slants the meaning of the 'traditional argument.' The theory of economic policy is by no means identical with actually advising decision makers, so that it is inappropriate to judge it on account of this practical concern.[21] In the theoretical context the ideal method is evidently not utopian, though admittedly not generally observed. For instance, writing about the marginal cost rule, Blaug does not see fit to go into the difficulties of a government consultant. It is a stunning denouement to see the much-maligned neutral theory suddenly acclaimed as an ideal, only barred from realisation by an imaginary obstacle.

8 THE FAILING LAST RESORT

There is another ambiguous strain in Blaug's wrestling with the menace of neutralism, which can best be considered in the light of frequent misunderstandings on the part of orthodox normativism. Its representatives tend to regard it as an immanent quality 'that the purpose of welfare economics is to prescribe' (Little, 1957, p. 275; likewise Nath, 1959, p. 2; 1973, p. 13; Price, 1977, p. 3; Boadway and Bruce, 1984, p. VII; Hébert and Ekelund, 1984, p. 47), by which they mean prescriptions comprising the end of allocation policy. On the strength of this notion positive welfare economics, if it gets any attention at all, is flatly rejected as impossible since such prescriptions require value judgments. This misinterpretation depicts the neutralists as oblivious of an elementary truth they are in fact perfectly familiar with (Archibald, 1959, pp. 321, 327; Ng, 1972, p. 1017). Their opponents, confined as they are within their own definition, appear precluded from conceiving an allocation theory which refrains from accepting the predetermined task they themselves are so eager to perform.

Even a master like Robbins has fallen into this trap of circular reasoning. His description of the Pareto criterion as 'clearly a judgment of value' sprang from the belief that the normative function is naturally the *raison d'être* of welfare economics. Because 'all recommendations of policy involve value judgments,' he concluded that 'the claims of Welfare Economics to be scientific are highly dubious' (1981, pp. 4, 6, 9),[22] 'scientific' meaning value-free. The 'scientific' welfare economics he had in mind must not be confused with positive welfare economics as defended in this paper, which is no less 'scientific' than other economic theories. It is a great pity that, under the spell of associations evoked by the term welfare economics, Robbins failed to notice that the Paretian theory can readily be interpreted in the instrumental sense so closely connected

21 In another passage Blaug upholds the possibility of positive economics against its denial on the ground that in advising political authorities 'means and ends cannot be neatly separated and hence policy ends cannot be taken as given' (1985a, p. 707).

22 Robbins's negative judgment about 'scientific' welfare economics has recently been echoed by Aslanbeigui (1990, p. 616).

with his name. Similarly, the pronouncement of another author that 'the whole attempt to make welfare economics purely scientific has failed utterly' (Hammond, 1985, p. 409), does not concern the neutral theory but prescribing policies without value judgments, an enterprise utterly alien to it.[23] Whether serious attempts of this kind have been made may be left aside here.

Blaug does not raise this outrageous stricture in such a crude manner, nor does he explicitly try to silence it by means of a preconceived unalterable definition of welfare economics. Nevertheless one may seriously doubt that he wholly avoids these pitfalls. Ominous signs are the statement that 'the true function of welfare economics is to invade the discipline of applied ethics' (1985a, p. 591), with its essentialist flavour, and the one, quoted in section III, about what welfare economics is 'after all.' Phrases like these give rise to the suspicion that he has not quite relinquished the ingrained prejudice that welfare economics is normative as a matter of course, as if by definition or *a priori*, and hence the neutral version anomalous. Clarity on this score is not enhanced by the occasional use of the term 'welfare economics' as synonymous with normative economics in general, also beyond the field of allocation, for instance when he writes that 'it would be difficult to imagine what economics would be like if we succeeded in eliminating all vestiges of welfare economics' (1985a, p. 706; likewise pp. 115, 591, 697).

This question-begging tendency is particularly perceptible in one of his most breath-taking manoeuvres, where Blaug revives in a new form the typical normativist myth about the neutralists' obtuseness concerning value judgments. In connection with the presumed consensus on the Paretian value judgments (about which more later) he considers it necessary to explain that 'even a perfect consensus on value judgments does not render them "objective": they nevertheless remain value judgments' (1985a, p. 592). This is tautologically true, but Blaug presses the point repeatedly (also 1985a, p. 708 and 1980a, pp. 148/9, 152) because he believes that this truism spells the undoing of neutral welfare economics. This conviction stems from the supposition that it rests on 'the absurd thesis that uncontroversial value judgments are not value judgments.' If this 'extraordinary argument' had not been adopted by the new Paretian welfare economics the question of value-free welfare economics 'would never have arisen in the first place' (1985a, p. 708). This reproach, advanced with a show of exasperation, is a leading motif in his most scathing swipes at the positive theory. It amounts to saying that the neutralists fudge the inevitability of value judgment by means of a subterfuge, in this way also deceiving themselves (1980a, p. 152).

Absurd and extraordinary indeed, this fantasy. It induces a challenge to cite chapter and verse from those who have stood up for neutral welfare economics. Neither Archibald nor the present author or Ng says anything of the kind Blaug

23 The author refers to Archibald's paper but did not catch its chief point.

insinuates.[24] The accusation turns the real situation topsy-turvy. It is the normativists, Blaug among them, who have extolled Pareto optimality as a quasi-objective ideal, whereas the other side has indicated that doubts about this quality create a difficulty for their theory (Hennipman, 1976, pp. 61/2). Since the neutralists did not commit the alleged fallacy the dispute obviously cannot be due to it.

In addition, Blaug's counterfactual does not make sense logically. He imagines that if the neutralists had avowed that they, too, could not do without value judgments, normativism would always have supremely and peacefully reigned in welfare economics. This travesty tacitly supposes that the accused also want to advocate efficient allocation. But why should the neutralists, not intent on issuing prescriptions, be in need of value judgments, either overt or covert, and shun contesting their inevitabiliy? To accept 'objective' value judgments would be suicidal. Whatever Blaug may think of them, neutralists are not so stupid as to wreck their case by quite gratuitously introducing such judgments, thus perpetrating a blatant inconsistency.

The misapprehension revealed in this tale resembles that of Robbins and Hammond. One may trust that it is not Blaug's real intention to reduce the debate concerning positive allocation theory to a fruitless quarrel about the right definition of welfare economics, which would run counter to his methodological principles. Yet his *faux pas* illustrates again that surreptitiously this baneful legacy exerts a lingering influence. Seemingly without fully realising it, he tends to fall back on a rigidly restrictive definition as a last resort and to assail the neutral theory fortified by this certitude. So he had better not speak about self-deception.

This undercurrent, with its essentialist taints and aprioristic leanings, can largely explain Blaug's circularities, contradictions, waverings and innuendos. In this perspective the so-called contradiction in terms presupposes the inherent normative nature of the subject in its entirety, which would be even more comprehensively tautological than when it is related only to some concepts defined as normative, as has been done in section IV. Such a predisposition may also account for a touch of dogmatism in Blaug's style now and then, his reluctance to take the neutral concept of Pareto optimality seriously, his at once baffled and somewhat condescending attitude towards the opposite view. It signifies that, at the end, he is left with empty hands.

9 FALSIFICATION AND THE TWO OPTIONS

The preceding scrutiny of the prosecutor's requisitory has disproved his collateral theses about the inevitability of value judgments and the impossibility of

24 The reproof of the new welfare economics (not precisely the same as the subsequent more explicitly neutral theory) is not supported by any textual evidence. Blaug would be hard put to find the view he castigates expressed in the writings of its originators, such as Lerner, Kaldor and Hicks.

positive allocation theory. Logically, to abstain from proposing prescriptions and accepting the required value judgments, to distinguish economic and ethical judgments, is such a simple affair that it seems ludicrous to say that it cannot be done. So Blaug's expedients to spirit this option away, clever as they may be, were doomed to be of no avail. If, moreover, the staunch falsificationist had submitted his theses to an empirical test he would easily have detected abundant evidence demonstrating that a strictly economic treatment of allocation, policy problems included, is alive and well. Some of it was briefly presented in one of the essays he opposes (Hennipman, 1976, p. 57). The viability of the unfeasible was confirmed by a first-rate textbook before Blaug started his campaign (Ng, 1979).

For additional material it may suffice to call on *The New Palgrave*. Here many topics in welfare economics are discussed in a perfectly neutral way, without any reference to value judgments. Examples are those on the Coase theorem (Cooter, 1987), efficient allocation (Reiter, 1987), externalities (Laffont, 1987), marginal and average cost pricing (Vickrey, 1987) and, most noteworthy, Pareto efficiency (Lockwood, 1987). Yet in Blaug's highly critical review of the encyclopedia the highest praise is bestowed on the first one, while the last one is listed among the meritorious contributions (Blaug, 1988, pp. 18/19; 1990, pp. 214/5). It would be idle to reply that these articles contain implicit value judgments. Their authors, though not explicitly professing the principle of neutrality, are in effect tacit allies of its protagonists. It is only fair to add that the contrary position is also represented, as in the entry on the compensation principle (Chipman, 1987). Others are somewhat ambiguous, mainly because the meaning in which the term 'normative' is used has been left unclear, but it lends itself in all cases readily to an instrumental interpretation.

The coexistence of the two approaches shows that the normative road is not an ineluctable fate but a free methodological choice. This invites a further look at the rivals, for the question remains whether Blaug has proved that his favourite really merits the prize he awards it. The crucial point is whether it is advisable or not to internalise the Paretian value judgments and to assume a prescriptive task, irrespective of precisely how and at what stage these judgments may be introduced. This is a far more interesting issue than the basically futile denial of the possibility and real existence of positive welfare economics. In this connection Blaug's deviant proposal to extend the normative scope also demands attention.

10 DESIRABLE EFFICIENCY: BLAUG GOES BEYOND PARETO

The characterisation of welfare economics as normative has undoubtedly a considerable descriptive validity. As Blaug points out, economists do in fact judge how practical problems concerning allocation should be solved (1985b, p. 27; 1990, p. 181). This activity has a long tradition, most conspicuous in the urging of free trade 'as we economists have so vigorously done for two cen-

turies' (Stigler, 1988, p. 114/5). It shows how constantly economists 'want to change the world' (Klant, 1988, p. 112). This practice lends support to the dominant opinion that the normative brand is the genuine article.

It claims for welfare economists a unique position among the subjects of economic theory by entitling it to determine the proper goal which a rational allocation policy is bound to pursue. This far-reaching privilege is at the same time assumed as a duty welfare economics cannot renounce. Here the critical question arises how such a singular competence can be vindicated. It is reasonable to lay the burden of proof on the deviation from the norm, though its adherents perversely tend to shift it to the neutral theory by denying its right to exist. As a rule normativists spend precious little effort to explain their pretension, taking it mostly for granted. Comparatively, Blaug does rather well in this respect. Still, the disparate reasons adduced by him, together with his rebukes of the positive theory and some desultory remarks, do not add up to a coherent articulate methodological rationale for the distinctive capability attributed to welfare economics.[25]

The best answer one can find, and in effect the only remotely feasible justification, is that the inevitable normative function stems directly from the intrinsic desirability of Pareto optimality. Seen like this, welfare economics owes its specific ability to the existence of a naturally enticing and well-defined objective lacking in other parts of economic policy. The statements on welfare and efficiency quoted in section IV, though disguised as semantic truths, strongly suggest that their desirability is a virtually indisputable, generally shared judgment. This is a popular opinion. It has been argued that Pareto optimality is 'unequivocally desirable' and will find 'near-universal consent' (references in Hennipman, 1976, p. 61). Recently it has been described as 'a common good concept that can get common consent' (Feldman, 1987, p. 890; similar statements in Price, 1977, p. 7; Boadway and Bruce, 1984, p. 2; Holcombe, 1990, pp. 166, 181).

This argument shows that the validation of normative welfare economics suffers from a chicken-and-egg problem. It derives the prescriptive capability from the nature of the value judgments presumably inherent in its subject matter. On the other hand, it is quite usual to infer the necessity of value judgments from the presupposed prescriptive purpose. Blaug leans mostly towards the first explanation, which appears to be indeed the methodologically stronger or at least the less objectionable one.

All the same, it is too bad for the high aspirations drawn from the desirability principle that it proves to be painfully difficult to realise them through workable recipes for desirable politics. As noted in section II, the normative

25 He refers, in the context of welfare economics and with apparent disapproval, to economists 'who echoed once again the old Seniorian cry that economics should be wholly "positive" in character' (1985a, p. 706), but it is left unclear whether this remark is meant to apply to other subjects as well. In fact he treats welfare economics as a special case.

Paretian theory can only prescribe actual Pareto improvement. In practice, the opportunity to bring about such a change is a rare occurrence. This discrepancy fills Blaug with dismay. Identifying welfare economics tacitly with its normative incarnation he laments that, owing to the taboo on interpersonal comparisons, 'very little' survives of it (1985a, p. 591). He visibly chafes at the Paretian straightjacket, casting a somewhat envious glance at the wider Pigovian system (1985a, p. 599).

He seeks a way out of the impasse by proposing a strict separation of the problems of allocation and distribution. He argues that, if efficiency is dealt with as a subject wholly apart, welfare economics can recommend the elimination of potential Pareto improvements irrespective of a possible conflict with equity in case the poorer people become worse off. A portent of this solution was the casual application of the desirability principle to these 'PPIs' mentioned in note 11. It was later followed up with an urgent call to take this course. Otherwise, he warns, 'we must perforce reject the whole of welfare economics' and thus lose all its indispensable practical lessons (1985b, p. 27; 1990, p. 181; see also 1985a, p. 606). In a recent work he sounds the alarm again, signalling the dire consequences for welfare economics if 'we refuse to divorce efficiency from equity considerations,' calling this choice 'the $64000 question in economics' (1990, pp. 11/12). His own preference is unambiguous: 'we must insist on the role of the economist as a special custodian for society of the efficiency view of economic problems' (1985a, p. 608; 1985b, p. 27; 1990, p. 182).[26]

Blaug's advice is, as he points out, in keeping with what economists often do, as when they propagate free trade, but it is a heresy within the Paretian framework. Though he retains Pareto optimality as the central concept and deftly circumvents the 'First Commandment' (ignored in these passages) by discarding questions relating to distribution, he offends against the Pareto criterion for an increase in social welfare or, in other words, drops his presumed third value judgment in the form of the unanimity postulate (1980a, p. 146). Hence his proposal only salvages the creed he set out to defend against the 'Archibald-Hennipman argument' by abandoning a crucial part of it.

His going 'beyond Pareto,' as he puts it (1980a, p. 146) evinces the lengths to which Blaug is prepared to go to preserve welfare economics as he conceives it, for which the ability to furnish practicable normative propositions is a matter of life or death. All the while he is blind to the robust positive alternative. Free from the urge to tell what must be done, it is untouched by the disaster painted by Blaug and the concomitant frustration. Maintaining the complete authentic Paretian theory it finds no difficulty whatsoever to separate the problems of

26 A similar stance has been defended with great eloquence by Dehem (1969).

allocation and distribution; the information it provides is equally useful whether or not it concerns feasible real improvements.[27]

11 CONTESTED DESIRABILITY: A SLENDER FOUNDATION

Obviously the theoretical and (as far as it goes) practical significance of the normative pretension depends, on its defenders' own terms, vitally on the credibility of the ethical desirability postulate which, in its turn, depends on the ethical acceptability or actual social acceptance of the Paretian value judgments.

At first sight the desirability assumption may seem eminently plausible. An increase in people's economic welfare appears patently beneficial, particularly if no one becomes worse off: 'how could anyone have anything to complain about'? (A. Buchanan, 1985, p. 10; emphasised in the original). It is a current notion, shared by Blaug when he formulates his third postulate as 'unanimity,' that for this reason real Pareto improvements would meet with unanimous agreement. But, as may be gathered from what has been said earlier in connection with the utility concept and efficiency, it is not so simple as that. More generally, the desirability postulate has been opposed from different quarters for a variety of reasons.[28] In the 'normative camp' no consensus exists on these complicated issues and it is again a topic on which Blaug seems at odds with himself.

A first difficulty in his discussion of these questions is that in some places he posits, without an adequate explanation, an inverse relationship between desirability and unanimity. In the passage referred to in note 11 (section III) he calls a change that is not unanimously supported more desirable than one which obeys the unanimity condition. The same contrast is implicit in his going 'beyond Pareto.' This paradoxical thought leaves the reader in the dark about whose judgment he takes as the criterion for 'desirable.' Moreover, as will presently be seen, there are other instances where he appears to regard a lack of consensus as an impairment of desirability, but again a clear criterion is missing.

Also in other respects Blaug's view of what is desirable is varying. The accentuated desirability of an improvement in welfare cited in section IV is adjoined by the weaker statement that the three value judgments 'command wide assent, at least among economists' (1985a, p. 592). Blaug departs much further from his confident assertions in a brief section surprisingly entitled 'The dictatorship of Paretian value judgments' (1980a, pp. 148/9). Now he performs the 'superhuman' feat, ridiculed two pages before, of questioning the desirability

27 Blaug's statement that the 'purely neutral interpretation' of the Pareto criterion denies, in the case of a potential Pareto improvement, the desirability of such a distribution of the benefits that no one is made worse off (1980a, p. 146) is a misinterpretation of a passage in my 1976 article. Such a denial would be a strange neutrality.

28 The problems concerned belong to the main themes in my exchange with Mishan. Some of them are succinctly discussed in A. Buchanan (1985, pp. 8 *ff.*) and Hamlin (1986, pp. 70 *ff.*).

of Pareto improvements. He observes that 'the Paretian postulates by no means command universal assent' and that 'there is much less acceptance of the Paretian value judgments than economists like to think.' After noting that the first two may be rejected on political grounds, he refers in particular to the attack by 'classical liberals' (Rowley and Peacock, 1975) with the argument that the recommended government interventions would infringe individual liberty.

This passage mixes two questions: objections to the postulates themselves and possible conflicts between the achievement of Pareto optimality and other ends, like those with equity encountered in the preceding section. Blaug's proposal to ignore them in prescriptions for efficient allocation does not of course prevent them from regularly occurring in practical policy. Neither are real Pareto improvements exempt from contrasting with equity, *e.g.* when only the rich benefit. In other cases, too, a change in relative incomes may cause discontent or envy. Hence it is not true that nobody would have anything to complain about and that therefore unanimous approval of real improvements can be counted upon.[29] Presumably Blaug would also in these cases, which he ignores, rank efficiency above unanimity.

Clashes between allocative efficiency and other policy objectives pose problems about priorities and trade-offs. Even the most fervent normativists would not pretend that welfare economics can resolve them.[30] This means that its prescriptions, though often couched in absolute terms, are subject to a *ceteris paribus* clause. In consequence, the room for real prescriptions without this complication, already pitiably small within the Paretian bounds, shrinks still further. It is therefore illusionary to believe that if it does not tell what the 'United States Government ought to do' welfare economics is 'not as exciting as it can be' (Feldman, 1980, p. 2).

With regard to the Paretian value judgments as such, Blaug's reference to an ideological-political disagreement is supported by their interpretation as liberal principles which not everyone accepts (Sugden, 1981, pp. 10/1, 41, 61). Blaug might have justified his scepticism about their general social acceptance further by calling attention to the multifarious infractions of consumer sovereignty, also in modern market economics, like policies regarding merit and demerit goods, let alone in other societies. The value judgments are, moreover, less

29 See for further critical comments on the assumed equivalence of the Pareto criterion and unanimity Hennipman (1980) and Coleman (1985, pp. 106/7). The problems concerning this relationship must be distinguished from those about the Wicksellian decision rule which does take the distribution of the costs and benefits into account. In contrast to the Pareto criterion in welfare economics the Pareto principle in the theory of social choice is by definition synonymous with unanimity. This difference is not seldom a source of confusion.

30 In connection with such conflicts and imperfect understanding of the issues Blaug indicates as the purpose of welfare economics 'to influence the social consensus by making explicit the goals and objectives of different policies' and related matters (1985a, p. 591). Here welfare economics has a wider meaning than allocation theory. The assigned task is an important one for the general theory of economic policy and it can best be performed in a positive, non-partisan manner.

strongly endorsed by economists than Blaug suggests. It is true that traditionally their ethical rightness has been by and large accepted without demur as a sufficient base for policy recipes. Nonetheless the Paretian theory in its ethical shape has since long been accompanied by critical notes (references in Hennipman, 1976, pp.60/61). One of the main objections is that it neglects 'the morality or immorality of the preferences' (A. Buchanan, 1985, p. 9). Economists, too, have often expressed reservations about unlimited consumer sovereignty (see the survey of Rothenberg, 1967, and the thorough study of Penz, 1986). One of them, and not just anybody, sees it as a lesson of wisdom that 'most of what people want most of the time they would be better off not getting' (Hirshleifer, 1976, p. 442).

Nowadays it is widely recognised that the postulates do not embody a 'minimalist ethics' and cannot be said to be uncontroversial. As a result of such doubts a dissident strand had developed which upholds the ethical purport of welfare economics but expresses dissatisfaction with its usual foundation. Notable representatives are Mishan (before he declared 'somewhat reluctantly' his sympathy for the neutral conception (1984, p. 234)), whose misgivings have grown with the years, and Sen with his protracted crusade, waged with great profundity and subtlety, against 'welfarism' and 'Paretianism.' From this angle they are concerned about 'what's wrong with welfare economics'? (Sen, 1979, 1982; a comprehensive treatment in Sen, 1987) and 'the impasse that allocation economics seems to have reached' (Mishan, 1981, p. 259).

Thus one cannot but agree with the conclusion that 'Paretianism' has failed to present a set of value judgments 'perfectly acceptable to most of us' (Mingat *et al.*, 1985, p. 533; also Nath, 1969, pp. 126/7). One may go even a bit further by subscribing to the judgment which finds it a strange supposition 'that if something is a Pareto improvement, it is uncontentiously desirable' (Shearmur, 1990, p. 196). Owing to the wide-ranging discord about its fundamentals the normative Paretian theory lacks the social and ethical legitimacy for its arrogated authoritative ruling. The desirability postulate clearly is, to borrow Blaug's own words, a 'slender foundation' for the vast normative pretension.

It is highly intriguing that while Blaug shows, though somewhat cursorily, in his record of damaging facts an awareness of this fatal discongruity, his faith in the normative credo finally remains unshaken. This unexplained crucial choice is the ultimate enigma of his position. On the other hand he is more cautious about the implementation of efficiency rules than many others have been; he calls marginal cost pricing 'a method, not a dogma' (1985b, p. 29; 1990, p. 183) – by the way a view in tune with the instrumental conception.

Damning as the conclusion is for the normative claim, methodologically the contestability of the value judgments is not the fundamental point. In Blaug's hypothetical case of 'a perfect consensus on value judgments' the findings of welfare economics would indeed have a direct undisputed normative value. In this situation it may appear a reasonable contention that the subject is by its very nature normative, at least, one might add, if the agreement were

historically and world-wide universal and durable. Yet this is not a compelling inference in the light of Blaug's reminder that the consensus does not render the value judgments 'objective'; they are still different from positive propositions (also Sugden, 1981, p. 6). It remains true that the theoretical analysis is not logically dependent on the value judgments. This autonomy is analogous to the purely scientific medical and pharmaceutical knowledge in its relation to the universal valuation of health. Thus it seems naive to think that the desirability postulate might ever be sufficient to demonstrate the intrinsically normative character of allocation theory. In any case this inquiry will be positive, even if its ultimate purpose be normative.

12 THE SUPERIOR OPTION AND A PEACEFUL COEXISTENCE

A comparison of the relative merit of the rival approaches does not for a moment leave the outcome in doubt. This is merely what might be expected once the idea that welfare economics is inevitably normative is recognised as untenable. If a positive allocation theory is a feasible option this entails a presumption in its favour; its advantages have become apparent in the foregoing discussion. Why should the analysis of allocation be tied to value judgments, and controversial ones at that, if a logically impeccable and actually thriving positive theory encompassing the whole field, policy problems included, is available? Why should allocation be severed from positive microeconomics as a whole, breaking a natural seamless unity? Only weighty considerations could recommend such a course, but Blaug has not advanced a single plausible reason for such an exceptional status. He has, on the contrary, himself revealed how shaky the ethical construction is and how deceptive its ambitious promises are. If Blaug's defense is the best that can be mounted by a consummate methodologist, ethical welfare economics must find itself in a parlous state indeed.

It does not only lack any benefits, it is fraught with substantial drawbacks. As a hybrid of methodologically different elements it engenders profound ambiguities. It suggests, though formally at least its better exponents may plead not guilty, that a branch of economics can dictate a supreme policy goal. By endorsing the Paretian value judgments it turns allocation theory into a social and political creed to which anyone working in the field is supposed to be committed; at least those who are not true believers are put in an awkward position.

Perhaps the gravest detriment is that allocation theory gets entangled in ideological, ethical and meta-ethical disputes and tends to be judged primarily from these angles rather than on its economic quality and significance. In this respect it is of particular importance that because of its presumed affiliation with utilitarianism (Little, 1957, ch. I ('Utilitarian Economics'); Bohnen, 1964), it has become a target for the opponents of this philosophy like Sen. It is disheartening to see how, at the highest level of philosophical sophistication, he makes the theory subservient to ethical considerations and sacrifices the

autonomy of economics. His critical observation that in welfare economics 'utility is regarded as the only thing of intrinsic value' (1987, p. 38; also pp. 46, 74) may be a bit unfair, but then the normativists themselves have to carry part of the blame. The subordination of welfare economics to another discipline is the natural nemesis of their own premisses. Sen's recondite deliberations and criticisms do not affect the neutral purely economic theory in the least. All this confirms Archibald's conclusion that attempts to attach welfare economics to value judgments 'only cause unnecessary difficulty and confusion' (1959, p. 316).

The evident superiority of the positive interpretation does not mean that a normative treatment of allocation problems is methodologically illegitimate. Everyone is free to use the Pareto criterion as a value judgment and to champion Pareto efficiency, for which a good case can be made in spite of the resistance it meets. Economists are best equipped to explain its advantages and it is not accidental or arbitrary that they have so often acted as its 'custodians.' To do so they need not be blind to possible conflicts with other goals.[31]

Such a normative discourse should of course be clearly demarcated from positive theory. This is best achieved in a dualist model in which the two 'pillars' or 'tiers' are more strictly separated than in Blaug's mixture, also regarding the interpretation of the fundamental concepts. The normative application then belongs to political economy in the sense of Robbins, based on positive economic science 'which has no status as ethical or political prescription' (1976, pp. 2–3; also Robbins, 1981, pp. 7 *ff.*).[32]

Anyhow, it is misleading to identify the normative extension with welfare economics *tout court* as Robbins does. It would likewise be inappropriate to include it in a formal definition of welfare economics, since this would imply that the normative function is an inherent and obligatory part. The endorsement of the value judgments involved cannot but be a personal choice, 'an act of free will' (Sugden, 1981, p. 6), and not prejudiced by their being 'widely accepted' (Nath, 1969, p. 127).

If the distinction between them is consistently kept in mind, the two pursuits in the province of allocation need not be rivals and may enjoy a peaceful, mutually stimulating coexistence, provided that the junior normative partner abandons its monopolistic claim, its posture as the sole authentic welfare economics, and avoids the impression that its recommendations have somehow objective validity, blessed with the authority of economic science and the sanction of society. It will have to acknowledge the primacy of positive analysis within economic theory. In this more modest position it would be relieved of

31 In defense of allocative efficiency other value judgments than the Paretian ones are often brought into play, like those relating to the iniquities of monopoly profit and monopolistic practices, the abuse of power, the danger of corruption, the disproportionate influence of producer interests and pressure groups, the waste of rent seeking and so on.

32 The expression 'political economy' has of course various other meanings. So in one sense it is synonymous with economics (Groenewegen, 1987, p. 906), but in the statement 'Economics *is* political economy' (Klant, 1988, p. 114) it has a quite different connotation.

the burden of having to invent tortuous and fanciful arguments for an indefensible thesis. It would no longer be objectionable that its proposals are apt to be a battleground of interests, ideologies and philosophies, for this is the common fate of political programmes.

The whole matter is in effect exceedingly simple, but overlaid by endlessly and uncritically repeated misunderstandings which have engendered a wasteful debate. With due respect for Blaug's admirable achievements as a historian and methodologist one is forced to conclude that the transparent truth has eluded his usual perspicuity: 'one can only tear one's hair out' (Blaug, 1988, p. 48; 1990, p. 235) at his having missed the opportunity to clear up once and for all, with his prestige and his singular incisiveness, an annoying methodological muddle.

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Summary

THE REASONING OF A GREAT METHODOLOGIST: MARK BLAUG ON THE NATURE OF PARETIAN WELFARE ECONOMICS

In various publications Blaug has upheld the view that Paretian welfare economics is normative, sharply criticising the opposite 'Archibald-Hennipman argument.' He has failed to refute this and to defend his position, with the allegation that positive welfare economics cannot exist, convincingly. His reasoning is marred by misunderstandings, inconsistencies, circularities and traces of essentialism. The normative conception is an ambiguous hybrid that cannot fulfil the pretension to offer definite prescriptions. It is advisable to regard allocation theory as belonging to positive economics; its normative application must drop its claim to represent welfare economics as a whole.