Bogusław Czarny

More about value judgements in economics : review of the book "Economics as Applied Ethics. Value Judgements in Welfare Economics"

International Journal of Management and Economics 36, 164-170

2012

Artykuł został opracowany do udostępnienia w internecie przez Muzeum Historii Polski w ramach prac podejmowanych na rzecz zapewnienia otwartego, powszechnego i trwałego dostępu do polskiego dorobku naukowego i kulturalnego. Artykuł jest umieszczony w kolekcji cyfrowej bazhum.muzhp.pl, gromadzącej zawartość polskich czasopism humanistycznych i społecznych.

Tekst jest udostępniony do wykorzystania w ramach dozwolonego użytku.

MUZEUM HISTORII POLSKI

Bogusław Czarny

More about Value Judgements in Economics: Review of the book *Economics as Applied Ethics. Value Judgements in Welfare Economics*

Wilfred Beckerman's[1] textbook entitled *Economics as Applied Ethics. Value Judgements in Welfare Economics*[2] has been published by Palgrave MacMillan. The monograph is intended for students who are completing their studies of economics and are interested in connections between economics and ethics. In the *Introduction* Beckerman states:

"[A]lthough ... the value judgements inherent in welfare economics are not prominent in economic research or education, students of the subject, or politicians, ought not to be left with the impression that economics is a value-free objective science." (p. 2).

What exactly the author means by this statement can be fully understood only after reading all 17 chapters of the book.

In Chapter 1, *Fact or value? A Simple Example: Sustainable Development and the Discount Rate,* Beckerman describes the concept of "sustainable growth" and presents benefits from a decrease of carbon emissions to the atmosphere. He argues that the "optimal degree to which we should cut carbon emissions depends on both the 'facts' concerning the probability of catastrophic effects on climate, and a number of ethical considerations." (p. 14). In particular, these ethical considerations decide how high we value the welfare of future generations as compared with our own welfare, or what is the level of the discount rate which is used in an analyzis of costs and benefits of cutting these emissions.

In Chapter 2, *Positive Propositions and Value Judgements*, the author reminds the reader of the distinction between "positive theorems" and "normative theorems". Positive theorems inform about what is, and can be true or false. Normative theorems inform about what should be, and their validity can depend on specific aims which in turn depend on value judgements (pp. 17–18, also pp. 226–227 in Chapter 17).

The function of Chapter 3, entitled *Fact and Value in Welfare Economics,* is to persuade the reader that postulates of welfare economics are always based on "positive" economic knowledge and on value judgements as well. For instance, "positive" economic knowledge tells us that the stability of prices contributes to economic equality and economic efficiency.

Since economic equality and economic efficiency are generally seen as desired, or "good", the conclusion is that we should try to reach the stability of prices in an economy.

In Chapter 4, *From Individuals' Choices to their "Welfare"*, Beckerman analyzes the connection between market decisions of economic agents, their preferences and their welfare. For many reasons, e.g. irrational behaviour, asymmetric information, inability to make use of available information, inability to achieve self-control, and various forms of altruism, decisions observed on the market cannot accurately reflect the true preferences and/or the true level of welfare of these economic agents.

Chapter 5 entitled *Pareto Optimality and the Social Welfare Function* analyzes criteria of optimal allocation of goods in an economy. First, Beckerman describes well-known limitations of the possibility of practical use of the concept of Pareto optimum, e.g. the practical impossibility of making compensation payments, a possible conflict of this concept with society's value judgements concerning the distribution of income, and conservation of the *status quo*. Second, the Bergson/Samuelson "social welfare function" is analyzed, which is based on an assumption about the possibility of comparing the utility of different people. At this point, Beckerman reminds the reader of Amartya Sen's critique of "welfarism", or of the assumption about the determination of social welfare exclusively by the utility of members of society.

In Chapter 6, *From Individuals' Welfare to Social Welfare*, the author extends his analyzis of obstacles that make it difficult to transform individuals' preferences into their economic decisions and into their welfare, and then into the welfare of society in general. In the author's view, the method of linking the measure of the welfare of the whole society with individuals' preferences revealed on the market is unavoidably arbitrary.

In Chapter 7 entitled *Utilitarianism in Welfare Economics*, Beckerman analyzes utilitarianism and its link with the concept of utility maximization as the ethical basis of economics. The main types and the dilemmas of this most influential of all Western moral theories are described, e.g., act utilitarianism and rule utilitarianism; the question of whether an increase in happiness is equally important as a reduction in suffering. For the first time, the most important critical arguments against utilitarianism are formulated.

In Chapter 8 entitled *Some Major Criticism of Utilitarianism*, the main criticisms are discussed in detail in the context of economics. The subjects of analyzis are:

1) Utilitarianists' interest in the consequences of the existence of rules and institutions, not in these rules and institutions as such; this "consequentialism" ignores the fact that people value not only the results of their own actions but also the way these results are achieved.
2) The focus of utilitarianists on the maximization of the utility of the whole society and their neglect of responsibilities of individuals towards particular groups of people.
3) Ignoring by utilitarianists of basic values other than happiness (e.g. equality).
4) Utilitarianists' assumption about the commensurability of all possible values, which allegedly can be reduced to only one value: utility.

Chapter 9, *GDP and Friends*, presents a short but detailed critique of the GDP. As an alternative or complement to GDP, two approaches are proposed: 1) *objective* indicators of specific components of "welfare", or so-called "social indicators" such as longevity or education level; and 2) *subjective* indexes of self-rated "happiness". In this chapter, the first approach is presented, including Amartya Sen's views and his human development index.

In Chapter 10, *Happiness*, the author elaborates on the discussion begun in the previous chapter by briefly analyzing the achievements of economists who develop the so-called economics of happiness. He is particularly interested in the "Easterlin paradox" and its possible justifications, and in recommendations that the economics of happiness can offer politicians.

In Chapter 11, *Why Equality?*, Beckerman describes a very old debate about distributive justice. His focus is on the possibility of justification of egalitarianism and the question what kinds of inequality are "just". John Rawls's "maximin" theory of justice and critical arguments against it (e.g. Robert Nozick's arguments) are presented in detail.

In Chapter 12, *What Equality?*, Beckerman deepens his analyzis of the ideal of equality (justice). He asks the question, what exactly should be equalised in accordance with this ideal (income? welfare? opportunities? Amartya Sen's *capabilities*?). The author tries to assess these various concepts, taking into account not only justice but also other ethical ideals, such as responsibility for one's own actions.

Chapters 13 and 14, entitled *The Boundary of Society: The Boundary in Space and The Boundary of Society: The Boundary in Time*, respectively, are about the question of proper geographical and temporal "boundaries" of society whose welfare economists try to maximize. Beckerman states: "Many of the most important applied economic policy problems today go well beyond the boundaries of any individual country or any particular slice of time. So we have to ask ourselves how far we should extend our distributional concern across space and time." (p. 154)[3].

In Chapter 15, *Discounting the Future*, Beckerman outlines the factors that influence the level of discount rate used in cost-benefit analyzis. He analyzes the benefits of public investment projects. Their consequences often reach far into the future and are important for future generations. Beckerman reveals the decisive role of value judgements which determine the discount rate (e.g., their effect is an arbitrary assessment of the utility of future generations as compared with the utility of people who live today).

Chapter 16 of the book, *Valuing Life*, considers assessment of the value of human life for cost-benefit analyzis. The net output method and revealed preference method (revealed on the market or in various surveys) are presented. Beckerman extensively describes the critical arguments against these methods, including the argument of John Broome that public investment projects that change the risk of death cannot be assessed on the basis of a compensation test. From the point of view of politicians who represent the whole society, rather than the point of view of an individual citizen, abandoning such a project equals the *certainty* of someone's death. It means that no compensation payment can be seen as high enough to balance the losses incurred as a consequence of giving up this project.

***

Beckerman has a very rare gift for simple explanations of very complex and important issues. In addition, the problems he describes are among the most surprising and exciting in economics. His book is full of deep ideas, penetrating remarks, detailed information and quotations from the latest publications. In effect, this erudite and witty book extends the reader's horizons and stimulates the imagination.

However, in my opinion, the general framework in which the author presents his detailed arguments has one important shortcoming. Using many examples, Beckerman over and over again emphasizes the alleged "value-loadedness" of welfare economics. The last chapter of the book entitled *Overview*: *Value Judgements in Welfare Economics* is a summary of all these approaches. Generalizing his arguments, the author points out that the variant of the allocation of goods recommended by most economists is not the best variant. The reason that welfare economics recommends an allocation of goods which is not optimal, according to Beckerman, are "numerous value judgements ... embedded, sometimes deeply, in the structure of welfare economics." (p. 226). Here are some examples of these "value judgements":

1. Economists who recommend a specific allocation of goods in an economy as a Pareto-optimal allocation ignore the fact that prices in this economy depend, among others, on distribution of income between members of society. Any change of this distribution of income causes changes of these prices which, in turn, causes a new allocation of goods that becomes the Pareto-optimal allocation. The result is that economists who recommend an optimal allocation of goods in an economy as a Pareto-optimal allocation implicitly accept the existing income distribution in this economy.
2. Economists assume that consumers' decisions adequately represent their preferences and their pursuit of "welfare". Yet, many decisions of buyers are influenced by asymmetric information. Such decisions often do not reflect real preferences of these consumers. Additionally, sometimes fulfilling preferences cannot be seen as pursuit of welfare, since certain kinds of preferences cannot be accepted but should be censored (e.g., sadists' preferences). Once again, economists who search for the optimal allocation of goods in an economy ignore these generally known problems.
3. Likewise, economists ignore problems with constructing a rational connection between individuals' welfare and social welfare (an example of such problem is described by Arrow's impossibility theorem). In effect, methods of linking social welfare with the welfare of individuals are unavoidably arbitrary. The objection to arbitrariness also affects the ideal of justice and the concretization of this ideal. For example, should politicians who take collective decisions equalize income or perhaps should they equalize Amartya Sen's capabilities? And if they should equalize income, should it be, e. g., income *per capita* or household income?

4. Traditionally, as the best variant of the allocation of goods, economists prefer the variant which maximizes the utility of consumers. Yet Beckerman points out that such an economic goal is not obvious at all. As Robert Nozick and Amartya Sen state, utilitarianists ignore basic values other than happiness (e.g., the integrity of certain laws, such as property rights).
5. Furthermore, when recommending the optimal variant of allocation of goods in an economy, economists very often ignore interests of inhabitants of other countries and interests of future generations.
6. Economists' decisions can be equally arbitrary about the level of the discount rate which is used in the analyzis and about the method of assessment of the value of human life.

In my view, arguing this way, Beckerman mostly describes not "impregnation" of welfare economics with ethical value judgements, but numerous simplifying assumptions arbitrarily accepted by welfare economists. Accepting these assumptions often results in detachment from reality and reduces the practical importance of economic analyzis. When Beckerman states that welfare economics is not value-free objective science (p. 3), one gets the impression that he sees welfare economics as a science which is inherently different ("normative" and not "positive") from physics, biology and other empirical sciences. However, physicists and chemists also use numerous simplifying assumptions which are similar to assumptions 1–6 enumerated above. For instance, it happens that physicists ignore the impact of air resistance on the speed of objects which are falling in the gravitational field, and chemists ignore the potential impact of contamination of the investigated substance.

***

Sporadically, Beckerman also uses other arguments for the thesis about value-loadedness of welfare economics. Here are some examples:

1. Beckerman states that value judgements cannot be separated from the rest of welfare economics so that it becomes "a pure value-free positive economics". In his view, the reason is that "economists' personal value judgements influence their choice of questions to study and their selection of the relevant empirical information." (p. 17).

Yet, the lengthy arguments regarding the normative character of welfare economics do not concern value judgements, which determine the choice of subject and the method of inquiry. Such *methodological* value judgements (as Mark Blaug calls them) are accepted in all sciences (Blaug 1992, chapter 5; Blaug 1998). They do not differentiate welfare economics from meteorology or geology, which are generally seen as positive sciences building objective knowledge. Such value judgements that may control the choice of simplifying assumptions used in analyzis, as described above, are in my opinion methodological value judgements in Blaug's sense (generally, they determine the method of investigation). Debates about the normative character of welfare economics concern ethical, moral, aesthetic, and ideological value judgements, and not methodological value judgements[4].

2. Analyzing the example of the minimum wage, Beckerman argues that when economists recommend certain economic policies, they always accept a specific mix of statements of fact and value judgements. For instance, when economists opt for minimum wage legislation, the choice is motivated first by the fact that, in their opinion, the minimum wage will lead to an increase of the lowest category of earnings; and second, their aim is to reduce differences of income in society (pp. 27–30). Consequently, Beckerman concludes that welfare economics is not a value-free objective science.

In my opinion, this conclusion is wrong. Surprisingly, in Beckerman's monograph I didn't find the author's answer to Pieter Hennipman's (and Yew-Kwang Ng's, and George C. Archibald's) convincing arguments for the thesis that welfare economics is a positive science, as value-free as, e.g., astronomy. The argument was repeated by Hennipman many times during debates with Ezra J. Mishan and Mark Blaug (Hennipman 1976, 1982, 1984a, 1984b, 1992, 1993; cf. Archibald 1959, pp. 320–321, Ng 1992, p. 6)[5]. Hennipman holds that welfare economics, like any other empirical science, may be seen as a set of positive statements that can be classified as true or false. They are true or false statements about the efficiency of different means of pursuing given ends. For instance, in the case of chemistry, the end can be production of aspirin, and in the case of welfare economics, the end can be maximization of total surplus. Whether someone will use chemistry or welfare economics to reach the ends depends on whether he or she values aspirin or total surplus. Such action, as every conscious action, does require a certain value judgement. But that does not mean that either chemistry or welfare economics is itself "value loaded".

Notes

[1] Wilfred Beckerman was born in 1925 and is Emeritus Fellow of Balliol College in Oxford and Visiting Professor of Economics at University College London. He has also worked as an adviser for the World Bank, United Nations, OECD and ILO.

[2] See Wilfred Beckerman, *Economics as Applied Ethics. Value Judgements in Welfare Economics*, Palgrave MacMillan 2011, 274 pages.

[3] In the Annex to Chapter 13, after analyzing the crucial aspects of international distributive justice, Beckerman proposes a specific solution for the problem of how to allocate costs of preventing climate change among various countries. Further, in Chapter 14, he analyzes questions such as: "Do we have obligations to future generations?"; "Do future generations have the right to inherit the same environment as exists now?", and "What is a just distribution of the Earth's resources between us and future generations?" (p. 178).

[4] Likewise, in Beckerman's view, choices of definitions are value judgements as well. For instance, on pp. 150–153, the author describes the choice of a specific definition of "income" used in comparisons of various countries at various times as a value judgement (e.g., it can be an annual income, a lifetime income, an individual's income, a family's income, or a household's income). The result is that in Beckerman's sense every physical science (e.g., physiology) is full of value judgements, since every physical science is full of definitions.

[5] As we know, the result of this discussion was that Mishan stopped defending the concept of "normative" welfare economics and accepted Hennipman's position (see Mishan 1984; cf. Czarny 2010 p. 165).

References

Archibald, G.C. (1959) *Welfare Economics, Ethics, and Essentialism*, Economica, Vol. 26, No. 104.

Blaug, M. (1992) *Methodology of Economics. Or How Economists Explain*, Cambridge University Press, Cambridge.

Blaug, M. (1998) *The Positive-Normative Distinction*, in: *The Handbook of Economic Methodology*, ed. by J. B. Davis, D. W. Hands and U. Mäki, Edward Elgar, Cheltenham et al.

Czarny, B. (2010) *Pozytywizm a sądy wartościujące w ekonomii*, Oficyna Wydawnicza SGH, Warszawa 2010.

Hennipman, P. (1976) *Pareto Optimality: Value Judgement or Analytical Tool*, in: *Relevance and Precision. From Quantitative Analysis to Economy Policy*, ed. by J. S. Carmer, A. Heertje, A., P. Venekamp, North-Holland, Amsterdam.

Hennipman, P. (1982) *Welfare Economics is in Impasse: Some Observations on Mishan's Vision*, De Economist, No. 4.

Hennipman, P. (1984a) *Normative or Positive: Mishan's Half-Way House*, De Economist, No. 1.

Hennipman, P. (1984b) *The Nature of Welfare Economics: A Final Note*, De Economist, No. 2.

Hennipman, P. (1992) *The Reasoning of a Great Methodologist: Mark Blaug on the Nature of Paretian Welfare Economics*, De Economist, No. 4.

Hennipman, P. (1993) *Moving in Circles: Blaug Once Again on the Nature of Paretian Welfare Economics*, De Economist, No. 2.

Mishan, E. (1984) Welfare Criteria: Concluding Comments, De Economist, No. 2.

Ng, Y-K. (1992) *Welfare Economics: Introduction and Development of Basic Concepts*, Macmillan, London.