

HENNIPMAN ON ECONOMIC POLICY AND  
WELFARE ECONOMICS\*

A REVIEW ARTICLE

BY

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1 INTRODUCTION

What can economics do for politics, and, consequently, what can economists do for politicians? This question is as old as economic science itself. But it did not always raise to consciousness. During the period of 'political economy' it remained below the surface, not because it was solved in a satisfactory way, but because the delimitation between economics and politics was to a large extent blurred. Time was not yet ripe to posit the problem in a clear-cut way.

The naive phase in the relationship between economics and politics lasted until deep in the 20th century. It came definitively to an end in 1932, when the sharp knife of Robbins carved a deep edge between politics as chooser of ends and economics as analysis of means on the basis of given ends.<sup>1</sup> This does not mean – or at any rate need not mean – that the two can never meet each other any more. The distinction of Robbins can be seen as the starting-point for a division of labour between both. But we must avoid a too straight-forward reasoning on this base. Also, the cry for a new political economy, for economic value-judgements and for ready-made prescriptions of economists for politicians, on the basis of the wiping out of the boundaries between the two, again comes to the foreground.

More modest is the claim that economics should be 'engaged,' so that its attention is focused on practical problems, particularly on the problems which play a role in economic policy. It seems that 'engagement' can be reconciled with the approach of Robbins. The choice of the subject of investigation is pre-scientific and consequently pre-economic.

There are especially three branches of 'engaged' economics, which can be considered as thinking in terms of ends and means.

\* P. Hennipman, *Welvaartstheorie en economische politiek*, edited by J. van den Doel and A. Heertje, Samsom Uitgeverij, Alphen aan den Rijn/Brussel, 1978.

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1 L. Robbins, *An Essay on the Nature and Significance of Economic Science*, London, 1932.

In the first place, we have the theory of welfare economics, which is more or less a relic of the former political economy.

The second example of a politically-engaged branch of economics is the theory of public finance.

In the third place, Tinbergen's approach to the theory of economic policy can be mentioned.

Of course there are inter-connections between these three subjects, although they have partially been developed separately and to some extent even in an antagonistic way.

It may be interesting to see if there exists a common ground which can be used as a firm base for a policy-oriented economics. For this purpose a peace-meal refinement and partial re-arrangement of thinking may be necessary.

Professor Hennipman, of the University of Amsterdam, has devoted a great part of his scientific activity to these problems. His contributions, mainly in the form of essays in symposia, all pave the way for a better understanding of the scope *and* the limits of economic analysis with a view to politics. They all rest on a thorough knowledge of the existing literature on the subject in question. To master all this takes time and ripening. Therefore it is no coincidence that most of his studies have been published in the last few years. In the Dutch branch of economics, they already belong to the classics in the field of economic policy and welfare economics. All but one – which was written in English – have been published only in Dutch. His colleagues Van den Doel and Heertje have collected these studies in the volume which is mentioned in the title of this article. These reprints are also in Dutch. Without any doubt Dutch-speaking economists will be grateful for this collection. It can perhaps make sense if English-speaking economists could also get some idea of Hennipman's contributions. Therefore in the present article it will be tried to give a brief summary of the six essays which are included in the afore-mentioned volume. This task can only be fulfilled in an imperfect way, because when reading Hennipman on these issues, one is irresistibly caught by the impression that it needs exactly the words chosen by him to get an optimal grip on the problems in question. With this in mind, we can try to make the best of it.

There are two parts, one on economic policy and one on welfare economics. The latter part also includes subjects where welfare economics and the theory of public finance overlap.

The first part consists of one essay, on objectives and criteria of economic policy.

In the second part five essays are included. The first contribution on welfare economics deals with the question whether the optimum of Pareto should be considered as a value-judgement or as a tool of analysis. In the second essay the concept of interpersonal comparison of utility is cleared up. The third contribution deals with the way in which present-day welfare economics occupies itself with external effects. As a fourth subject, a comparison is made between Wicksell and Pareto in the theory of public finance, and in the last essay, a special aspect of this comparison is discussed, namely the inter-connection between the optimum of Pareto and the requirement of unanimity of Wicksell.

After this summing-up, which may give an impression of the contents of the book of Hennipman, a more detailed survey will be given of each of these studies.

## 2 OBJECTIVES AND CRITERIA OF ECONOMIC POLICY

This essay, which covers the whole of part one, is the oldest of the contributions which are included. It dates from 1962. Its coverage is also the broadest of all and it takes up some 40% of the total number of pages. An analytical list of references alone covers 19 pages, comprising 335 publications.

It is to a large extent '*dogmengeschichtlich*,' although the positing of the problem in question is largely inspired by the modern claim that economic science should particularly occupy itself with problems of economic policy. Taken in this broad sense, the claim of 'engagement' at first sight seems quite innocent. But it could go too far and lead to a situation in which the only '*raison d'être*' of economics would be the service which it can render to politics. This could easily lead to a neglect of fundamental research and a haphazard preoccupation with incidental problems of the day. Therefore, some distance from policy is needed. The reproach from the side of politicians that this distance is too great, if it has ever been true, does not seem justified since the thirties of this century. In fact, problems of economic policy have since the middle of the thirties been the main inspiration for the development of economic theory and economic research. This refers to issues of employment, restrictive practices, economic order and economic planning. Not always can a direct link be laid between the outcome of economic analysis and the needs of policy makers. The first will nearly always be of a more or less generalizing nature, the latter asks for *ad hoc* solutions. In this sense, the distance will always be present and the claim for 'engagement' means a certain burden for economics.

How can the relationship between economics and politics best be organized? Is it possible to distinguish a separate branch of economics that can be called 'theory of economic policy,' or has it sense to speak of an applied discipline in this field?

To answer these questions, the basic concepts of this subject have first to be clarified.

Economic policy itself is taken in a narrow sense, *i.e.* economic policy by the state. The state covers all subjects with sovereign powers, and can accordingly draw on the means of private subjects, with as *ultima ratio* the use of coercion. This definition seems sharp enough to work with, although there are border cases such as the activity of the state as market subject, *e.g.* when buying goods and services for the fulfilment of its task.

The most clear-cut delimitation of a theory of economic policy would be arrived at if it would be possible to define a separate economic objective, which has to be the aim of economic policy and consequently a criterion against which all factual measures have to be judged. As such a central objective maximum welfare presents itself. From the classical tradition stems the objectivization of welfare to production. But this cannot be maintained when it is realized that what matters are the utilities – and disutilities – which are behind production. So we are driven to the subjectivization of the concept of welfare. But if taken in a subjective sense, not only the size of welfare, but also its distribution becomes of importance. The inclusion of distribution in the concept of welfare creates important problems, because in that case the interpersonal comparison of utility seems indispensable. Besides distributional aspects there are other objectives in the sphere of economic policy which cannot always be reduced to the maximization of production. The most important relate to stability, growth and employment.

Is it possible to redefine the central objective of economic policy in terms of obeying the preferences of consumers? This question goes far back, to Adam Smith himself. In fact, it is no more than a different description of the subjective interpretation of welfare, and so leads to the same objections. Moreover, even if economic policy could be reduced to this sole objective, the problem presents itself that not all wants are and can be sufficiently and clearly expressed by private subjects. The state will have to intervene in several cases. The criterion of consumer's sovereignty fails to give a yardstick for these interventions.

Taking all this into consideration, we are left with the conclusion that economic theory is unable to formulate objectives of economic policy by itself. In this sense there are no separate economic objectives, and consequently no non-economic objectives. Economic objectives are those that are stated as such by politicians. For economics they are given. In this way, the objectives of the economic subject 'state' have to be treated as analogous to the objectives of the private economic subjects. The latter objectives have previously also been considered as separate economic motives, but this construction of the *homo oeconomicus* has broken down on the difficulty of delimiting the boundary line

between economic and non-economic motives. As a consequence, all private motives had to be placed outside the theory. Economics has no yardstick, with the help of which it can be stated when motives are economic and when they are not. As has been stated, the same applies to objectives of economic policy. This clearing up of the thinking in the field of politics has occurred much later than the reduction of economic man to an empty concept. But we cannot escape the conclusion that the evaporation of economic man also wipes out separate objectives of economic policy, which are handed over to politicians by economists.

As we know, the second line of defence in the field of private motives has been the reduction of the economic motive to the economic principle. This means that, if the ends of economic decisions are given, it might be possible that economics withdraws itself to the means. In this frame of thinking, economic criteria can be developed which can be used to judge the way in which the given ends are achieved. In his doctoral thesis Hennipman himself has shown in a convincing way that this second line of defence does not hold.<sup>3</sup> The subjectivization of motives which is connected with the downfall of the separate economic motive also drags along with it the separate economic means. The same applies to the means of economic policy.

The theory of economic policy as designed by Tinbergen goes far in the direction of a specialization of economics to the means, because the ends are given. But on this point we have to be very careful.

In the first place, the fact that objectives are given for economic science need not necessarily mean that it can only take a purely passive attitude in this field. Objectives which can be used as starting-points for economic analysis in the sphere of means are often of an intermediate character, in the sense that they have to be derived from more general aims like freedom, justice and the like. The concretization in economic terms is essentially a matter of politics, but economists can help them in this procedure. The same applies to the possibility that objectives, as given by politicians, appear to be conflicting if studied from an economic point of view. The ultimate judgement of economic (in)compatibility can only be given by the economist. In a direct line with this lies the possibility that the politician might not be aware that the pursuit of some objectives can have negative side-effects on objectives which for the problem in question are not mentioned explicitly, but which come to consciousness in case of negative repercussions.

The counterpart of what could be called the derived occupation of the economist with the ends of economic policy is a derived occupation of the

3 P. Hennipman, *Economisch motief en economisch principe*, Amsterdam, 1945.

politician with the means. It is he who has the final say on the question which economic quantities are on the list of means. Also, the way in which the means are used, the extent to which they are used and the choice which has to be made if alternative means are possible is a matter of policy and not of economics. Therefore, it cannot be said in a general sense that in the sphere of economic policy the political aspect is choosing the ends and the economic aspect is choosing the means. There is neither a separate list of ends, nor a separate list of means. Both lists are given *ad hoc* from the side of policy. The economist can try to lay bare the interrelationships between the two, but the last word in the choice of the factual means again rests with the politician.

Thus a science of economic policy as a pure theory is empty, because there are no generally accepted ends. An applied science, on the basis of given ends, is also empty, because there are no generally accepted means.

The analysis of the relationships between ends and means in the field of economic policy does not show a principal difference from economic analysis as such. It is part of economic theory as a whole, but not a separate part.

Of course it always remains possible that economists step outside their science and give judgements on economic policy which belong to the sphere of politics. But the fact that they are at the same time economists does not give them a special quality to do this. It is true that they are experts on one aspect of policy-making, but on the other hand they run the risk on one-sidedness on this issue.

For the economist as such, problems of economic policy are no more than stimuli for investigation, besides other challenges. It may be expected that the analysis of problems, stemming from the sphere of economic policy, will remain very important, although a short-cut between both fields does not seem to make sense.

### 3 PARETO OPTIMALITY: VALUE-JUDGEMENT OR ANALYTICAL TOOL?

The idea of Pareto optimality started its life as a purely economic concept. It continues to be used in this sense, but nowadays this interpretation is not the most usual one. Thus it has come to mean different things to different people. The various meanings are not always kept as clearly distinct as is desirable.

The original Paretian concept of a theory of collective ophelimity as an essential part of pure economics, independent of ethics, remained prominent well into the forties. It was particularly defended by Hicks. The normative interpretation stems mainly from Bergson and Samuelson.

In the ethical version of Paretian welfare economics, a jump is made from utility maximization to social welfare. What is the attractiveness of this in-

interpretation? The aim is to enable economics to make policy recommendations. At first sight it seems possible to achieve this by transforming optimal allocation into the central end of economic policy. In this way it loses its hypothetical character, which belongs to its interpretation as an analytical tool in economic theory. But in fact, there are competing aims of economic policy. So the identification of utility maximization with social welfare does not make sense. Economic theory cannot decide on social welfare functions. In this connection it is important that words like 'welfare,' 'efficiency' and 'optimum,' which seem to be value-loaded, are used as technical terms.

Is it possible to refer to Pareto optimality as an economic objective, at the same time indicating that other objectives, like equalization of income distribution, are non-economic ends? This half-way capitulation of the normative interpretation does not go far enough. There are no economic ends of policy, on the basis of which can be said whether or not certain measures are economically desirable or economically undesirable.

Another line of defence of the normativists is that the Pareto criterium is in fact never a neutral hypothesis, but at least a crypto-normative statement. In such a situation, it may be deemed better to bring out the normative character quite openly. It must indeed be confessed that economists have not always kept in mind the analytical character of the Paretian conditions for optimal allocation. But in these cases, the best way is the purification of analysis and not making a virtue of need.

The normative interpretation runs especially into difficulties in view of its implicit approval of the private utilities which are behind the Paretian principle. For economic theory, the preferences of the subjects are given. It gives no judgement on them. A normative Paretian doctrine, however, considers them as good. By doing this, it becomes involved in ideological issues and consequently vulnerable to attacks on a variety of ethical and political grounds. In the alliance of economics and ethics the latter is the dominant partner. Therefore it is important that Paretian theory is delivered from the clutches of value-judgements.

Does it make sense to dress the Paretian principle intentionally with a normative interpretation? In this frame of thinking, a hypothetical meaning is recognized as a possibility, but because of the purely analytical meaning of this, preference is given to the transposition into a norm. In the latter case unequivocal prescriptions for policy can be given. In this way a heavy burden is laid on the shoulders of economics. How should cases where some people are better off and others are worse off be dealt with? Can the compensation criteria be translated into operational policy measures? And how, if politicians wholly or partially choose different aims?

Of course there are cases in which the hypothesis of optimal allocation conforms to reality. This is true in so far as the Paretian optimum appears to be an objective of economic policy. But the analytical significance of the Paretian welfare economics does not depend on this accidental choice of policy objectives.

With all this in mind, Paretian welfare economics can never act as society's ethical guide. The sooner this pretension is relinquished, the more fruitful the theory of optimal allocation will be.

#### 4 TWO TYPES OF INTERPERSONAL COMPARISON OF UTILITY

As a legacy of utilitarianism, economic theory has for a long period dealt with utility as a quantity, capable of being added. This conception included interpersonal comparison of utility. In general, it was considered self-evident, so that no proof was deemed necessary. However, no unanimity existed on the way in which the comparison had to be made. Also, some 19th-century economists denied the possibility to compare utilities of different persons, namely Jevons, and, of course, Pareto, at any rate in his best moments. But these critics remained dissidents until the thirties. In the first place Robbins, in 1932, and later in the thirties Hotelling, Kaldor and Hicks, definitively broke with the tradition of interpersonal comparison of utility. On the basis of the writings of the last-mentioned authors, the so-called new welfare economics came into existence, which was purely Paretian in character.

The reversal of thought came so suddenly that from that moment on the impossibility of interpersonal comparison of utility became largely axiomatic.

Contrary to this, in economic matters theory and practice often contradicted one another. For several purposes, like cost-benefit analysis, utilities were sometimes compared and added together. The use of national income per head as a yardstick of welfare also survived to a large extent. With this in mind, in the course of time the question of interpersonal comparison of utility was again brought to the foreground by some outstanding economists, like Tinbergen. There are different arguments for the revival of the old utilitarian approach. In the first place, there is little doubt that in extreme cases, when persons with large income differences are considered, a rough comparison is possible. Perhaps, in the course of time, this can be further refined, on the basis of more penetrating investigations. Well, never say never, but up till now no advocate of interpersonal comparability of utility has been able to find a satisfactory yardstick. The only thing which they produce is some arbitrary measure, which cannot be proved or disproved. For their purpose it is necessary to measure satisfactions, which must be deemed very difficult.

As a completely different argument it is sometimes stated that in fact in-



terpersonal comparison of utility does take place almost daily, within the family and by policy makers in case of redistribution of incomes. The conclusion on this point is, it is done, so it must be possible. But this conclusion rests on a very weak basis. The housewife and the policy maker do not occupy themselves with comparisons between the utilities of the family members and the citizens, but they give their own valuation of these utilities. They make no judgements of fact, but value-judgements. This is a quite different interpretation of the interpersonal comparison of utility. Because of this principal difference, it is recommendable that the normative variant is indicated by a different name, like *intra*-personal comparison of utility, or interpersonal *valuation* of utility. The normative interpretation stems especially from Bergson. Against this view no objections from economic theory can be made, because the passing of value-judgements falls outside the scope of economics. They are data for the economist. However, it is possible that a confusion arises when it is assumed that his value-judgement stems from economic theory, or that it can in some way be transformed into a judgement of fact. This is wrong. If a judgement of fact in this field cannot (yet) be found, it is impossible to construct it via a political valuation. When an economist gives such a valuation, he, too, steps outside economic science and does not produce more than a value-judgement.

The objective versus the normative interpretation of interpersonal comparison of utility corresponds to the same controversy on the Paretian principle of utility maximization. The latter may be considered the same issue in a broader field. The difference between the two levels of the conflict between analysis and valuation is that in the case of the interpersonal comparison of utility the analytical interpretation has no exact meaning, so that the normative variant might seem a way out which is also helpful for economic theory. That this is not the case follows from the foregoing argumentation.

##### 5 EXTERNALITIES IN PRESENT WELFARE ECONOMICS

Mishan's book *The Costs of Economic Growth* can be considered as one evidence of the many cases in modern literature where welfare economics is able to give important contributions which throw light on practical problems. At the same time, the publication of this book is an occasion for a careful delimitation of the phenomenon of externalities. Mishan himself embraces the definition given by modern welfare economics: externalities are positive or negative side-influences of economic activities, working outside the market and changing conditions of production or satisfactions for other economic subjects. This means that the economic subject which creates them does not pay or receive a corresponding market price.

Externalities in this sense are often considered part of external economies and external diseconomies. In a broad sense, these include also consequences of economic activities by certain subjects which are indeed indirect, but which are at the same time expressed in market quantities. Both phenomena are very different. For welfare economics, externalities in the aforementioned strict sense are by far the most important.

We must also keep in mind that it only makes sense to deal with externalities under the assumption of given preferences. As a consequence of this restriction, the influence of the consumption of one person on the preferences of another – *e.g.* the demonstration effect – falls outside the phenomenon of externalities.

Originally, the study of externalities took place in the Marshallian tradition, especially in the welfare economics of Pigou. The Paretian theory had some difficulties with them, because of a strong connection with correcting taxes and subsidies. This introduces considerations of redistribution, which Paretian welfare economics could not easily digest. The way out *via* its introduction into a Bergsonian welfare function does not take us further, because in this case there is no guarantee that they are connected with the analysis of allocation problems.

For purposes of allocation theory, it may be important to remember the Pigovian terminology of a divergence between individual and social costs or revenues in case of externalities. In case of such a divergence, allocation is put on a wrong track.

It is recommendable to define social costs and revenues in such a way that they include individual costs and revenues. The distinction between costs and revenues is in so far arbitrary, that in many cases externalities (*e.g.* negative ones) can be handled either as additional costs, or as negative revenues. At the same time, differences between individual and social costs or revenues may be caused by other factors than external effects.

The insertion of externalities in the Paretian frame of thinking runs into difficulties which are connected with its yardstick of welfare in the original version. According to this, an increase in welfare for a group has only a definite meaning if no member of the group is worse off. This condition is seldom fulfilled in cases of economic change, such as adaptations in allocation. In order not to fall victim to a complete nihilism, Paretian theory has been compelled to be content with a less stringent criterion. This is the neo-Paretian principle of *potential* changes in welfare, to be calculated by application of the compensation test. In this way the problem of distribution is evaded. In fact, distribution always plays a role when externalities are internalized in this way. So it is clear that by the neo-Paretian approach it is impossible to derive prescriptions for policy measures. It is no more than an insight that is necessary for reasonable decisions. In a sense, this neo-Paretian analysis comes down to a pseudo-Marshallian

procedure, because in cases of opposite welfare changes the negative change is deducted from the positive change. But this takes place with a *reservatio mentalis*: these operations do not include interpersonal comparison of utility.

In his pioneering article of 1960, Coase pointed to the possibility of a more direct internalization of externalities by an exchange between both parties that are involved. In this way a market in externalities comes into existence, as a consequence of which they lose their character as such. A solution is achieved which is satisfactory for both parties and at the same time optimal from the point of view of allocation. The outcome does not depend on the way in which property rights are regulated. The definition of property rights influences the distributional, but not the allocational aspect. This means at the same time that laying the burden of correction for negative externalities on those who are responsible for them need not be the only possible solution. Likewise, in the optimal situation which is achieved by the introduction of a market for externalities, part of the externality in question may remain in existence.

Of course the practical significance of the solution, recommended by Coase, is limited. It is mainly restricted to neighbourhood effects in the strict sense between two parties. On the other hand, the heuristic value of the market construction is important, because even the semblance of interpersonal comparison of utility is avoided. One consequence of this way of thinking is that the welfare concept, which up till now in welfare economics was mainly restricted to material goods, is extended to all elements which on the basis of their scarcity can be valued in money terms. Therefore there is no sense in making a distinction, let alone creating a controversy, between the economic in the sense of all that is material and the non-economic which comprises the non-material elements of well-being.

Mishan himself goes beyond welfare economics when advocating measures in the sphere of motor and air transport, and in influencing private preferences. This can be seen as a personal testimony, on which no judgement from the side of economic theory is possible. For the purpose of economics, the significance of his book is the placing of growth in the broad frame where it belongs, a frame that is even broader than economics itself.

#### 6 ADVENTURES OF A THEORY: WICKSELL AND HIS RELATIONSHIP TO PARETO IN THE THEORY OF PUBLIC FINANCE

Wicksell's fame as a theoretical economist is at present beyond dispute, but it took time before his ideas were generally recognized as highly significant. This refers especially to his *Finanztheoretische Untersuchungen* (Studies in the Theory of Public Finance). About half a century after the publication of this volume it still occupied only a very modest place in the theory of public finance. In the last

decennia, this has profoundly changed. Prominent economists, working in this field, acknowledge him as their forerunner and even as the founder of modern theory. Cf. Musgrave, Samuelson and Buchanan. The only part of the *Untersuchungen* that got some attention immediately after the moment of publication was the reprint of his doctoral thesis, *Zur Lehre von der Steuerincidenz* (On the Theory of Tax Incidence). At present, however, it is mainly the second chapter, *Über ein neues Prinzip der gerechten Besteuerung* (On a New Principle of Just Taxation), that has come to the foreground. In the meantime, only Lindahl paid attention to it in his doctoral thesis of 1919. In the Netherlands, Van Gijn joined the main ideas of Wicksell in 1929. But these were no more than incidental records. Only in the course of the fifties did the great change take place. Then the time was ripe for it, because in the theory of public finance attention moved from taxes to collective expenditures as the main subject of analysis. This largely took the shape of relating it with welfare economics. Thus, the intellectual inheritance of Wicksell got on the track of the theory of Pareto. In modern analysis, the impression is sometimes created that they had a common vision on welfare economics and the theory of public finance. This way of presentation does not completely lack evidence, but reality is much less simple than is mostly suggested. No common point of view can be found in their publications themselves. On the contrary, they show more divergence than parallel thinking. Wicksell, in almost all his comments on Pareto, took a critical attitude. From his side, Pareto never mentioned Wicksell in his works.

Moreover, specifically in the sphere of welfare economics and public finance the two great masters were antipodes rather than partners.

In this connection it must be realized that Pareto hardly paid any attention to the theory of public finance. His attitude in this field stems from a sociological vision on the role of the state. In his view, public finance is the outcome of power relations. An analysis on the basis of economic principles is sharply rejected by him. Therefore in this field Wicksell and Pareto belong to antagonistic schools of thinking. The use of welfare economics in the sphere of public finance appears to be more Paretian than Pareto himself.

To a large extent the same can be said of Wicksell's attitude to the welfare economics of Pareto. He rejected the *optimum theorema*, mainly because he interpreted it as an absolute maximum, apart from considerations of distribution.

The scientific contrasts between the two authors can perhaps be partially traced back to differences in social philosophy and even in personality. Wicksell was strongly reform-minded, whereas Pareto took a cynical position in political affairs. Also, the modesty of Wicksell contrasted to the arrogance with which Pareto sometimes presented his own ideas and it seems that this attitude often irritated Wicksell.

But, all this being said, on second thought the possibility exists to lay a fruitful connection between the two.

This does not reflect itself in the title of Wicksell's essay. Superficially, this seems to point in the direction of extending the supposed law of diminishing marginal utility to the principle of proportional sacrifice in taxation. This would run contrary to the essence of welfare economics, which abstains carefully from judgements on the basis of justice. Indeed, Wicksell clearly rejected the idea of proportional sacrifice.

He does not start from the side of taxes, but from the side of expenditures. In his point of view, individual preferences are the only yardstick for an economic test of collective expenditures. The needs for collective goods in this frame of thinking are not principally different from the needs for private goods. This individualistic theory of public finance extends the concept of consumers' sovereignty to the public sector: that forms the common basis with welfare economics.

The individualistic character of this approach does not mean that Wicksell *explained* the factual collective expenditures from private preferences. In this respect, he clearly saw the role which is played by power relationships above the heads of citizens. This is not principally different from the point of view of Pareto. The big difference between the two is that Wicksell nevertheless took the trouble to work out an economic theory that could be used as a *yardstick* for judging collective expenditures. This yardstick is the utility of private subjects. The principle of consumers' sovereignty in this field has no explanatory significance: it is a welfare postulate. True, it was expressed by him as a categorical prescription. But this can be eliminated without changing the contents. What remains is a hypothetical welfare proposition.

From this treatment by Wicksell it follows that Pareto, too, could have taken the opportunity to extend his principle to public goods, without sacrificing his power theory on public finance. Both lie on a different level. Of the two, Wicksell was sharper. But this means that in this field the two authors complemented each other, though they themselves had no idea of it.

As a logical outcome of the idea of consumers' sovereignty in the field of public finance Wicksell chooses for the principle of benefit as a basis of taxation. In this way, the relationships between the state and the citizens are considered as exchanges, which, when factually applied, lead to maximal welfare for all private subjects. Clearly, the concept of justice which is used in the presentation of this theory relates to justice of exchange (commutative justice).

All this fits perfectly in Paretian welfare economics, also in the sense that interpersonal comparison of utility plays no role.

That the bridging of this apparent gap with Pareto has been delayed almost

half a century can also, apart from the personal attitude of the authors concerned, to some extent be explained by the fact that Wicksell diverted the attention from this central issue to the practical possibility of realizing the optimum in the sphere of public finance. This led him beyond welfare economics.

In this way, he came across the factual difficulty of finding accurate signals for private preferences on collective expenditures: they have no interest in giving correct information. In his opinion this problem can only be overcome by introducing the requirement of unanimity in voting, whereby in all cases on items of expenditure and the necessary taxes a joint decision has to be taken. This principle of unanimity is one of his most original ideas. It does not require a referendum on each issue, because it can, according to him, be left to chosen bodies on the basis of proportional representation. For his contemporaries this rule of unanimity appeared as an impracticable chimera. So it contributed to discrediting the whole of his theory of public finance. Contrary to these early judgements, the principle of unanimity has today moved to the foreground of the modern theories of voting and decision-taking. Analytically, the affinity with the criterion of Pareto stands out very clearly. On the one hand, Pareto improvements, whereby no one's welfare decreases, will find general approval, and on the other hand unanimity may be considered as evidence that the criterion of Pareto prevails. Therefore in modern literature the two are in most cases put on a direct line with each other. When at present the theories of Pareto and Wicksell are bracketed together, this refers particularly to the rule of unanimity and the criterion of Pareto. In fact, as may be clear from the foregoing, the whole theory of Wicksell can be considered as essentially Paretian, but on no point is this more clearly expressed than here. This means at the same time that the principle of unanimity has a much broader range than Wicksell himself realized. Thus, along a very adventurous way the initially neglected principle of unanimity at last reaches toward prominence by being coupled to the theory of his great adversary in the matter concerned!

#### 7 PARETIAN OPTIMUM AND WICKSELLIAN UNANIMITY

In the foregoing argumentation, it was attempted to explain why at present the criterion of Pareto and the principle of unanimity of Wicksell are more or less considered as two sides of the same coin. However, the question can be raised if the identification can go so far as to wipe out any difference between the two. This is the subject of the last essay.

In the first place, it may be recommendable to make a distinction between what could be called the unanimity theorem and the unanimity rule. The unanimity theorem states that both the realization of a Paretian optimum and steps in that

direction meet with a general consensus. The unanimity rule is a way of making decisions. In the existing literature, this distinction is, in general, not made in a way that is clear enough to avoid confusion.

As for the unanimity theorem, what can be said about its implication that all subjects prefer a Paretian optimum over a sub-optimal situation? At first sight, this seems to be self-evident: those whose welfare increases will be for and those whose welfare remains the same will not be against. If the subjects concerned are only interested in their own welfare, this conclusion is indeed clear enough. But that need not be the case. For this purpose, it has to be assumed that nobody's preferences are influenced by the welfare of others, *i.e.* that nobody is jealous. In addition, many considerations other than private welfare may influence the preferences of the subjects. *E.g.* in case of Pareto improvements in the sphere of international trade a loss in national sovereignty can easily work in a contrary direction regarding its influence on the preferences of private subjects.

This criticism on the unanimity theorem at the same time undermines the unanimity rule, which is based on it. Yet, there are additional objections against the rule itself, when judged on its own merits. Therefore, even if the unanimity theorem would be right, it may still be doubted whether a rule in the sphere of collective decisions can be derived from it.

Of primary importance is the relationship between Pareto criterion and unanimity rule. In this connection, it must be borne in mind that on the basis of the Pareto criterion no more can be done than the comparison and ordering of welfare positions. It is as such not connected with any practical decision. Of course, it can in fact be used as a guide of conduct for such decisions, but this can only be done on the basis of a specific political choice. So the criterion is at most a *possible* directive for decisions.

*A fortiori*, it is not inherent in the Pareto criterion that it includes a certain procedure for taking decisions. It does not state that certain decisions have to be taken, let alone the way in which they have to be taken.

The unanimity rule transforms the criterion of Pareto into a norm: changes which are unanimously accepted are judged as good, possible changes against which someone expresses a veto are rejected.

It should not be forgotten that in the theory of Wicksell the unanimity rule plays a specific role, namely the exclusion of parasitic behaviour in the sphere of public finance.

Even then the unanimity rule has difficulties of its own. The first of these is the possibility that the subjects are not fully informed. In the second place, the voting procedure can have tactical aspects, over and above its relation to the contents of the decisions concerned. Therefore it seems possible that a subject uses its right of veto as a means of coercion, by trying to get a still higher welfare

than corresponds to the Pareto improvement. It is probably for this reason that Wicksell – and also Lindahl – did not cling to absolute unanimity.

In the third place, one often meets the objection that the unanimity rule would always work in a conservative way, because anybody can block changes. But this need not be true. The purpose of the rule is not to block changes, but to ensure that they are only brought about if everybody benefits from them.

Taking all this in consideration, the unanimity rule remains important as a possibility for overcoming the paralyzing agnosticism towards individual preferences for collective goods. Like the criterion of Pareto, it is an analytical construction which plays a role in sharpening the ideas concerning the economic aspect of policy.

## 8 CONCLUDING REMARKS

So much about these studies. It stands to reason that the argumentation had to be reduced to the main outline. Many gradations have been lost in the process of summarizing. The original is much richer than what is reproduced above. Nevertheless, the possibility exists that in this way some impression can be obtained of Hennipman's achievements.

When reading his book, the chance is great that in the end one has become substantially wiser, not so much because of having discovered new things, but because one is taken by the hand and stimulated to re-arrange all one's rough thinking in this field, arriving at more refined distinctions. No proposal is made in the matter of economic policy, and yet the relationships between economics and politics are cleared up so fully that the way is paved for a more fruitful cooperation between the two, which can be expressed in economic policy itself.

At the same time, it appears that there is still room for a purely deductive and qualitative reasoning in economics. No mathematical formulae are used, only one figure is mentioned and that figure does not relate to reality, but to a numerical example. Of course economic theory cannot go back to non-mathematical methods. Only in exceptional cases can logic alone do the job. And even then it has no sense to do this unless it is done in an excellent way, as Hennipman has done. While one Hennipman is needed, one Hennipman is also sufficient.

The temptation is great to dwell a little longer on some of these subjects and let one's own thoughts roam free for a while, for instance on the distinction between interpersonal comparison and interpersonal valuation of utility, to use one of the terminological variants which are mentioned by Hennipman. If indeed interpersonal comparison as a judgement of fact is deemed impossible, in the sense that nothing factual can be proved to correspond with it, does this not mean at the same time that interpersonal valuation of utility lacks any basis? It is done in



practice, but still it is not possible. The value-judgement of the policy-maker in this field not only has nothing that is interpersonal, but also lacks anything that is connected with the utilities of the subjects concerned. The only utility which it contains is the utility of the policy-maker himself. So the difference between the two can perhaps be accentuated even more than Hennipman does, on the basis of, or at any rate in a direct line with, his argumentation. Perhaps this can be expressed by combining both terminological variants which are discussed by Hennipman (interpersonal valuation and interpersonal comparison). So we arrive at the expression intra-personal valuation, which in a sense maximizes the gap with interpersonal comparison as (im)possible judgement of fact.

As a second point, the working of the unanimity rule in a present-day democracy is an intriguing subject on which to elaborate a little further. As Hennipman points out, this rule is on poor terms with prevailing majority procedures. But on the other hand, the question arises whether government by group consent, which more and more characterizes our Western democracy, can be seen as an approach to the unanimity rule. The groups in question are the organized groups in society, which can block government measures that work against their interests. It is generally attempted to overcome this problem by consulting them beforehand and by making sure that they will cooperate, or at least will not resist the policy which is envisaged. The government will not always succeed in achieving this; but what is at stake here is the system as such, or at any rate the striving for it.

The difference between unanimous consent by representative bodies that cover the whole of the subjects concerned and by voluntary organizations that cover only a part of them is that in the latter case unanimity is a weaker criterion. In a sense it is easier to achieve, but it means less. It is easier to achieve because the members that are overruled in voting will partially be inclined to withdraw from membership. Ultimately, this can result in unanimity, if all dissenters leave the organization. In that case voting against is replaced by giving up voting. On the other hand private organizations are strongly inclined to maximize membership, so that they have a built-in interest in taking positions that satisfy the bulk of the members.

If the above is a fruitful line of reasoning, the point of view of Hennipman, where he states that the unanimity rule can be a useful basis for further analysis, becomes even more relevant.

For the moment, let us leave it at this. The foregoing was mainly intended to raise interest in what Hennipman has done, not in what can be further done on the basis of his analysis. In this last case the attention would at least partially be diverted to the author of the present article. This was not our purpose.

*Summary*

HENNIPMAN ON ECONOMIC POLICY AND WELFARE ECONOMICS

In the article attention is paid to a volume of reprints, in which Professor Hennipman unravels many problems on the boundary lines of economic policy, welfare economics and the theory of public finance. This appears to be one of the few subjects in economics where deductive and qualitative reasoning can still do the job alone, because the aim is refinement of thinking. The sharpening of mind on these issues can be helpful in finding the way in which economic theory can be useful to economic policy.