

NORMATIVE OR POSITIVE: MISHAN'S HALF-WAY HOUSE

BY

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I

It is gratifying that my review article, mentioned by Professor Mishan in the first paragraph of the preceding article, has elicited a further elaboration of his ideas on the character of welfare economics. I truly appreciate his intention 'to narrow differences of opinion.' All the more do I regret being bound to say that his discussion is less enlightening than it might have been. Not only does it seem to me in various places to fall short of Mishan's usual clarity but, more importantly, it fails to deal satisfactorily with the principal contentious issue between us raised in my review, the relative merits or demerits of a neutral conception of welfare economics as opposed to one based on value judgments. Unfortunately, an exchange of opinions by correspondence has only partially succeeded in removing disagreements on this matter. Accordingly, Mishan's essay achieves its declared purpose at best to a limited degree.

Hence my reply, ungracious though it may look, is more polemical than I should like, not least so because of my respect for Mishan's valuable contributions to welfare economics. My comments are, however, inspired by the same desire as his paper and I cannot exclude that there may be misunderstandings on my part. I shall concentrate on the problem just mentioned, leaving aside the testability of the Pareto criterion, also touched upon by Mishan, and the related question whether welfare economics can be called 'scientific.' I shall use the chameleon-like term 'positive' in the sense of non-normative and 'normative' as indicating a connection with ethical and other non-economic value judgments.

II

One of the reasons why I find Mishan's exposition sometimes difficult to follow is that, to my mind, it suffers from a certain ambiguity with regard to what its chief problem is. While on the one hand he aims to throw 'some light on the areas of methodological controversy,' on the other he is, as the title of his article indicates, not primarily interested in the 'foundations of alternative conceptions for welfare economics,' but rather in their 'implications.' One may gather from his paper that these concern the position of welfare economics vis à vis policy

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makers and, more specifically, its competence to prescribe correct policies. Apparently Mishan values its authority in this respect to the extent that in his way of thinking the significance of welfare economics largely depends on its ability to perform this normative function. A concomitant is that he tends to evaluate the 'alternative foundations' with this criterion in mind. Finding that those which are currently accepted cannot fulfil the normative task adequately, he ventures upon a reconstruction to obtain the wanted 'implication.'

In my opinion this approach starts at the wrong end; it is like making the tail wag the dog. It seems obvious that the 'implications' Mishan mainly has in view can in no way be decisive for solving the 'methodological controversy,' in particular the positive-normative dispute. A fruitful discussion of the subject should logically centre on the nature of welfare economics as a branch of economic theory. It will not do to assume beforehand the desirability of a normative purpose; if a well-founded conclusion about the theory is reached the 'implications' must be taken for what they are.

As a consequence of Mishan's preoccupation with 'implications' throughout his paper the dice are loaded against the neutral conception. He does not even begin to do justice to it. He evades paying serious attention to the arguments bearing upon its case by restricting himself to the subsidiary question of the 'status' of the neutral welfare economist in his relation to policy makers – an odd way indeed to tackle a methodological problem. Moreover, Mishan's treatment is from the outset strongly biased in favour of a normative interpretation, which is tacitly viewed as the naturally preferable one. The second paragraph, while pretending to reflect 'agreement among economists,' actually takes sides in a disagreement by presupposing as self-evident and disregarding frequently expressed contrary opinions that allocative propositions necessarily imply value judgments. The passage is therefore ill-suited as an introduction to what is announced to be a conciliatory endeavour. A normative prejudice is also noticeable in the historical observations on the old and the new welfare economics,¹ as well as in those referring to Little, especially the remark, which again ignores opposite views, that to 'propose a test of economic efficiency is in effect to recommend it.'

Mishan's contribution would have been much more useful if, true to his objective to 'bring us closer to agreement,' he had exerted himself to present a less partisan and a more thorough and balanced appraisal of the 'alternative foundations.' But perhaps this resistance to doffing his normative spectacles is

1 While stating that 'the literature on Welfare Economics can be said, as a matter of historical interest, to rest on value judgments' Mishan omits to mention Pareto, who undoubtedly conceived his theory of 'collective ophelimity' as positive. A. Bergson, in his paper 'Pareto on Social Welfare,' *Journal of Economic Literature*, March 1983, pp. 44-45, maintains the contrary opinion, but admits, with reference to an article by J. Chipman, that another interpretation may be defensible. In addition, it may be noted that Pareto's 'interesting essay' from 1913, quoted in this connection, is not the only source for establishing his positive stance.

part of the problem. In the following sections I shall try not to be guilty of an analogous failing.

III

The questionable features of Mishan's exposition come to the fore with a vengeance when he offers 'a few more meagre paragraphs' on the 'notion of a neutral welfare economics.' His account turns out, not quite unexpectedly after so many inauspicious signals, to be woefully deficient. It by no means fulfils the promise to examine whether 'the structure of the subject can be made to stand firmly upon non-value premises.' Eschewing any documentary evidence on the defence of the neutral theory, Mishan profoundly misjudges its scope. He belittles it so severely that the acknowledgement of the possibility of a neutral conception is virtually reduced to naught.

Mishan's misunderstanding is far from exceptional; it is rather typical of the normative persuasion of which he is one of the most sophisticated representatives. Others are more purblind than he in denying even the existence of a neutral interpretation. This addiction to a faulty image is strange because the neutral position is extremely simple; Mishan might call it trivial. It can, moreover, claim to be the original and authentic version and it has been repeatedly expounded during the past decades.² Also, many publications in the field of welfare economics, among them not a few by Mishan, are impeccably neutral in form and content. Since the issue has been persistently befogged, a brief restatement, with an apology for the elementary lesson, may not be amiss.

The basic thesis is that welfare economics as a part of economic theory, just like other branches of economics, naturally does not contain ethical or other extra-economic value judgments in the sense that it cannot establish, generate or endorse them. This does not exclude that theories may be inspired or influenced by such values, which is something quite different.³ Its principal subject matter (exclusive of income distribution), the effect of the allocation of economic resources on economic welfare, is in no way intrinsically normative and thus exempt from the general principle. Economic welfare, synonymous with utility, want satisfaction or ophelimity, is a purely economic, that is value-free or neutral concept. For many generations it has been commonplace that in

2 G.C. Archibald's article, mentioned in Mishan's note 3, is an excellent example. Further references in P. Hennipman, 'Pareto Optimality: Value Judgment or Analytical Tool?,' in J.S. Cramer et al. (eds.), *Relevance and Precision. Essays in Honour of Pieter de Wolff*, Alphen aan den Rijn etc., 1976, pp. 44-45.

3 Presumably Mishan has this rarely contested fact in mind when in his recent article 'The New Controversy about the Rationale of Economic Evaluation,' *Journal of Economic Issues*, March 1982, p. 43, which in part covers the same problem area as his reaction to my review, he expresses agreement with the assertion that economics cannot be value-free.

economics the term utility, otherwise than in everyday speech, does not convey an approval of the wants of individuals. Neither does it imply a denial that on moral or other non-economic grounds they may be judged reprehensible.

It is easy to see that this convention applies equally to the notion of collective economic welfare, the particular concern of welfare economics. If John's utility and also Bill's are neutral concepts, that of both of them considered together must evidently be so too. It is a common misapprehension of the normative doctrine, seemingly shared by Mishan in a rather obscure passage with some word-play about 'objective,' that for moving to 'statements about society's welfare' a special value judgment must be introduced. No conclusive reason for this mysterious necessity has ever been adduced, nor does Mishan supply one. Perhaps in his text 'social welfare' is taken to have some normative meaning, but this would be inconsistent with the further explanation of that notion and, besides, put it outside economics. To avoid misunderstanding on this score it is advisable, if one wishes to remain within the bounds of welfare economics, to shun expressions like social welfare; the term 'collective' is less ambiguous. One may, as is often done, speak of 'welfare' for short, as long as it is clear that the term denotes economic welfare.

The view that welfare economics is restricted to the study of economic welfare and thus to a purely economic analysis is not an arbitrary choice, based on some more or less subjective value judgments, but derives directly from the subject matter of economics. It follows that all its concepts and theorems must be understood as being free from any normative connotation. Particularly significant is the repudiation of the widespread, deeply ingrained myth, the central dogma of normative lore, that the Pareto criterion embodies irremediably, as were it innate, a value judgment. The notion of optimality and its reverse are economic judgments, the optimum conditions economic theorems. In the neutral conception the difference between economic and non-economic or normative judgments is crucial; for a correct understanding of its purport this distinction should be kept constantly in mind.

It is true that expressions like optimal or efficient allocation and their negative counterparts may at first sight suggest an approval or disapproval in some general or absolute sense, but this impression cannot be binding for economics. In the context of the theory the terms are part of a technical professional vocabulary and have a special economic and thus relative meaning. To hold that they are indelibly value-loaded and that owing to this welfare economics is ineluctably normative is semantic mysticism. Traces of this can be found in Mishan's article. In spite of his having correctly pointed out more than once in his writings that economic welfare cannot be assumed by economics to be unreservedly 'a good thing,' he nonetheless seems to follow Little in accepting the unqualified favourable interpretation of 'ordinary people' as authoritative and a sufficient reason to foist a normative purpose on welfare economics.

In accordance with the maxim that positive propositions cannot yield norma-

tive conclusions the neutral position implies a view of the relationship between welfare economics and economic policy radically opposed to that of the normative school. The idea that it is the supreme task of welfare economics to admonish governments to pursue dutifully Pareto-optimal policies is altogether alien to the neutral conception. It regards the allocative criteria not as imperative directives, but as insights that may be used to achieve the possibly desired end of optimal allocation. They are, as Archibald puts it, 'concerned with the relationship between *given* ends and available means.'⁴ From the policy point of view they are in this train of thought instrumental statements and as such uncontestedly positive, though they are also often called normative, a most regrettable terminological nuisance indeed. Accordingly welfare economics is on a par with other parts of economics; as Archibald continues, 'welfare theorems do not differ from theorems about, e.g., how full employment may be achieved.'

This demonstrates, Mishan's contrary assertion notwithstanding, that it is not at all 'awkward' for an economist 'seriously to advance a welfare criterion unless he believes that it *ought* to be adopted.' For the economist 'the propriety of the criterion to be adopted' is in so far no problem that, if he sticks to his last, only an economic one is eligible. To deny, if it is correctly defined, that it is 'meaningful,' is to disavow economics as a worthwhile subject.

This limitation, excluding any normative assignment, is not, as Mishan avers, a 'gratuitously' imposed self-denying ordinance, but the logical consequence of broadly accepted methodological principles. Hence it is not exactly true that I recommend the neutral interpretation 'to circumvent some methodological difficulties'; the real reason is more profound and weighty than that.

IV

The foregoing explanation shows how distorted Mishan's picture of the neutral position is. Already the first sentence of his sketch has a warped slant, 'allowing,' a bit condescendingly, that the neutral version 'accepts the analytical structure of welfare economics.' It would, of course, be more accurate the record the fact that its adherents regard it as identical with this structure in its entirety.

The remainder of the aperçu reveals that this peculiar phrasing is not incidental. It is apparently due to Mishan's unwillingness to envisage a full-fledged neutral theory. In his description positive welfare economics is strictly confined to some 'scrupulously' executed fact-finding and deemed impotent to pronounce any further on matters of allocation. The not wholly ignorant reader will

4 G.C. Archibald, 'Welfare Economics, Ethics, and Essentialism,' *Economica*, November 1959, p. 320.

be surprised to learn that a follower of the neutral tradition cannot '*qua* economist . . . claim to have any particular expertise with respect to the allocation of economic resources' and, consequently, is disqualified from 'legitimately' making judgments on misallocation. No wonder Mishan finds neutral welfare economics of slight significance, a poor relation of the much richer and politically powerful normative version. One is left puzzling, however, how this view is to be reconciled with the recognition of an 'analytical structure' devoid of value judgments.

In the light of the neutral theory as it really is, revolving around the notion of optimal allocation, Mishan's dismal and reproachful characterisation appears as the height of absurdity. As a matter of fact it illustrates once more and to perfection an inability to comprehend the neutral conception on its own terms. His seemingly nonsensical contentions make sense if it is understood that he tacitly presumes, as an unassailable truth, that the concepts relating to allocation are inherently normative. His admission in note 13 that 'efficiency' (and presumably 'inefficiency') may, in contrast to its equivalents, be used in a neutral sense is one of the riddles that enliven his tale.

From the angle of allocation policy the fatal flaw in Mishan's argument is that he ignores the distinction between normative and instrumental propositions, stressed in the neutral interpretation. If the instrumental function is taken into account the neutral economist has not 'to mute his voice' as much as Mishan makes it appear. This defect underlies the bizarre statement that a neutral economist is barred from judging a project '*economically* unjustified.'⁵ The negation displays one of the most intriguing traits of his story, the utterly paradoxical belief that an extra-economic value judgment is required for speaking '*qua* economist.' Yet, rather ironically, the baffling complaint contains, for another reason than Mishan has in mind, a kernel of truth. It would indeed be improper to call a project '*economically* unjustified' if efficiency were deliberately sacrificed for the sake of another end, for then the judgment would no longer be an instrumental one.

Essentially, Mishan's misrepresentation amounts to circular reasoning. Starting from the premise that allocative propositions and the related terminology are intrinsically normative, he infers, without considering an alternative interpretation, that a neutral theory cannot include such propositions. By taking for granted what is in fact disputed Mishan commits the same error as Blaug, whose similar *petitio principii* I quoted in my review of Mishan's book. It is a sad disposition that the two eminent supporters of the ethical school, who laudibly and rather exceptionally have taken pains to appraise the neutral vision more than superficially, appear too wrapped up in their own way of thinking to enter fully into another one.

5 In his article mentioned in note 3, p. 38, Mishan addresses a similar criticism on better grounds to those who advocate the use of 'politico-' and 'ethico-weights' in cost-benefit analysis.

V

Mishan justly raises as an important topic the 'legitimacy' of the judgments pronounced by welfare economics, presumed by him to be necessarily normative. There surely is a stronger reason to query in this respect the highly ambitious prescriptive than the much more modest instrumental propositions, which for him are non-existent. One may, however, probe somewhat deeper into this matter than Mishan does by asking whether those of the first category are at all justifiable. In section III this has been contested, but in order to examine Mishan's specific views some further comments are desirable.

The normative doctrine grants to welfare theory a privileged role denied to other economic theories. Thus the question imposes itself why it should be thought to possess such a unique competence. This problem has seldom been squarely faced by the ethical school, still less answered satisfactorily. Nonetheless, one might very well argue that welfare economics has in effect a singular distinction because it is directly concerned with economic welfare, the aim and product of all economic behaviour, and, moreover, provides exact criteria to bring about its collective optimal state. Other subjects in economics, on the contrary, deal with intermediate goals like full employment or the price level.

Can this special property legitimise normative judgments? It is, admittedly, exceedingly tempting to regard the greatest possible increase of economic welfare as the natural, as it were preordained, objective of a right policy and therefore the rules to achieve it as absolutely valid. This inviting prospect makes it understandable that from time immemorial until the present day many economists have as a matter of course translated theorems about optimal allocation straight into mandatory directives which policy makers worth their salt ought to follow. The advocacy through the ages of free trade as the only scientifically correct policy is a case in point.

In a sense normative welfare economics is a continuation of this old and still not extinct tradition. It does not, however, condone the naive immediate transition from theory to policy recipes, recognising that these must be based upon value judgments. On the other hand, unlike the neutral theory, it retains the prescriptive function. To this end it explicitly adds the value judgments needed to turn the allocative criteria into normative statements. Bringing them into the open is all to the good, but it does not by itself substantiate the claim that welfare theory as such is normative. To bridge this gap it is usually assumed or suggested that, owing to the nature of the subject, welfare economics is obliged or permitted to make the value judgments its own, so that they are incorporated in the 'analytical structure' as an indispensable ingredient. An essential element in this approach is that welfare theory accepts or even appoints optimal allocation as a goal equally sanctioned by ethics and economics, with the inference that this grants a licence to lay down definite policy rules. Probably, if for the moment Mishan's actual, more complicated position is somewhat

simplified, this kind of reasoning offers the key to the enigma of speaking '*qua* economist': it seems to mean that in this capacity one is only allowed to make normative statements in view of attaining such a favoured end.

If this recapulation of a rather woolly line of thought, neglecting other differences in accentuation and presentation than those hinted at, is in the main correct, it is immediately obvious that, at least in the eyes of a neutralist, the argument fails to legitimise the normative conception in a methodologically sound manner. The whole idea that an economic theory can commit itself to extra-economic value judgments is anathema. It need not be repeated at length that an approval of economic welfare is no exception. The amalgam of economics and ethics blurs the boundary between positive and normative and thence creates a most harmful confusion. It is particularly objectionable that it is dished up with the label of economics. This appears to ascribe to economists an ethical competence to which they are not entitled and which cannot but lead outsiders (and perhaps economists too) astray, violating their right to be truthfully informed about the limited and relative meaning of allocative propositions. In response to Mishan's allegation that the neutral economist has to present his findings 'without comment so to speak' it might be said that the latter will be inclined to warn against a normative interpretation. Moreover, the misleading rationalisation of a bad old practice is apt to keep alive the hardy misconception that economics can determine the desirable ends of economic policy and decree the ensuing measures to be taken. It is not the least merit of the neutral theory that it counters this fallacy.

A further objection is the questionable validity of the involved value judgments. They are not introduced as the fruit of an independent inquiry, based on moral philosophy, but rather as an ad hoc expedient to dress up as ethically respectable economic propositions which are taken as a datum. Because these reflect no more than a one-sided economic point of view, ignoring other (ethical, social, political) aspects, it is unjustified to assign a priori ethical worth to them. Besides, this would not only affirm the unqualified moral propriety of economic welfare but, if the prescriptive authority is interpreted to the letter, it must also confer on allocative efficiency a priority relative to other ends which might conflict with it, as e.g. an equitable distribution of income or, according to Schumpeter's thesis, economic growth. This ethical casuistry can scarcely be taken seriously and I am under the impression that in fact only a minority is prepared to go that far. As is apparent from his paper Mishan expressly denies such an absolute precedence to the Pareto criterion, a point to which I shall return presently.

So the legitimacy of the ethical pretence also proves to be untenable; it resembles a kind of pseudo-ethics. Surprisingly, in spite of our fundamental differences, this conclusion does not diverge too much from Mishan's opinion. The remarkable paragraph in which he calls the value judgments instrumental because they 'are not being selected for their intrinsic worth' is one of the signs of this meeting of minds.

VI

One cannot accuse Mishan of ignoring certain weaknesses of the normative conception. Though he has always been strongly attached to it he never was a complacent unreflecting adherent. His doubts do not, however, concern the methodological difficulties connected with this position, but rather the quality of its ethical content. His well-known excellent essay 'A Survey of Welfare Economics, 1939-1959,' dating from 1960, mentioned in his note 5, though imbued with the normative conviction as if it were the only conceivable one, already testifies to this critical attitude. In the closing paragraph he complains that as 'a study of welfare' the theory is 'seriously limited' and even 'positively misleading' because 'the things on which happiness ultimately depends, friendship, faith, the perception of beauty, and so on, are outside its range.'

Mishan has often returned to this problem and in the preceding article he illustrates again, with rather extreme examples, the restricted ethical validity of the Pareto criterion, which makes it unfit to serve as a trustworthy guide to policy. It is a pleasure to greet Mishan here for once as an ally. All the same, a difference remains in that Mishan, merging the ethical and the economic, regards the ethical deficiency as impairing likewise the utility of the criterion as an economic one (which, by the way, does not totally exclude immaterial values like beauty, since these may be the product of economic decisions). After the brief encounter our ways part forthwith, as Mishan's criticism of the criterion does not induce him to abandon its prescriptive function. To save this he has in a number of writings, and once more in the paper in this issue, proposed as a way out the idea that the existence of an ethical consensus may be the ultimate legitimising sanction of normative judgments based on the criterion and thus of 'speaking *qua* economist.'⁶

To begin with a minor point in my comments on this innovation, Mishan's new nomenclature does not seem felicitous to me. It may be deemed a bit presumptuous to monopolise the epithet 'normative' for his own version (in which I do not follow him in this rejoinder), whereas 'objective,' appropriate as a synonym for 'neutral,' is in his parlance a misnomer. More substantially, I must confess to finding the various definitions of the 'objective' type, referring to 'the welfare of society in some meaningful sense' and 'the real welfare of society' rather opaque. How is this 'real welfare' to be conceived in his scheme without a consensus supporting it? Nor is it at all easy to fathom why, while Mishan denounces the insufficiency of the 'objective' approach, it still keeps his 'abiding interest' and gets a place in his tripartite classification with a purpose of its own. The resulting 'ambivalence' noted in Mishan's epilogue is, if I am right,

6 Also in the article in the *Journal of Economic Issues*, quoted above, p. 43: 'Insofar as it (viz. 'the conventional method of economic calculation') is founded upon an ethical consensus, his economic expertise is clearly defined.'

responsible for inconsistencies in his paper, where he seems to assume intermittently different roles without its always being clear to the reader which hat he is wearing.

Mishan's delineation of the relationship between the consensus principle and the Pareto criterion together with the consequent task of welfare economics is far from simplistic. An especially troublesome complication in his set-up is that even if the criterion receives consensual approval, it may still be overridden if it conflicts with 'other values cherished by the community.' The welfare economist is obliged to heed such a clash when issuing his prescriptions. One may wonder why in these circumstances the criterion would be endorsed in the first place. The qualification implies a subtle distinction between judgments of the criterion as such and others bearing upon its implementation. It seems a tricky matter to draw this line in fact. At any rate the eventuality of a disavowal after a primary approval curtails the prescriptive power of the criterion, surrounding it with uncertainty, possibly to the extent that it threatens to become nearly indeterminate. In addition, Mishan charges the welfare economist with the duty to gauge conflicts of values which he may not find at all congenial. Yet his cautioning against the absolute character of prescriptions may be appreciated as showing an awareness of the fact that the normative aspiration embroils welfare economics in a maze of intricacies beyond its rightful domain. Their absence from the more clear-cut scope of the neutral conception is one of the arguments in its favour.

Mishan's ingenious new design is more than a superficial face-lift; to my mind it is in several respects an improvement on the usual normative doctrine. Still, I am afraid that it will not succeed in converting those who hitherto did not believe in the prescriptive mission, for it runs up against the same insuperable methodological obstacle. It remains, though purified of some incongruities, an unacceptable mixture of economics and ethics. It might be considered an advantage that it relieves welfare economics of a direct responsibility for dubious value judgments, but it maintains a reliance at one remove on values which, being approved by an ethical consensus, may be less vulnerable, but nonetheless are external to any economic theory and cannot be assimilated into it. From the methodological point of view this change does not make an essential difference.

So Mishan's device continues in principle, apart from his own reservations, in a perhaps somewhat more attractive form the fiction that welfare economics, by the grace of extra-economic value judgments, holds a mandate to give instructions about the end of economic policy in the name of economics. His valiant rescue operation does not solve this fundamental dilemma of a putative normative welfare economics. That even his thoughtful effort fails demonstrates to the full that this conception is a chimera.

The consensus postulate entails a further methodological anomaly. According to Mishan welfare economics would be deprived of its normative function if a consensus does not materialise. Thus its character depends on the state of

public opinion and may vary with its possibly erratic fluctuations. In consequence Mishan appears to occupy a half-way house between positive and normative. To dispute that his new principle constitutes a solid base of normative welfare economics is not to deny that the values and opinions prevailing in a society (together with the not to be forgotten interplay of the interests of socio-economic groups) largely determine the actual significance of allocation theory. This factor is patently irrelevant to its methodological status.

VII

The futility of the attempts to construct a genuinely normative welfare economics does not rule out perfectly legitimate recommendations of allocative efficiency linked to economic theory. These are unexceptionable if the vainly pursued full integration of theory and value judgments is replaced by an association in which the two components are kept strictly separate. Proposals resting on such a combination do not belong to economics proper but to political economy as defined by Lord Robbins. In his words, this does not form a part of 'scientific economics' since it involves assumptions which 'lie outside positive science and are essentially normative in character.'⁷

An economist who champions the neutrality of welfare economics may in good conscience make use of his 'economic expertise' to propagandise as a political economist allocative efficiency (or restrictions to it) if he leaves it in no doubt that he is not speaking solely '*qua* economist.' It would be apposite to reinterpret the so-called normative welfare economics as a specimen of political economy in this sense. Mishan gives no convincing reason for rejecting this course in his second note; the supposition that welfare economics is raised 'on widely accepted value judgments' is not a valid one.⁸ It is true that this solution is incompatible with the kind of prescriptive competence the normativists take pride in, but this claim is anyhow fanciful. To those accustomed to regard it as an honourable distinction of the subject, relinquishing it may at first sight be felt as a painful impoverishment, but actually it is an escape from a damaging illusion without diminishing the practical usefulness of the theory.

It seems to me that a reconciliation between the contending parties in this field in the spirit of Robbins' division must reasonably be feasible. It would expel the ambiguity surrounding the methodological status of welfare econo-

7 Lord Robbins, *Political Economy: Past and Present*, London-Basingstoke, 1976, p. 3. It is a pity that in the note on this page he seems to identify welfare economics exclusively with the normative version.

8 In *Introduction to Political Economy*, London etc., 1982, p. 19-20, Mishan considers the whole of welfare economics, covering 'norms of allocation and distribution,' of which 'allocation economics' is the 'more fascinating' part, as belonging to political economy.

mics and settle a dragging controversy which, originating from mistaken interpretations and aspirations, is basically unnecessary.

VIII

Mishan's consensus principle might very well figure in political economy. It must be observed, however, that also in this connection it gives rise to a number of non-negligible difficulties which he passes over to the detriment of the cogency of his proposal. Some may condemn the requirement of a consensus or even near-unanimity as too stringent, possibly as undemocratic, and prefer a simple or a not too heavily qualified majority.⁹ Contrariwise, it has been argued that even a unanimous agreement on ethical values would not guarantee their real validity or inner rightness.¹⁰

Above all, the practicability of the principle is highly debatable. The range of opinions, if they exist at all, on such an elusive question as the ethical acceptability of real or potential Pareto improvements, either in general or in special cases, and besides, the presence of values 'cherished by the community' which may oppose their implementation are not simple, easily ascertainable nor, presumably, most of the time relatively stable phenomena. One might enlarge extensively upon this matter and the various methods of dealing with it, also taking into consideration the discussions around the Wicksellian unanimity rule. This would demonstrate that the problem is a very thorny one and that a faithful follower of Mishan, who needs to know which way the winds are blowing, would find himself in a not exactly enviable situation.

Mishan does not divulge his thoughts on these mundane complexities and uncertainties. But it is arguably rather pointless to worry overmuch about them. His design is only viable if one may with reason be confident that as a rule consensus would exist. No cumbersome empirical investigations are needed to render one sceptical in this respect. A striking symptom is that Mishan himself is not that hopeful.

In his mildly optimistic moods he voices the 'suspicion' that under certain conditions¹¹ the distributional consequences of potential Pareto improvements would not impede their acceptance. This is, however, only one side of the

9 J. de V. Graaff, 'On Making a Recommendation in a Democracy,' *Economic Journal*, June 1962, p. 296, advises the economist 'to count heads' if he wants to avoid his recommendations being 'of no interest whatever to the society for which they were intended,' but does not require anything like a consensus to prevent such an unlucky occurrence.

10 In this sense E. van den Haag, 'Normative and Analytical Welfare Economics: Arrow's Pareto Principle,' in S. Hook (ed.), *Human Values and Economic Policy*, New York, 1967, p. 187: 'generally the argument from unanimity of belief confuses social with ethical justification.'

11 These, four in number, are listed more systematically in *Introduction to Political Economy*, pp. 35/6.

problem; another is the doubtful ethical substance of the Pareto criterion which Mishan has exposed on many occasions, e.g. in the statement that 'there is much that might increase total utility, or that might realise Pareto improvements, that is nonetheless quite unacceptable to civilized societies.'¹² On account of utterances like this one would not be astonished to count Mishan among the dissenters preventing the emergence of a consensus. A good number of other economists have likewise advanced strictures about the ethical foundation of the Pareto principle.¹³

It is a most plausible hypothesis that similar judgments are very common. A pointer is the almost omnipresent restrictions of consumers' sovereignty; in my review I noted Mishan's recognition of this. Also, the resistance that measures to increase allocative efficiency regularly encounter and which may be seen chiefly as a negation of Mishan's 'suspicion,' does not encourage the belief in the likelihood of a consensus. In view of the abounding indications it is barely conceivable that a consensus on the Pareto criterion and its subsequent passing the test of countervailing values can be more than a highly exceptional and probably fleeting miracle. It is not for nothing that some economists have called Pareto optimality a utopian notion¹⁴ – which does not make it redundant.

In his more pessimistic moments, as in the defeatist essay cited in my review and towards the end of the present one, Mishan regards it as 'quite possible' (no overstatement this) that the consensus condition will not be fulfilled. The lukewarm disposition to Pareto optimally he has often displayed might make one suppose that this situation would leave him fairly indifferent. But, belying that distrust, he laments 'such sad circumstances'; apparently what weighs heaviest on his mind is that they would spell the end of 'a legitimate normative welfare economics.'

It is most interesting that, should this misfortune come to pass, he would choose the neutral theory as the next best alternative, preferring it to the 'objective' version, and that he foresees retreating there as a real possibility. So, while still clinging to the normative conception, he has mentally, with the utmost reluctance, put one foot in the neutral camp. If he feels compelled to take the second step his arrival at the right place, be it with displeasure and for the wrong reasons, deserves to be warmly welcomed. I offer him a consoling thought: when he realises the true potential of the positive theory he will discover that his exile is not nearly as dismal as he fears.

It is not, I believe, fortuitous that Mishan seriously contemplates the move that would really 'bring us closer to agreement.' His dilemma indicates the

12 'The Futility of Pareto-efficient Distribution,' *American Economic Review*, December 1972, p. 975.

13 Examples are given in Hennipman, 'Pareto Optimally,' pp. 60/1.

14 References, among others to J.E. Meade, in P. Hennipman, 'Some Notes on Pareto Optimality and Wicksellian Unanimity,' in E. Küng (ed.), *Wandlungen in Wirtschaft und Gesellschaft* (Festschrift for W.A. Jöhr), Tübingen, 1980, p. 410.

predicament of the normative doctrine which he is too percipient not to discern. I like to imagine that before long he could persuade himself that the road he still shrinks from following wholeheartedly is the most sensible or, better, the only rational one to elect. But, irrespective of this happy outcome, I am thankful for the occasion to discuss the destination of welfare economics with an economist of his standing.

Summary

NORMATIVE OR POSITIVE: MISHAN'S HALF-WAY HOUSE

This rejoinder to Mishan's preceding article corrects his erroneous interpretation of neutral welfare economics. The normative conception, a confusing amalgam of economics and ethics, is criticised on various grounds. Mishan's proposal that normative welfare criteria are legitimate if they accord with a consensus in the community, though an improvement on the usual normative doctrine, does not remove its basic defects, while its practicability is highly dubious. Owing to his recognition that a consensus may quite possibly be lacking, his position is a half-way house between normative and positive.