Economic Justice

Selected Readings

Edmund S. Phelps

Penguin Education

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are described on the following pages.

Economic Systems and Society

George Dalton

The aim in this survey of nineteenth- and twentieth-century capitalism, communism, socialism, and Third World development is to introduce the reader to the salient features of today's economic systems, to the meanings of mercantilism and the Industrial Revolution, and to the ideas of David Ricardo, Karl Marx, and John Maynard Keynes. Reviewing his subject in historical sequence, George Dalton considers how nineteenth-century capitalism was transformed into the twentieth-century welfare state, how and why the Soviet economy of the Stalinist period is being reformed, and how the ideas of utopian, Marxian, and democratic socialism have influenced economic policy. Throughout, the social consequences of modern economic systems are stressed. George Dalton holds a joint appointment as Professor in the Departments of Economics and Anthropology at Northwestern University.

A Critique of Economic Theory

Edited by E. K. Hunt and Jesse G. Schwartz

This trenchant set of articles brings radical criticism of mainstream economics into coherent form. It stringently attacks the underlying assumptions of academic economists — the ideas of constraints, the premise of social harmony, consumer sovereignty, the state as an impartial arbitrator, and the superiority of capitalism over other systems. The twenty individual essays include Ronald Meek's "The Marginal Revolution and Its Aftermath," Karl Marx's "Estranged Labor and Capital," Howard J. Sherman's "Value and Market Allocation," and Bob Fitch's "A Galbraith Reappraisal: The Ideologue as Gadfly." E. K. Hunt is Professor of Economics at the University of California at Riverside. Jesse G. Schwartz is Professor of Economics and Politics at Cambridge University.

Job Power: Blue and White Collar Democracy

David Jenkins

Here is a look at industrial democracy, or the abolition of autocratic management in favor of decision-making power for employees. David Jenkins has examined such innovations in Israel, Sweden, Norway, Germany, and Yugoslavia, as well as in U.S. corporations like General Foods and Procter & Gamble. Concluding that industrial democracy is "a revolution that works," he calls on industrialists to give workers power and involvement through job rotations, work teams, "job enrichment," and "total awareness" of the factory. Indeed, *Job Power* shows that industrial democracy may be the answer to the most stressing problems now faced by industrial capitalism.

Chile's Road to Socialism

Salvador Allende
Edited by Joan E. Garces

This is a selection from the late Salvador Allende's speeches and statements during the first six months of his presidency. Included are his inaugural address and his first annual message to Congress. When Allende was in power, his election was called "the most positive event in the continent since the victory of the Cuban guerrillas a decade earlier." Allende himself wrote: "I have always said that I am not a caudillo or a man sent by providence. I am a militant socialist who realized that only in unity lay a hope of victory for the people." *Chile's Road to Socialism* joins other volumes in the Pelican Latin American Library — a series that attacks the current ignorance of an area where hundreds thrive and thousands starve.

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Contents

Introduction 9

Part One
Ethical Questions in Social Choice 33

1 W. S. Vickrey (1953)
An Exchange of Questions between Economics and Philosophy 35

Part Two
Theoretical Welfare Economics 63

2 P. A. Samuelson (1950)
The Evaluation of Real National Income 65

3 J. de V. Graaff (1957)
Some Elements of Welfare Economics 92

Part Three
The Social Welfare Function 115

4 K. J. Arrow (1967)
Values and Collective Decision-Making 117

5 I. M. D. Little (1951)
Social Choice and Individual Values 137

Part Four
Alternative Conceptions of Justice 153

6 I. Kant (1797)
Two Essays on Right 155

7 J. Viner (1949)
Bentham and J. S. Mill: The Utilitarian Background 195

8 H. Sidgwick (1893)
The Reasonableness of Utilitarianism 222

9 M. Fleming (1952)
A Cardinal Concept of Welfare 245

10 J. C. Harsanyi (1955)
Cardinal Welfare, Individualistic Ethics and Interpersonal Comparisons of Utility 266

11 W. S. Vickrey (1960)
Risk, Utility and Social Policy 286

12 P. K. Pattanaik (1968)
Risk, Impersonality and the Social Welfare Function 298

13 J. Rawls (1967)
Distributive Justice 319

14 A. Rand (1964)
Government Financing in a Free Society 363

Part Five
Justice, Economics and Government Policy 369

15 F. Y. Edgeworth (1897)
The Pure Theory of Progressive Taxation 371

16 A. B. Atkinson (1972)
How Progressive Should Income-Tax Be? 386

17 E. Sheshinski (1972)
The Optimal Linear Income-Tax 409

18 E. S. Phelps (1973)
Wage Taxation for Economic Justice 417

19 K. J. Arrow (1971)
The Utilitarian Approach to the Concept of Equality in Public Expenditure 439

20 J. Tobin (1970)
On Limiting the Domain of Inequality 447

Further Reading 465

Acknowledgements 471

Author Index 472

Subject Index 474

Introduction

Most government decisions raise, in most minds, what has been called the problem of social choice. Few are the red-letter days in which a government has the opportunity to innovate a social policy that will please everyone. The consuming political questions – like whether to increase taxes on upper incomes or whether to reduce tariff protection – all pose the ethical issues of how best to resolve conflicting individual interests which are the hallmark of the problem. It is sometimes called the problem of deriving a collective preference from a set of individual preferences; sometimes the problem of agreeing upon a social welfare function; sometimes the problem of arriving at a satisfactory conception of distributive justice. These are the various names given to the social choice problem by the several disciplines that touch on it, among them moral philosophy, decision theory, mathematical politics, group psychology and economics.

Economics is involved with the social choice problem in at least three ways: Being the science of choice (or one such science, anyway), economic theory has contributed to the formulation and analysis of social-choice models. By its efforts to depict or characterize the feasible set of social states that is the object of social choice, economics has pared down somewhat the range of value judgements left open for consideration; rightly or not, the dismal science killed off strict egalitarianism. In these ways economists have been producers of social choice theory.

Economists also stand, somewhat impatiently, on the demand side – both the economists present at the battlefront where social decisions are being made, and those academic economists who, with their scribblings on public policy, risk having an effect on social action a decade hence. There is the view that the economist in, or close to, the public sector ought to serve as a value-free vendor of information sought by government decision-makers, like a management consultant to a legal business. This hardly seems possible, whether or not desirable. The economist's selection of an analytical model with which to answer questions put to him by government officials is partially shaped by ethical beliefs within his profession, by his own ethical preferences, and possibly, unconsciously perhaps, by his expectation of his employer's ethical preferences. Moreover, the economist in or out of government, *qua* person, can hardly be expected to speak only when spoken to; he will no doubt continue to throw the weight of his expertise on behalf of this or that public policy, knowing that any position expressed usually depends on a not-unanimously-accepted ethical preference (and wishing that the appeal of this preference were clearer to others, perhaps even clearer to himself). Accordingly, this volume is aimed at the audience whose interests and background are primarily in economics, though it may serve as a convenient source-book for readers coming to the social choice problem from other backgrounds.

1. The informal survey by Vickrey (1953, Reading 1) gives an idea of the range of questions that are involved in the problem of social choice. For example, when one speaks of the preferences of the individuals in some society, whose preferences are meant and what kind of preferences are we to have in mind? Some propositions in ethical theory are neutral as to the class of persons that is to comprise the society. Yet the appeal of many value judgements or ethical postulates may sometimes depend on the definition of the society to which they refer. Are the preferences of pre-teens to count as much as living adults? Are the future preferences of hypothetical individuals, not yet born, to count? Bentham (1789) argued that the utilities of animals should be on all fours with that of the human animal.

It is presumably the rational preferences of individuals, their real interests somehow determined, to which social choice theory should attend, not the expressed or revealed preferences of the insane. But whether preferences that are short-sighted or destructive or guilt-ridden or that merely show normal regard for the well-being of others are the 'preferences' that we have to deal with (on one level or another) are important matters to be sorted out.

There is also the question of what the individual preferences are about, what the differences between individuals are over. In principle, the infant theory of social choice is broad enough to cover everything that individuals have preferences over. Jones may possess the social

values of a hawk and want more government expenditures and subsidies of certain kinds while Smith, a dove, may want less of these. Jones might oppose Smith's drinking, while Smith is pained by Jones's style. Wherever the things that Jones wants more or less of, that give him more utility, clash with the things that Smith wants more or less of, that give him utility, there is the social-choice problem of resolving the interpersonal difference in preferences. But many philosophers would disallow the taking into account of a person's 'nosey', prudish, or paternalist preferences regarding another person's behaviour.

The political economists have traditionally concentrated upon, though not restricted their attention to, a simple case of the conflict of individual interests. Jones and Smith each want more real disposable income in order to increase his own purchases of goods that raise his own utility, but, given the technology of the moment, those government actions which could increase Jones's real spendable income must – in the interesting and unavoidable cases – reduce Smith's disposable income. Each person wants 'more' – less tax and more transfer payment – but not everyone can have more without someone having less. The classic case of the social choice problem is thus the distribution of income and wealth – or considering that individuals give up some income for preferred things (such as leisure), the distribution of utility between the poor and the rich, the privileged and the disadvantaged in earning power.

2. The 'new welfare economics' represented a retreat from, or an advance over, utilitarianism with its special and controversial ethical features. It is, from one point of view, an inquiry into the nature of the public-policy recommendations that can be drawn when only rather weak postulates are made concerning the ethical deservingness of the individuals in the society. One of the questions studied on this basis was the following: under what conditions could the economist-observer who limits himself to certain weak ethical postulates say that a change in the economic environment – due, say, to some fortuitous technological change or to some discretionary institutional change – constitutes an improvement in social welfare, either actual or potential?

The new welfare economics begins with Pareto and reaches maturity with Bergson (1938), Samuelson (1948, 1950) and Graaff (1957). What has united the new welfare economists has been their willingness to subscribe to the Pareto Principle or Paretian value judgement:

Social state A is better than social state B if one or more individuals in the society prefer A to B and all other individuals are indifferent.

A variant of this that puts even milder demands on our ethical intuition is the Weak Pareto Principle:

State A is better than state B if all individuals in the society prefer A to B.

The tenor of the Pareto Principle is frequently expressed by saying that it makes the preferences of the individuals in the society 'count'. They are to count over somebody's higher-order morality that might demand society choose what each one of its members would prefer it to reject.

Various criticisms have often been made of the Paretian value judgement, though their effect has usually been a reinterpretation of the principle and its terms rather than a flat rejection of it. It has been said, for example, that the Paretian criterion falls to the ground if individual 2, a have-not, envies, and hence suffers a diminished sense of well-being as a result of, any gain experienced by the better-off individual 1. But such external effects in utility functions are allowed for in the Pareto principle if we interpret individual 2's preference for state A (good for 1) over state B (not so good for 1) as already taking account of his knowledge of the envied individual 1's preference for A. Yet there are harder criticisms. Another objection is that if nothing were sacred against Paretian hedonism, it might license a powerful society to inflict serious damage against human beings elsewhere or in the future whom it never heard of, never imagined or cared about. One may, therefore, wish to restrict the domain of choice over which Paretianism is given sway. Further, some sensitive ethical observers might recoil from the view that if 90-pound half-starved Mujib makes a mutually beneficial agreement with 300-pound Harry to carry him on his shoulders all day then, no one else in the society caring, there has been a Paretian improvement in social welfare. Analogously, an ethical observer of egalitarian bent might oppose a social innovation that would help the poor but enrich the top class much more, even if the poor and the rich did not mind.[1]

The function of the Pareto criterion is to restrict social choices to those states which are called Pareto-optimal or Pareto-efficient. A state is said to be Pareto-optimal if it is not possible, given the technology, to move to another state that would make one or more individuals in the society better off and no one worse off – that is, another state that one or more individuals would prefer and the others at least be indifferent to. In terms of utility functions every Pareto-optimal state can be translated into a point on a Utility Possibility Curve, the term used by Samuelson (1950), or what is called by Graaff (1957) the Welfare Frontier. This curve indicates the maximum amount of utility that it is possible technologically for a given individual to have given the utility levels of the other individuals.[2]

Except in a world of perfect information, however, it is institutionally not feasible to attain most (really, all) points on the possibility curve if, as must be assumed, the government compensations or transfer payments and taxes which redistribute purchasing power among individuals create certain 'distortionary' disincentives to work and save in the appropriate amounts and directions. Ultimate interest therefore attaches to what Samuelson dubbed the Utility Feasibility Curve. This curve depicts the maximum amount of utility which it is institutionally feasible for an individual to have, given the utility levels of the other individuals. We may then want to say that the northeast points on this feasibility curve are Pareto-optimal in practice – in the sense that the social states to which they correspond are Pareto-inferior only to other states which, while hypothetically within technological possibilities, are not institutionally feasible to reach.[3]

1. For a discussion of the potential conflicts between Paretianism and liberalism, see Sen (1970b).

2. The curve may be represented by $u_1 = P(u_2, u_3, \ldots, u_n)$. Any point on the northeast 'frontier' of this curve is Pareto-optimal. On such a frontier, if you would increase the utility of Mr North you must decrease the utility available to Mr East. At any Pareto-optimal point, the partial derivatives P_i are all non-positive ($i = 2, \ldots, n$).

3. Again, only the points on the frontier to the northeast are Pareto-optimal (in the institutional sense).

Suppose the Pareto criterion is adopted as one of the principles that should govern ideal social choice. This means that a social state or resource allocation (with its distribution of income, utilities and what not) that is not Pareto-optimal should not be chosen; according to the criterion, such a state is worse than any of those states that are Pareto-better than it. This does not carry us very far, though, when there is a multiplicity of Pareto-optimal states. It is clear that the Pareto criterion is not generally a sufficient condition for social choice. We need further ethical criteria in order to identify the 'best' or 'just' point (resource allocation or distribution of utilities) from among the Pareto-optimal points on the feasible utility frontier.

Moreover, in the absence of the needed additional criteria for social choice, the Pareto optimality of a social state constitutes little or nothing in the way of a recommendation for choosing it. It is true that (in the normal case) a Pareto-optimal state is Pareto-better than some Pareto-inoptimal states, but it is not Pareto-better than all Pareto-inoptimal states. If society finds itself choosing between a Pareto-inoptimal point and some Pareto-optimal point that is not Pareto-better than the former state, the Pareto-optimality of the latter is of no particular relevance to that choice.

In the 1930s it came to be argued, notably by Robbins (1935), that the economist as scientist can endorse only those changes in public policy, in taxes and expenditures and so on, that produce a Pareto improvement, that make some individuals better off and make no one worse off. At the same time there continued to be a widespread endorsement of certain traditional liberal economic policies on the ground of their efficiency or Pareto-optimality. Harrod (1936) pointed out, however, that the repeal of the protectionist Corn Laws could hardly be based solely on the Pareto principle, for surely some individuals were made worse off by the repeal. Many economists no doubt considered their social function to be that of loyally pushing out the Utility Feasibility Curve. Yet, as Harrod emphasized, such outward shifts would not generally produce an actual Pareto-improvement, i.e. an actual benefit to some and no worsening for anyone. Economics needed a justification for Corn Law repeal going beyond Pareto.

In response, Kaldor (1939) and Hicks (1939) proposed a strengthening of the economist's value judgement over the insufficient Pareto Principle. They argued for the principle of 'potential compensation'. Kaldor proposed, in effect, that the new social state, say R, that is actually produced by a certain policy change – easier money or lower tariffs – be considered an improvement in 'real income' over the old state, Q, if, under that new policy, there would be possible a set of redistributive income transfers that could produce *some* social state, R', that would be Pareto-superior to the old state Q – even if the actual R is not itself Pareto-superior to Q. Essentially, R is revealed to be politically preferred to R' – R was chosen over the equally feasible R', or would have been under the policy change – and R' is certainly better than Q, being Pareto-superior to the latter, so R must be better than Q. Kaldor, however, gave no reason for imputing ethical acceptability to the way the political system under the new system would dole out the gains and losses. In any case, such appeal as Kaldor's compensation criterion might have had was quickly weakened when Scitovsky (1941) demonstrated the logical possibility of a contradiction under the criterion, R being both better and worse than Q. Without the adoption of the new policy, there might exist a set of tax and transfer redistributions that could produce some state Q' that is Pareto-superior to R. So if Q is preferred to Q' and Q' is Pareto-better than R, then Q must be better than R. All this is possible in economic theory and apparently there exists no political theory to rule it out. It is bizarre, however, that the government would choose R rather than R' under the new policy if it rejected the even better Q' under the old policy. If politics were rational, it would choose a state like either Q' (sticking with the old policy) or a state like R' (adopting the new policy), thus averting the worst dangers of each policy.[4]

Scitovsky proposed the double Kaldorian test: There is under the new policy, some R'' Pareto-superior to the actual Q' under the old policy yet R' is chosen in preference to R'' *and* there is under the old

4. With reference to that case, the Kaldor criterion would then fail to designate R' as better than Q' and fail to declare Q' better than R'. The somewhat symmetrical criterion proposed by Hicks, however, would endorse Q' over R' because the gainers from the move to R' could not under the new policy compensate the losers and still be left some gain. But by the same logic, those who would lose from a move from Q' cannot compensate others for relinquishing R' so that R' is endorsed over Q' – another Scitovskian contradiction.

policy no Q'' Pareto-superior to R' to which Q' is preferred. It is easy to embrace this double test when it works in the right way, but its inadequacies emerge when it goes awry. Suppose that the new policy, while enabling the Pareto-better R'', so raised the cost of helping the poor that it caused the political decision-making process (however democratic) to 'substitute' much greater utility to the non-poor for greater utility for the poor, thus selecting R' over R''. An ethical observer might well feel that the political system has been mis-structured in such a way that it ends up choosing R' over R'' when, under more ethically revealing ground rules, R'' would really be judged better.

The possibility of the Scitovskian contradiction is due to the possibility that the Utility Feasibility Curve corresponding to the new policy crosses – or twists any number of times around – the old Utility Feasibility Curve and that the actual points chosen under each policy are on different sides of some intersection of these curves. The Scitovsky double test would ensure that one of these curves lies outside the other in the neighbourhoods of both actual points. Samuelson (1950, Reading 2) wishes to say that the new policy would be of unambiguous potential benefit if and only if the new Utility Feasibility Curve lies everywhere outside the old one – so that, whatever the political response, everyone could be left better off. But such a uniform shift of the Utility Feasibility Curve need not produce an actual Pareto improvement in everyone's lot any more than a Scitovsky-type shift (as Samuelson does not deny). Thus an economist needs a political theory of response to shifts in utility feasibilities *and* an ethical theory to appraise such responses if he is to be able to judge the desirability of such shifts.

3. The other enterprise of modern welfare economics has been quite different from that of searching (in vain) for criteria that would permit judgements or recommendations as between two states. It has been the description of certain formal efficiency conditions that must hold if the economy is to attain Pareto optimality. On that great day that society agrees on an ethical criterion for picking out the morally best of the Pareto-optimal points on the Utility Feasibility Curve, economics will be ready to add this criterion to these efficiency conditions.

This theoretical welfare analysis is like the analysis that an economist might give a small farmer: Whatever the price of wheat and the price of corn that the market faces you with, to maximize your profit you must produce an amount of wheat such that its marginal production cost is equal to its price, and similarly for corn, etc. The validity of these formal conditions (expressed with suitable generality) is independent of the exact numerical value of these prices. In the same way, modern welfare economics has sought to spell out certain formal necessary conditions which have validity whatever the exact ethical weight given to an increase in individual 1's utility, the exact ethical weight given to an increase in individual 2's utility and so on. The result is such formal conditions as equality between the ratio of the marginal products of labour and land (respectively) in wheat production of corn and each other good produced.

The tool that came to be used increasingly widely for this purpose is Bergson's 1938 invention of the (Bergson) social welfare function, $W(U_1, U_2, U_3, \ldots, U_n)$. Here the Us are ordinal utility indicators having the property that a man's utility goes up if he moves from one state to another that he prefers. Bergson's W function is likewise purely ordinal; if the U functions are rescaled, the W is rescaled accordingly so that social states or resource allocations producing equal social welfare before the rescaling will produce equal social welfare after rescaling.[5]

The essential feature of the Bergson function is that it is individualistic. Each of the n individuals enjoys positive marginal ethical deservingness; that is, the derivatives W_i are all positive (no matter what the pattern of Us). By finding the conditions for a maximum of this function subject to the various economic constraints, one obtains the conditions for Pareto optimality; if W is at a maximum, no social state is being passed by that would be Pareto-superior. One also obtains the conditions that a point on the Paretian utility frontier be 'Bergson optimal'. These formal optimality conditions are as valid for one particular, exact W function with its ethical weights as for another specification of the W function. This type of modern Pareto-

5. On the other hand, it is not denied that the ethical observer who wishes to specify a set of 'weights' to attach to the U's (these weights need not be constants and will not generally be constants) may perhaps have cardinal-type musings about the intensity-of-joy added to an individual from adding more goods to his shopping basket.

Bergson welfare analysis is well expounded by Graaff (1957, Reading 3) and by Bator (1957).

'Every generation or so,' Gilbert Ryle is reported to have remarked, 'philosophical progress is set back by the appearance of a genius' (Craft, 1972). Welfare economics was sent into confusion in the 1950s when Arrow produced his celebrated general impossibility theorem (1950, 1963, 1967; Reading 4). Arrow proved that if it was desired to have, for *each* logically possible configuration of individual preferences over the feasible social states, a social ordering of these social states that satisfied two obviously appealing logical properties – collective rationality (or transitivity) and independence from irrelevant alternatives – then we would have to violate either of two ethically appealing properties – the weak Pareto principle and 'non-dictatorship'. Arrow's proof recalls the 'voting paradox' of Condorcet (1785) where 1 prefers A to B and B to C; 2 prefers B to C and C to A; and 3 prefers C to A and A to B. Then there is a majority available to vote A over B, another majority to vote B over C but another majority to vote C over A and so on in indefinite 'cycling'.

Now it is clear that if one were to specify the weights in the Bergsonian W function one would obtain from it a ranking of social states according to their social welfares, that is, a social ordering of the social states. Arrow seems therefore to have proved that such an exact social welfare function cannot *generally* be constructed without violating those ethical properties.

It is possible for the economist to be so demoralized over Arrow's impossibility theorem that he no longer finds Pareto optimality interesting. It is only the ethically best point among the Pareto optimal states that is assuredly better ethically than every Pareto-inferior state. If there can be no satisfactory social welfare function that will ever identify that ethically best point then why not settle for Pareto *non*-optimality with the feeling that it may well be ethically as good as whatever point would be chosen by society from a menu of Pareto-optimal states?

It is also possible that the Bergsonian welfare economist will say: Arrow has raised a fascinating conundrum for political and maybe moral philosophy, but I remain free to use the unspecified Bergson W which tells us only that the weights are all positive in my mathematical inquiry into the formal necessary conditions for Pareto optimality. There presumably exists some set of satisfactory ethical principles for social choice, and presumably they will call for the selection of a Pareto-optimal social state. When we learn those principles and learn which of Arrow's other three postulates they violate, so much the worse for that untenable postulate. Little (1951, Reading 5) and Samuelson (1967), to name two, seem not to be shaken by the Arrow result.

The objections raised against Arrow's theorem are not objections to its formal validity. They are objections to the desirability or relevance of the ethical requirements and informational restrictions he imposes. Thus they are quarrels over the significance of the theorem for ethical theory, in particular for the concept of the social welfare function. For example, Samuelson and Little find scant appeal in Arrow's requirement that if one person changes his preferences to rank A over B instead of vice versa then A should certainly not be damaged thereby in its social ranking (that is, if A was socially preferred before, it is socially preferred after). This involves what Arrow calls the independence-of-irrelevant-alternatives property of the social welfare function. Arrow himself, in his 1967 paper, expresses some wavering over the desirability of this property. Another frequently heard criticism is that only persons' rankings of social states are utilized in the construction of a social ranking, not the 'intensity' with which each individual prefers one state to another. This is the matter of whether preferences are to be supposed representable only by an ordinal utility function or instead by a cardinal utility function.[6] It appears to have been proved by Sen (1970a), however, that the representability of the individual preferences in terms of cardinal utility does not suffice to dispel Arrow's impossibility-result.

Even the non-dictatorship postulate seems to be not generally acceptable when considered in the context of Arrow's other axioms and definitions, a point made tellingly by Little. Arrow's very definition of a social welfare function excludes us from making use of our information or beliefs about which persons live happy or at

6. A cardinal utility function is said by economists to be a function that is unique except for unit (or scaling) and zero point (or origin). Such a function is said to be determined 'up to a linear transformation' (or affine transformation, as mathematicians use these terms).

any rate rewarding lives and which persons live unhappy or unrewarding lives in each feasible social state. A person who prefers A to B to C receives no more weight in the social choice among these states than another person with different preferences even if everyone would agree that all of these states leave the first person miserable compared to the second. There is thus no room in the Arrowian welfare function for favouring the weak over the top dogs. The man with acute appendicitis on a Mediterranean yacht is not allowed by Arrow to 'dictate' its course. To this criticism Arrow might reply that his theorem does not exclude the possibility that the people in society have feelings about other people's well-being or beliefs about human rights, in which case their preference orderings of the various feasible social states are to be understood as reflecting these altruistic feelings or beliefs, and consequently the impossibility theorem is about the impossibility generally of resolving interpersonal differences in ethical opinion. Or possibly one might reply that the conflicting ideals of two persons of unequal social advantage should have the same weight in the social decision provided that the conflict is not plainly self-seeking but is, rather, 'impartial' and 'philosophical'. In any case, it seems clear that Arrow's result does not close the door to ethical inquiry. If anything, it invites reopening the door. It cools the hopes that one-man/one-vote procedures (however sophisticated) can provide nonarbitrary resolutions of current conflicts in individual values, and thus tends to pin the hopes for more satisfactory social choice on ironing out differences in those values. The next section of readings samples from some of the leading efforts of philosophers to construct a conception of distributive justice that would command wide acceptance.

4. Much of moral philosophy is concerned with the nature of the restraints that ought to be placed on the choices left to individuals. The selection of these restraints might be said to be a matter of people's ethical preferences. While these ethical preferences among alternative sets of restraints must take account of individuals' egoistic preferences or personal tastes, they must go beyond the latter.

This idealist tradition perhaps has its beginnings in the Greek Sophists with their notion of a social contract (see Guthrie, 1970).

In Rousseau (1763) we have the idea of a before-the-fact state of nature, a hypothetical anarchistic position, from which the individuals will agree to those governmental arrangements which are Pareto-improvements over anarchy. People's rights against the king are based on the argument that in a state of nature people would not have contracted into such arrangements.

In the same tradition is Kant (1797, Reading 6). Writing against Hobbes's views on voluntarism, Kant holds that the figurative 'original contract' which is distinct from those actually existing on paper, confers people with certain inalienable rights that they themselves cannot contract out of, and that cannot be overriden by the head of state, however wise and benevolent, acting on some 'principle of happiness'. It is unjust to set aside anyone's natural rights for the convenience of some others no matter how great.

With regard to the distribution of welfare, the state has the obligation to provide some sort of barely adequate maintenance of the poor. A person's preservation and protection by his society is one of his natural rights because the individuals who might be imagined the signatories to the original contract would surely have been unanimous in desiring assurance of survival as well as the assurance of other liberties.

Von Hayek, in his book *The Consititution of Liberty* (1960), contrasts (unfavourably) the contractarian view of the 'design theorists' – in large part the rationalists of the French Enlightenment – with the evolutionist approach developed by the Scottish philosophers, Hume, Smith and Ferguson. 'The rules of morality', writes Hume, 'are not the conclusions of our reason'; yet as if by some invisible hand, a free society enjoys the cumulative growth of institutions and laws that triumph over inferior ones, and which are at least superior to any which could have been constructed by rationalist design.

In Bentham and the subsequent classical utilitarians, reason is to rule over morality rather than be the mere servant of passion. Viner's essay (1949, Reading 7) describes Bentham's differences from Hume and Smith and, in turn, Mill's differences with Bentham. Both utilitarians use their notion of a 'moral arithmetic' to justify a wide range of government activities in the economy, including redistributive activities.

The notion of natural rights is not present in classical utilitarianism. The utilitarians would reject a person's claim to some alleged desert if it would produce 'more happiness on the whole' to do so. The poor therefore have no natural right to support (however minimal) from the state independently of the principle of social utility. Yet utilitarianism provided its own justification for government aid to the poor, and more aid than Kant's mere preservation.

As the distinctions between average and marginal utility developed, utilitarians came to consider that their doctrine led to equalitarian distribution of individual utilities – at any rate, would lead so if the frictional losses (as it were) from transferring individual utilities were abstracted from. Sidgwick (1893, Reading 8) argued that the utilitarian case for income equality is bolstered by consideration of the disutility from having a low *relative* income. Yet even with such 'external effects' being admitted into individual utility functions, it is theoretically possible, and likely in fact, that the sum of utilities – and indeed every other Pareto-type Bergson *W* function of those utilities – would be considerably smaller at complete equality (and near-complete equality) than under redistributive programmes allowing significantly more incentive for differentials in retained disposable income and utility. Also maximizing happiness 'on the whole' will not generally maximize the happiness of those with relatively low incomes – it will leave their utility less than it could be.

In the natural-rights view, just as the left shoe is useless for an individual without his having the right shoe, the enjoyment by some individuals of their natural deserts is no social gain unless the others are accorded their rights as well. Certain social and economic benefits are viewed as perfect complements, in the language of economics, so that social benefit is increased by an increase in certain individual benefits only when all individuals receive such benefits. In the classical utilitarian view, the individual utilities associable with economic benefits are perfect substitutes. In that scheme, a loss of one individual's utility – somehow cardinally measurable and made commensurate with other individuals' utilities – is no loss of social welfare if just offset by increments in other individuals' utilities of the same aggregate magnitude. No doubt the entire notion of social welfare as *some* function of individual utilities appears from some viewpoints as severely limited, perhaps absurdly so. A host of values – saintliness, heroics, artistic perfection – are not *in* (they are above

or below) the abstract concept of a social welfare function. Nevertheless, the utilitarian position is plagued even at its own philosophical level by the question: Why the *sum* of utilities? Why not the product of the utilities, or something between or beyond that?

There have been some experiments with introducing certain axiomatic restrictions on the Bergsonian *W* function in order to see what kind of mathematical form they cause it to have. One property that it surely seems desirable to impose on the social welfare function is Sidgwick's concept of *equity*. If, under a certain circumstance, an action increasing one individual's utility and decreasing another's would be good, then the same action must be good if the roles of the two individuals are reversed. This leads to the symmetry or impartiality or 'impersonality' of the derived social welfare function. If the social welfare function is a sum of individual utilities, it is a simple sum, not a sum giving unequal weights. There are other appealing restrictions on the social welfare function. Fleming (1952, Reading 9) proposed the postulate that the trade-offs between individual 2's utility and individual 3's utility which are consistent with the same overall social welfare magnitude be supposed to be independent of the quantity of individual 1's utility. This sort of *independence* property makes the social welfare function describable in terms of a sum of *like functions* of individual utilities; this might be called modified utilitarianism. A special case is pure utilitarianism in which these functions are constants so that social welfare is the sum of individual utilities.

Despite such tough sledding for classical utilitarianism, it was given a revival in the 1950s in the form of contractarian neo-utilitarianism. Harsanyi (1955, Reading 10) and Vickrey (1961, Reading 11) envisioned an individual who ranks hypothetical versions of some society that are identical technologically but which differ in their social policies such as income redistribution. The individual is conceived as assigning equal probability of being in the position of, and having the preferences of, each of the *n* individuals in each hypothetical case. To each case there corresponds a von Neumann–Morgenstern expected utility indicator, and the individual then ranks in terms of desirability these alternative versions of the society according to the respective expected utility. Social welfare in the eyes of this individual is greatest under the social policies that give greatest expected utility. Thus, for this individual, social optimal policy calls for maximizing average or expected utility.

In so far as there is something objective about such an evaluation, all individual observers making such calculations might well exhibit the same 'ethical' rankings of the different social versions and all would agree as to which version is optimal. Yet these ethical preferences of different evaluators need not be identical, as Pattanaik (1968, Reading 12) has observed. When a Harsanyi–Vickrey observer identifies the social arrangement having highest expected utility for him, he is averaging the *utility for him* of the payoff or 'utility' of each dramatis personae, and the former utility increases with the payoff at a rate that diminishes more sharply the more risk averse he is; differing degrees of risk aversion by the observer-evaluators could generate different rankings of the social arrangements. We are back then to the Arrow problem of obtaining a social ranking from divergent individual rankings. Another objection to neo-utilitarianism, one possibly related to the foregoing point, is the criticism made by Diamond (1967) of the applicability of the 'sure-thing' principle (probabilistic independence axiom) to the problem of social choice. In lifeboat situations where it is 'women first', is it any consolation to a man that he had the same chance to be a woman as each of the women had before their assignment to roles in the society? What about blacks having to sit in the back of the bus?

The leading modern-day alternative to utilitarianism, new and classical, is provided by Rawls (1967, Reading 13; 1968). Rawls argues for a conception of justice according to which the 'primary' goods – liberty, income, other bases of self-respect – are to be distributed equally except where their unequal distribution is to the benefit of the least advantaged members of society. With reference to income distribution, the conception involves choosing the social structure (with its redistributions and so on) so as to maximize the economic benefits of the people receiving least benefit; the criterion stops well short of absolute income equality but goes much farther than utilitarianism (pure or modified) with its willingness to trade off reductions in low utilities for sufficient gains in larger utilities.

Whether or not this conception is ultimately judged satisfactory – certainly it has a very strong intuitive appeal – Rawls argues that the principles of justice (the general concept) for structuring society should be conceived in contractarian fashion: they are to be the object of an initial agreement that free and rational persons concerned to further their own interests would accept in a hypothetical original position that is fair in the sense that no one knows what place and wants in the society he will have. Rawls maintains that rational egoists, concerned with their self-respect, would agree, in such hypothetical situations, to select the 'maximin' or favour-the-bottom conception of distributive justice.

But whether this Kantian fairness is either necessary or sufficient for Rawls's maximin conception of justice are questions on which there is not yet wide agreement.

The foregoing sampler on justice does not, of course, exhaust the surviving heritage of ideas on this subject. Such twentieth-century egalitarians as R. H. Tawney and G. B. Shaw deserve at least honourable mention. It could be argued, if not by them then by us, that even so 'radical' a criterion as Rawls's maximin standard would call for a meritocracy of such colossal 'productive' inequalities as to deaden the spirit of most people and embarrass the rest. In this connection, the work of Runciman on relative deprivation should also be cited – though that author ultimately agrees that Rawlsian justice may be employed to decide whether a claim of deprivation is justified or the result of fate that cannot be redressed (Runciman, 1966).

There is also the Randian perspective. In Rand's short essay (1964, Reading 14), it is argued that the fortunate have no obligation to support the unfortunate whether or not the fortunate may be said to deserve their good fortune. If there are empty seats on a bus already sufficiently financed by paying customers, the poor are welcome as free riders, but they have no claim beyond that. The fortunate retain the opportunity to aid the poor as they desire, unilaterally as charity givers certainly and perhaps (this is not clear) cooperatively by voting one's neighbours' incomes as tax payments for that purpose.

The compulsive cataloguer will also make note of those conceptions of social welfare that are holistic – a term in which the *w* is not only silent but, I gather, invisible. In the class of such doctrines, one might want to examine the idea of 'perfectionism' as developed by Nietschze and expounded more recently by DeJouvenal.