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Pigou's Welfare Economics and Ethical Belief

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## I . Introduction

It is generally believed that a series of British moral philosophers cum economists such as Bentham, James Mill, John Stuart Mill, Jevons, Sidgwick, Edgeworth, Marshall and Pigou developed utilitarianism as a normative principle for desirable social institutions. At the end of this line welfare economics, both in name and content, was established by Pigou, according to the commonly accepted view.

Thus, on the publication of Pigou's *Wealth and Welfare* Edgeworth wrote in his book review: "The author appears to have drawn inspiration from two high authorities on wealth and welfare. The good which philanthropy and statesmanship should seek to realise is defined by him in accordance with Sidgwick's utilitarian philosophy; to investigate the means conducive to that end he employs the methods perfected by Dr. Marshall."<sup>1</sup> Joseph Schumpeter described that "modern welfare economists merely revive the Benthamite tradition."<sup>2</sup> Mark Blaug argued: "The dependence of this kind of reasoning [Pigou's maximization of social welfare] upon the Benthamite assumption of arithmetically additive utility functions is self-evident."<sup>3</sup> T. W. Hutchison also admitted the Benthamite philosophical thought in Pigou's welfare economics, while he was critical of the utilitarian tradition for the confusion of *is* and *ought*: "This national maximand [national income] is a less obviously imprecise, and more narrowly economic, successor of Bentham's 'greatest happiness' principle, and is invested with all the normative-positive ambiguity with which much of utilitarian philosophizing is so ubiquitously shot through."<sup>4</sup>

It is really remarkable, however, that all these are very sweeping statements and

little attention has been given to the question how utilitarianism was actually incorporated into the analytical framework of Pigou's welfare economics, if this was the case. This article argues that, contrary to the ordinary interpretation, Pigou's welfare economics does not belong to the utilitarian view.

Pigou, in fact, modified the utilitarian principles when he adapted them for welfare economics. His modifications were twofold: first, the conceptual framework of utilitarianism was split into economic and non-economic welfare as a result of the application of utilitarianism to an economy that constitutes a part of society as a whole; second, the fundamental principle of utilitarianism was split into production and distribution propositions, which set up the independent criteria for judging changes in economic welfare. Thus, as a consequence of the twofold modifications, i. e., the limitation of scope and the duality of criteria in Pigou's welfare economics, utilitarianism degenerated from the ultimate principle to a relativistic principle. In view of these modifications, it will not do justice to utilitarianism as well as Pigou's welfare economics to say in a sweeping fashion that his theory is utilitarian.

In the following I shall first summarize my non-utilitarian interpretation of Pigou's welfare economics,<sup>5</sup> and then focus on the unexplored question what ethical belief Pigou held instead of utilitarianism. It will be shown that the answer to the latter question is consistent with the non-utilitarian interpretation of Pigou's welfare economics. In other words, Pigou's view on the relationship between economics and ethics will be reconstructed through an examination of his welfare economics and of his ethical writings.

## II. Distinction between Economic and Non-economic Welfare

The first modification Pigou made in the utilitarian thought relates to the fact that he did not deal with welfare in general but limited the scope of inquiry to economic

welfare. Utilitarianism evaluates the desirability of acts or institutions by the social aggregate of all kinds of utility they lead to. Pigou, however, was not concerned with the total process of causes and effects, but only with a partial process by the use of the concept “economic welfare,” because economic welfare is, he believes, the field to which the scientific method of measurement is applicable by the measuring-rod of money.

Pigou defines welfare, in line with utilitarianism, as a property of states of consciousness involving satisfaction and dissatisfaction. He calls welfare in general “social welfare,” and his concept “economic welfare” is defined as “that part of social welfare that can be brought directly or indirectly into relation with the measuring-rod of money.”<sup>6</sup> This definition of economic welfare in terms of money appears at a glance to identify all utilities which are brought about by goods and services emerging as a result of market exchange. This is not true. Indeed, by the use of the measuring-rod of money one can identify economic factors as *causes* and exclude non-market factors. But the use of money in welfare economics plays a role more than that. Pigou’s concept of economic welfare does not mean all utility *consequences* which are brought about by economic factors, but only a part of the consequences. This distinction within consequences is also made by the use of money measure. Therefore Pigou wrote: “Thus, economic welfare is, as it were, a part of a part of welfare.”<sup>7</sup>

I. M. D. Little, in his explication of economic welfare, says: “We are in this book interested in *economic* welfare. There is no part of well-being called ‘economic well-being.’ The word ‘economic’ qualifies not well-being, but the causes of well-being or changes in it.”<sup>8</sup> Little’s position that there is no part of welfare called economic welfare may accord with the utilitarian view but not with Pigou’s view.

With major exceptions of J. S. Mill and G. E. Moore who are labeled ideal utilitarians, the orthodox utilitarian view which defines utility as pleasure does not distinguish between different kinds or qualities of utility. The fact that Pigou introduced

the differentiation into both causes and effects in utility calculation, if only for the sake of analytical convenience, is worthy of serious attention.

Pigou mentions illustratively two ways in which the economic causes affect non-economic welfare through non-economic factors. Non-economic welfare may be modified, first, by the manner in which income is earned, and second, by the manner in which income is spent. Even if the effects of certain economic factors (for example, income) on economic welfare remain the same, their effects on non-economic welfare can be different according to different non-economic factors. Since Pigou's welfare economics is static economics, the effects of non-economic factors are treated simply as given as parts of custom, culture and institution.

Non-economic welfare relates, among others, to aesthetic, spiritual, and ethical aspects of human life. Although Pigou admits the possibility of conflict between effects of economic causes on economic welfare and on non-economic welfare or welfare in general, he justifies the limitation of an analysis to economic welfare on the presumption that two effects are probably equivalent in direction unless there is specific evidence to the contrary. In the contemporary world, however, there is a lot of evidence that such a conflict has created difficult social problems. The implications of Pigou's welfare economics that admits the possibility of conflict between effects on economic welfare and on non-economic welfare are important because economic welfare ceases to be the ultimate criterion for judging good conduct.

Let me examine more closely the problem of conflict by identifying Pigou's conception of economic welfare. There are two conceptions of welfare: satisfaction and desire. Economic welfare is, for Pigou, not the amount of satisfaction caused by certain goods but the intensity of desire for them. The money measure which is introduced to define economic welfare actually measures the demand price for goods, the price which people are willing to pay for all benefits derived from a certain amount of the goods in question. Thus demand price indicates the intensity of desire for goods. Although

economic welfare as a state of consciousness should mean satisfaction, it is hard to measure it directly. Therefore Pigou assumes that the intensity of desire measured by money price represents the intensity of satisfaction and therefore that of economic welfare.

From the concentration on desire rather than satisfaction, we can derive an important corollary about the relationship between economic and non-economic welfare: as far as aesthetic, spiritual, and ethical satisfaction is pursued in the market through the exchange of money for goods and services, part of aesthetic, spiritual, and ethical welfare is include in economic welfare. For example, those elements of non-economic welfare derived from the purchase of goods for the interest in literature or art or for benefit of other persons “will enter into relation with the measuring rod of money, and so be counted in economic welfare.”<sup>9</sup> Desire for, and satisfaction from the purchase of these goods are expressed as economic welfare by the use of measuring-rod of money, although the motives of the purchase naturally consist in aesthetic, spiritual, or altruistic purposes and the satisfaction derived from these goods might be beyond monetary evaluation. In this respect the purchase of these goods is distinguished from the purchase of goods for physical desire alone, although both represent the same amount of economic satisfaction in money term.

Put it differently, there are “variations of quality” of utility or “various degrees of goodness and badness”, while they are accompanied by the same amount of economic satisfaction which is evaluated as equivalent in money term.<sup>10</sup> “It is generally felt, in a vague way, that some sorts of satisfaction are in their nature better than others, and that quite irrespective of whether or not they entail dissatisfaction later on. If this is right, a situation containing more satisfaction is not necessarily ‘better’ than one containing less.”<sup>11</sup> Nevertheless, it is the standpoint of Pigou’s welfare economics that economic welfare is conceived as homogeneous so that differences of quality should be neglected.

This standpoint involves important implications to utilitarianism. To the extent

that Pigou clarified the concept of homogeneous economic welfare by the use of money measure, he is utilitarian. But the homogenization of welfare concept and the unification of welfare evaluation holds only insofar as the money measure is applicable. In fact, he admitted the qualitative difference of utility by distinguishing between economic and non-economic welfare. Unless the evaluation of both categories is possible, final calculation of welfare in general cannot be obtained. In this sense, his standpoint is not utilitarian, treating utilitarianism relativistically.

To understand Pigou's position, one may compare it with the utilitarian axiom which was formulated at the hand of the last utilitarian philosopher and economist, Edgeworth: "Pleasure is measurable, and all pleasures are commensurable; so much of one sort of pleasure felt by one sentient being equateable to so much of other sorts of pleasure felt by other sentients."<sup>1 2</sup>

As mentioned before, Pigou admits that an increase in economic welfare may be cancelled by a decrease in non-economic welfare. This does not mean an arithmetical deduction, because economic and non-economic welfare are qualitatively different and the money measure is not applicable to the latter. If a deduction were possible, a net sum of economic and non-economic welfare should have been obtained to lead to a genuine utilitarian conclusion. Pigou's distinction between economic and non-economic welfare in measuring total effects of economic causes means that they are incommensurable.

The incommensurability does not mean that a choice among economic causes cannot be made, but only that a choice based on a single criterion of utility measures is denied. When a choice criterion is not explicitly shown, one calls the choice merely a value judgement.

On the basis of the relationship between satisfaction, desire, and money, Pigou then reaches the concept of national income which most comprehensively represents, in money term, economic factors acting on economic welfare. Economic causes influence

economic welfare through the formation and disposal of national income. Furthermore, national income, Pigou claims, is an “objective counterpart” of economic welfare, on the assumption that money can be used as a measure of utility of the desire version, or more precisely, that the money price of any commodity denotes its marginal utility to the community as a whole. In other words, the marginal utility of money is assumed to be the same to everyone.

The two concepts, economic welfare and national income are interpreted by Pigou as “co-ordinate” in the sense that a description of the content of one implies a corresponding description of the other. Pigou’s welfare economics appears to make possible to adapt the ethical view of utilitarianism to the objective level of national income. But as a matter of fact, the concept of economic welfare survives only as the nominal teleological concept, whose proxy, derived from the accumulation of assumptions, is the concept of national income. Apart from this point, his approach has divided the concept of utility, which had been conceived in utilitarianism as totality, into economic and non-economic utility. Values in aesthetic, spiritual, and ethical aspects of human life is dismissed as non-economic welfare, unless they are regarded as objects of desires through money exchange; even if they are not dismissed, they are only subject to monetary evaluation. Thus Pigou’s welfare economics only deals with the relationship that exists between economic welfare and national income. The limitation of concern to such a partial relationship will derive utilitarianism of the status of moral theory.

### III. Distinction between Production and Distribution

The above discussion relates to Pigou’s first qualification of utilitarianism. The second one is that he altered the utilitarian principle itself. Pigou’s welfare economics is developed focusing on the relations between economic welfare and national income, and specifically consists of two propositions: (1) other things being equal, an increase in

the size of national income tends to increase economic welfare, and (2) other things being equal, an increase in equality of income distribution tends to increase economic welfare. It is to be noted that both propositions are subject to conditions: the first proposition is subject to the condition that the absolute share of income in the hands of the poor should not decrease. On the other hand, the condition attached to the second proposition is that the size of national income should not decrease.

Pigou argues that an increase in the production of national income and an increase in equality of the distribution of national income will promote economic welfare, provided that neither contradicts one another. This idea deviates from the utilitarian thought. Although, as we have seen, his analysis in welfare economics is limited to economic welfare, the maximization of production in the first proposition means utility maximization. But the first proposition is subject to the condition that other things are equal, indicating that the distribution of income to the poor should not be injured. Utility maximization as is prescribed by the utilitarian principle concerns the aggregation of utility for all individuals and does not admit any independent criterion with regard to the distribution of utility among individuals. In utilitarianism the distribution pattern obtained under the state of production or utility maximization is approved without doubt as desirable. On the contrary, Pigou's second proposition provides an independent criterion of increasing economic welfare, again subject to the condition that production of income should not be hindered.

The second proposition is alien to utilitarianism. However, it is liable to be misunderstood as a utilitarian principle because the second proposition states that a transfer of income from the rich to the poor increases economic welfare. To be consistent with the utilitarian thought at least within the branch of welfare economics, Pigou should not have proposed the second proposition as the criterion by which to evaluate the economic desirability of acts or institutions. It should have been treated as one of the criteria which are applied to the branch of non-economic welfare. The basis

of the second proposition is the assumption of decreasing marginal utility and the assumption of equality of utility functions for the rich and the poor. The latter assumption, as well as the assumption of equal marginal utility of money for all individuals, involves interpersonal comparisons of utility and is not a descriptive statement but a normative one. A factual statement may be rather that there are differences of temperament and taste between the rich and the poor; the capacity of the rich for the enjoyment of income may be higher than that of the poor. If these actual differences are assumed, a transfer of income from the rich to the poor will decrease total utility.

According to the utilitarian prescription, the distribution pattern is chosen where the sum of actual utilities of individuals is maximized. The result is an allocation of higher income for the rich with higher enjoyment capacity and of a lower income for the poor with lower enjoyment capacity. If, then, the normative assumption of equal utility functions for the rich and the poor is introduced, the utilitarian solution for income distribution is the state of equal income distribution, where the marginal utilities from income of different individuals are equal. Pigou's second proposition in favor of the poor is essentially based on the egalitarian idea that all men are equal, not on the utilitarian idea itself. As A. K. Sen has warned, such an egalitarian use of the utilitarian framework has given utilitarianism "its ill-deserved egalitarian reputation."<sup>1 3</sup>

What is characteristic in Pigou's welfare economics is that he does not have a principle for solving the "disharmony" between the first and the second propositions when they are in conflict. In his system neither utilitarianism nor egalitarianism is an ultimate first principle; the choice from the trade-off between productive efficiency and distributive justice must be determined on ad hoc intuition. In this respect, too, a utilitarian interpretation of Pigou's position will be rejected.

#### IV. Conceptions of Good

Pigou, who started from study of history and ethics, must have had an idea on the relationship between economics and ethics and between economic and social welfare. In his inaugural lecture at Cambridge in 1908 he stated the function of economics as a “handmaid of ethics.” He said:

“If practice is the impulse to the economist’s work, it is plain that Economics cannot stand alone. For our science is not a normative but a positive science. It is concerned, not with what ought to happen, but with what tends to happen. Hence, it cannot, of itself, lay down any precepts of reform. It inquires, just as physiology inquires, what effects would follow if a given cause were introduced; it does not profess to pass judgment on questions of the relative goodness-in-themselves of various states of conscious life. That is a matter for Ethics. In the court of that higher discipline we learn—or try to learn—something concerning that. When we have learnt it, Economics adds: Such and such an action, whether of a government or of a municipality or of a voluntary association or of an individual man, is likely to alter conscious life in such and such a way. Then, and not till then, we are in a position to conclude: The effects of such and such an action are likely to be good (or bad). Hence, Economics and Ethics are mutually dependent. The practical art of social service requires them both. The first is hand-maid to the second. It is essential for the full fruitfulness in practice of either of them that the other should progress. May I add that it is an urgent need for the economist that he be also a student of Ethics?”<sup>1 4</sup>

Then what was Pigou’s ethical belief which should command economics, a handmaid of ethics? Among his several articles on philosophy, ethics and religion, the most comprehensive discussion of ethics is given in two articles: “Some Points of Ethical Controversy” and “Moral Standards and Social Well-being”, both of which have not been noticed by economists.

In the first article, Pigou discusses some points of controversy concerning the

concept of good, the key concept in ethics. He distinguishes between “good absolutely and in itself” (or intrinsic good) and “useful as a means to promote something thus absolutely good” (or instrumental good), and concentrates on the first concept, “good in themselves.” It is noteworthy that in *Wealth and Welfare* Pigou mentions: “Welfare means the same thing as good.”<sup>15</sup> Good in this context means “good in themselves,” because he claims here as a basic postulate that “welfare includes states of consciousness only, and not material things or conditions.”<sup>16</sup> We must remember that since, for Pigou, economic welfare is a part of welfare, it is intrinsic good, not instrumental good, even if he regards economic welfare as coordinate with national income.

Concerning the question what constitutes the goodness, Pigou asserts that there are plural factors contributing to the goodness, while he admits that the only good things are state of conscious life: “the only conclusion reached is that the goodness of any conscious state is, to use a mathematical phrase, a function of several variables.”<sup>17</sup> By this he means that the goodness of a conscious state does not depend on the quantity of pleasure alone as utilitarians declare; he considers a man's ideal, good will, attitude, love, etc. as also important. In his earlier article on utility, Pigou explains this way: “When one is doing a problem, one does not desire the pleasure of finding the solution, but just to find the solution, and, when one is playing a game, it is not the pleasure of winning that one wants, but just to win.”<sup>18</sup> Pigou's specification of the goodness that admits other things besides pleasure being desired accounts for the discrepancy between desire and pleasure and distinction between economic and non-economic welfare.

Another important question Pigou was concerned with was how to deal with the separateness of different individuals' consciousness and therefore their good. This was the noted problem of Sidgwick concerning the contradiction between one's own good and the good of the whole, or between egoism and utilitarianism. Pigou's view that the contradiction does not exist at all must attract a great deal of attention from the

viewpoint of today's moral philosophy. Quoting from McTaggart, Cambridge idealist, Pigou mentions: "Possibly every man is an end in the sense that he has 'claims to possess the good which cannot be altogether cancelled by any amount of good possessed by other people.' But this, if it be true... merely asserts that fairness as between people is one element among good things... Consequently, in my view, to admit that the goods of different people may compete does not involve self-contradiction."<sup>19</sup> This statement, although not derived from any systematic framework of ethics, remarkably resembles the contention of today's right-based moral theory and denies, from the fairness point of view, utilitarian summation of utility.

Pigou's second ethics essay proposes his own view of virtues which are oriented toward not merely private morality but public morality. Calling things that are good in themselves virtues, he defines virtues as "those mental and physical habits which tend to produce a good community," and vice as "those that tend to produce a bad one."<sup>20</sup>

Pigou gives four elements of virtue or excellence as constituting a good community: (1) instinctive happiness, (2) friendship, (3) enjoyment of beauty, and (4) love of knowledge, and argues:

"For my part, I should judge a community to be in a good state if I found a great deal of instinctive happiness, a prevalence of feelings of friendship and affection rather than hatred and envy, a capacity for creating and enjoying beauty, and the intellectual curiosity which leads to the advancement and diffusion of knowledge. I should judge a community to be in a bad state if I found much unhappiness from thwarted instinct, much hatred and envy, little sense of beauty, and little intellectual curiosity."<sup>21</sup>

It is to be noted that these virtues are the standards for judging non-economic welfare, to use the terminology of the *Economics of Welfare*. We can say that (2), (3) and (4) are what G. E. Moore, Cambridge philosopher, regarded as the intrinsic goodness, and also what the Cambridge Apostles and Bloomsbury accepted

enthusiastically from Moore, as described by J. M. Keynes in his "My Early Beliefs," although, to be exact, Moore's ideals remained private morality.

These virtues except (1) will not need special explanation. (1) is the kind of virtue that would peculiarly suit Pigou as a mountaineer and recluse.

"The difference between needs and desires is important in the consideration of instinctive happiness. Our desires are mainly for things which primitive man did not get without difficulty: food and drink (especially the latter), leadership of the tribe, improvements in the methods of hunting and fighting. But we have many needs which are not associated with desires, because under primitive conditions these needs were always satisfied. Such are the needs of country sensations, of occasional silence and occasional solitude, of alternations of excitement and quiescence...Man works for the sake of the pay, not because he likes the work...Competition, since the industrial revolution, is an anachronism, leading inevitably to all the evils of the modern world...Every kind of failure to satisfy deep instinctive needs produces strain...The chief need thwarted by industrialism, as at present conducted, are: the need of spontaneous and variable activities, the need of occasional quiet and solitude, and the need of contact with the earth."<sup>2 2</sup>

In short, with the progress of civilization and industrialization our social and economic environment has changed faster than our instincts, so that there has been an increasing discrepancy between the acts to which we are impelled by instinct and those to which we are compelled by industrial order. "Increase of leisure, diminution of hustle, are the ends to be sought, not mere quantitative increase of production."<sup>2 3</sup> For Pigou, our aim must be to preserve instinctive happiness for the many, not only for a privileged few, and to have as little of the evils of industrialism as is possible.

Friendship, Pigou's second virtue, is the opposite of hostility and hatred. It could prevail in a society only if justice is realized so that economic inequality may be

accepted even by the unfortunate. For Pigou, since philosophy of justice is not conceivable to date, equality in material goods is an essential condition for the prevalence of friendly feelings in a society. Pigou was critical of the “religion of material progress.” He even said that “ I have come to regard ‘progress’ and ‘efficiency’ as the great misfortunes of the western world...But I have hopes of laziness as a gospel...I do not mean that no one should work at all, but that few people should work more than is necessary for getting a living.”<sup>24</sup> He put his hopes on the education directed to this end.

With regard to the enjoyment of beauty, his third virtue, Pigou wrote: “It may, I think, be taken as agreed that industrialism, as it exists now, destroys beauty, creates ugliness, and tends to destroy artistic capacity.”<sup>25</sup> In order to avoid the decay of beauty under the pressure of commercial industrialism, in his view, it is necessary to have a less energetic conception of the good life. It is interesting to note that Pigou wrote a sparkling essay on the relationship between the cold and analytic spirit of philosophy, on the one hand, and emotional and aesthetic feeling of poetry, on the other.<sup>26</sup> Although he was concerned here with philosophical and epistemological observations about the interaction between poetry and philosophy in the process of producing vision and perception of the real world, he also developed, at the same time, his view on the important role of poetic and intuitive vision in the quest of the goodness in ethics.

Pigou argued that the fourth virtue, i.e., love of knowledge, was also in crisis. He admitted that since the industrial revolution there has been an enormous increase in the level and scale of education and scientific research. But he was critical of the utilitarian habit of mind inseparable from our industrial system that promotes the applications of science to practice. “It seems likely that the utilitarianism of commercial industry must ultimately kill the pure desire for knowledge, just as it kills the very analogous artistic impulse.”<sup>27</sup> His main points were, first, that pure science is more valuable than its applications, and second, that its applications are often harmful. In this connection, too,

a more leisurely and less strenuous outlook on life is required.

Pigou believed that human impulses, if properly directed and trained, are capable of producing a good society, provided praise and blame are wisely used. Here is the role of social and economic institutions in achieving ethical ideals for a good society. Thus Pigou's last words in the ethics essay are as follows. "On all four heads, therefore, we are led to the conclusion that our social system, our prevailing habits of mind, and our so-called moral ideals, are destructive of what is excellent. If excellence is to survive, we must become more leisurely, more just, less utilitarian, and less 'progressive.'"<sup>28</sup>

If the above is Pigou's ethical belief on a good society, which is quite critical of the capitalist economy, how is it made compatible with his welfare economics? Our analysis of *The Economics of Welfare* indicated that there is no comprehensive treatment of the relationship between economic and non-economic welfare, and between efficiency and justice. His ethical thought we have just outlined must have supplied the substantive criteria by which the states of consciousness in the branches of economic and non-economic welfare are to be evaluated. In light of his ethical thought the true meaning of welfare economics as a "handmaid of ethics" can only be realized. Indeed, Pigou's welfare economics does not, in itself, suggest any clear picture of his systematic ethical view, but our interpretation of his welfare economics being non-utilitarian and open-ended has assured a linkage between economics and ethics in Pigou.

#### V. Conclusion: Two Kinds of Incommensurability

After Pigou welfare economics underwent remarkable transformation in its theoretical structure by Robbins's positivistic challenge to the effect that the assumptions involving interpersonal comparisons in Pigou's welfare economics are not verified by scientific methods and that normative elements such as egalitarianism should be explicitly recognized as such in policy recommendations. In response to this

challenge, Hicks, Kaldor, and Scitovsky constructed so-called New Welfare Economics. It was exclusively based on Pareto efficiency principle and wiped out the vestiges of utilitarian calculus, on the one hand, and refrained from making value judgments about distribution and abandoned the Pigouvian egalitarian principle, on the other.

With regard to the informational basis of Pareto principle which merely consists of individual preference orderings, two characteristics will be pointed out.

First, although the New Welfare Economics intends to avoid value judgments concerning distribution, it cannot dispense with a more basic value premise concerning how to evaluate and integrate the preference scales of individuals. Whatever the nature of preference, desire, utility, satisfaction and the like may be, Pareto principle takes the actual preference scales of individuals as data and regards the fulfillment of their preferences as desirable. This idea seems to be so fundamental to economists that it is sometimes called “the economic criterion.” Thus, R. F. Harrod wrote: “If an individual prefers a commodity or service X to Y, it is economically better that he should have it. Economic good is thus the preferred.”<sup>29</sup> Nicholas Kaldor, a proponent of New Welfare Economics, regarded this criterion as the foundation of a new normative approach: “Here [in the problem of production] the economist is on sure ground; the scientific status of his prescriptions is unquestionable, provided that the basic postulate of economics, that each individual prefers more to less, a greater satisfaction to a lesser one, is granted.”<sup>30</sup>

New Welfare Economics (and social choice theory) uncritically accepts the criterion of “economic good as preference” as the value premise, although its advocates often regard it as value-neutral and self-evident. In moral philosophy, however, criticisms have been frequently raised against this criterion in the writings of deontology vis-à-vis utilitarianism and teleology in general.

Second, since Pareto principle is only concerned with the efficiency judgment, New Welfare Economics cannot give conclusive advice on the problem of policy. Any

final judgment of social states must involve a judgment of distributive justice and some kinds of interpersonal comparisons of utility. Economists often relegate this task to politicians or moral philosophers.

In this connection it will be interesting to refer to the manifesto which John Hicks, another leading New Welfare Economist, published in 1959 to declare a conversion from New Welfare Economics. This manifesto, however, seems to have had little influence on economists. He claimed that Economic Welfarism, which declares that economists should advocate only course of action promoting economic welfare as a part of general welfare, must be abandoned. Hicks wrote:

“The economist, as such, is still allowed, and even encouraged, to keep within his ‘own’ frontiers; if he has shown that a particular course of action is to be recommended, *for economic reasons*, he has done his job. I would now say that if he limits his function in that manner, he does not rise to his responsibilities.”<sup>3 1</sup>

Hicks did not show any alternative normative approach, but only asserted that economists should give due attention to non-economic aspects as well.

Two problems we discussed above about Pareto principle can be called two kinds of incommensurability of utility. The first problem is whether a common measure can be applied to utilities caused by different kinds of objects and acts which include economic, aesthetic, spiritual, and ethical ones among others. The second problem is whether a common measure can be applied to utilities of different persons. Economists, except utilitarians who admit the aggregation of individual utilities, tend to emphasize the second kind of incommensurability and avoid interpersonal comparisons of utility, whereas moral philosophers, again except utilitarians who do not differentiate between pleasure from pushpins and from poetry, tend to emphasize the first kind of incommensurability and find different degrees of moral desirability in different kinds of utility. Orthodox utilitarians overcome both kinds of incommensurability: the first is

overcome by the conception of the dominant-end of a society, and the second by the primacy of global efficiency at the sacrifice of the distributive aspect of a society. Thus they apply a common measure (probably based on the judgments of an impartial spectator) both to different kinds of utility and to utilities of different persons in order to reach a social aggregate of utility.

The two points which, as I have discussed in the first half of this article, show the deviations of Pigou's welfare economics from utilitarianism, correspond to the two kinds of incommensurability. In the contemporary debates in moral philosophy the claim of the first kind of incommensurability has led to the idea of the "plural utility" or the "vector view of utility,"<sup>3 2</sup> and the claim of the second kind of incommensurability has brought about the idea of the "separateness of person" or the "distinction between persons."<sup>3 3</sup> The recognition of pluralism in utility was an important step breaking away from utilitarianism, because some kind of utility are better conceived as rights which set a constraint upon other kinds of utility, i.e., the rights which have the priority over the good consisting of the sum of utility. And the idea of the separate persons denies the utilitarian procedure of summing up utility of all individuals, in which negative utility (loss) of a small number of people is justified by greater positive utility (benefit) of a large number. Both ideas, "plural utility" and "separate persons," have formed the foundation of right-based moral theory. In this sense Pigou's approach was not an adaptation of utilitarianism for economics, but represented a criticism of utilitarianism.

Insofar as Pigou's welfare economics involves the possibility of double conflicts between economic and non-economic welfare, on the one hand, and between efficiency and equality, on the other, it is not a coherent system at all. But the gap between utilitarianism and Pigou's welfare economics should not be interpreted merely as inconsistencies but as a step towards a new thought on the relationship between economics and ethics. Turning back the way New Welfare Economics has come, we can start from Pigou to reconsider the nature of his gap in the light of conflict in substantive

principles between utility and rights rather than in the light of the methodological issues of value judgments and interpersonal comparisons. At the same time, the gap between utilitarianism and Pigou's welfare economics may be interpreted as a reflection of the gap between hedonistic and ideal utilitarianism which were brought about by J. S. Mill and G. E. Moore into moral philosophy.

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<sup>1</sup> *Economic Journal*, March 1913, p. 62.

<sup>2</sup> Schumpeter (1954), p. 1069.

<sup>3</sup> Blaug (1978), p. 636.

<sup>4</sup> Hutchison (1953), p. 288.

<sup>5</sup> Shionoya (1993).

<sup>6</sup> Pigou (1932), p. 11.

<sup>7</sup> Pigou (1912), p. 4.

<sup>8</sup> Little (1957), p. 6.

<sup>9</sup> Pigou (1932), p. 18.

<sup>10</sup> *Ibid.*, p. 17.

<sup>11</sup> Pigou (1951), p. 288.

<sup>12</sup> Edgeworth (1881), p. 59.

<sup>13</sup> Sen (1973), p. 16.

<sup>14</sup> Pigou (1908), pp. 13-14.

<sup>15</sup> Pigou (1912), p. 3.

<sup>16</sup> *Ibid.*, p. 3.

<sup>17</sup> Pigou (1907), p. 103.

<sup>18</sup> Pigou (1903), p. 67.

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- <sup>19</sup> Pigou (1907), p. 107.
- <sup>20</sup> Pigou (1932a), p. 2.
- <sup>21</sup> *Ibid.*, p. 2.
- <sup>22</sup> *Ibid.*, pp. 11-16.
- <sup>23</sup> *Ibid.*, p. 20.
- <sup>24</sup> *Ibid.*, p. 29.
- <sup>25</sup> *Ibid.*, p. 30.
- <sup>26</sup> Pigou (1924).
- <sup>27</sup> Pigou (1932a), p. 34.
- <sup>28</sup> *Ibid.*, p. 37.
- <sup>29</sup> Harrod (1938), pp. 389-390.
- <sup>30</sup> Kaldor (1939), p. 551.
- <sup>31</sup> Hicks (1959), p. x.
- <sup>32</sup> Sen (1980/81), p. 193.
- <sup>33</sup> Rawls (1971), p. 27.

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