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The concept of utility was first developed in detail by Jeremy Bentham (1748-1832), the father of utilitarianism. Although never highly regarded as an economist, Bentham strongly influenced the early development of normative economics and was a key figure in the transition from classical to neoclassical economics. Bentham’s theory of psychological hedonism, which analyzed all behavior in terms of the pursuit of pleasure and avoidance of pain, and his systematic application of the “greatest happiness” principle to ethics and political economy set the stage for the marginalist revolution. This paper describes Bentham’s contributions to the field of economics.

BENTHAMITE UTILITARIANISM

As a secular student of rationalism, Bentham shared the view of many of his contemporaries that the established Christian views on private and public conduct must be replaced with a new ethical code based on reason and self-interest. With his “discovery” of the principle of utility, i.e., that society should seek the greatest happiness for the greatest number, he founded the ‘philosophic radicals’ or utilitarians, a school of applied philosophy. Often credited with inventing the principle of utility, Bentham was aware of earlier discussions of the same idea and never claimed to be its inventor.

In addition to the principle of utility, the major tenets of Bentham’s utilitarianism include the following: all individual behavior is motivated by pain and pleasure; there are no qualitative distinctions to be made among pleasures or among pains; individual happiness must include the happiness of others; and to ensure universal happiness, government regulation is a necessary evil -- Smith’s ‘invisible hand’ cannot do the job alone. Bentham discusses utility sometimes as if it were a state of mind, related to feeling pleasure or pain, but at other times as if it were a metaphysical property of objects that produces pleasure or pain.

A basic component of Bentham’s psychological theory is that personal well-being depends on the well-being of others. Self-interest requires obedience to social conventions and laws, positive acts of charity, negative acts of refraining from harming others, as well as attracting the approval of others. Character traits such as prudence, probity, and beneficence play a significant role in the cultivation of utility. Citizens must have a reasonable expectation that the law will protect them. Thus utility becomes a multi-dimensional function of economic, political, social and personal factors.

BENTHAM'S ECONOMICS

Bentham considered himself an economist, but his contemporaries among classical economists did not. Later economists derided his contributions to economic theory; John Maynard Keynes went so far as to claim that Bentham was no economist at all. This image is understandable if inaccurate: most of his writings on economics appeared posthumously; there is scant evidence that he understood the importance of the debates between Ricardo and Malthus on the subjects of value, distribution and growth; he used terms like “property”, “wealth” and “income” interchangeably; and he once said that his little treatise, *Manual of Political Economy* was to Adam Smith's *Wealth of Nations*, as a book on art is to a book on anatomy or physiology.

Nevertheless, Bentham first achieved fame in economics with the 1787 pamphlet, *In Defence of Usury*, and went on to write other pamphlets and articles on a variety of economic themes. Most of his work focused on improving the effectiveness of monetary and fiscal policy, while other writings took on easing the national debt and imposing inheritance taxes. He fenced with Smith on whether to impose legal limits on interest rates, made pioneering attempts to use the few available statistical measures of economic performance, and gave a new twist to the issue of the role of banks in the determination of money supply.

Despite the fact that none of his policy cures were adopted in his lifetime, his systematic application of the principle of utility became the source for both the subjective utility theory of value and welfare economics. Bentham's value theory, which reduces all motivations to the pursuit of pleasure and avoidance of pain, consists of a much more complex analysis than commonly acknowledged. His theory introduces intensity, duration, certainty or uncertainty, nearness and remoteness as factors that influence the value of pains and pleasure. He recognizes that losses are felt more keenly than gains and that individuals may differ in their capacities to convert income or wealth into utility.

WELFARE ECONOMICS

Almost all of the early neoclassical economists who elaborated Bentham's theory of value were indifferent to Bentham on policy. Only Jevons saw the necessary connection between Bentham's value theory and the “greatest happiness principle” of utility.

Bentham certainly felt that the two were strongly linked. In his view, all political and economic policy should be assessed on the basis of its effects on human feelings. He discussed the trade-offs between efficiency, equality and happiness; wrote extensively on the scope of markets and the role of government; and discussed issues related to measurement and aggregation.

Like the Physiocrats and Adam Smith, Bentham claimed that individuals are the best judges of their own welfare. No higher authority is needed to dictate what is in a person's best interests. In his later writings, he allowed more exceptions to the rule of minimizing government interference, recognizing that individuals sometimes either lack the inclination, the power, or the knowledge to increase their own welfare, or do not have access to markets that could increase their welfare. In fact, his *Constitutional Code*, prescribes quite a large role for government and

recommends hospitals and work houses for the poor, insurance against unemployment and ill-health, education for the children of the poor, and a public health system.

Bentham believed that a society's happiness will increase as inequality is reduced. He used "equality" in two senses: equal treatment for all individuals before the law (no one's happiness or utility counts more than anyone else's) and equal distribution of income and wealth (but not so much as to reduce incentives). Bentham favored gradual redistribution through taxation. Threats to security should be weighed against gains in aggregate happiness. Although exceptional circumstances may occasionally justify sacrificing the few for the many, Bentham emphasized that net happiness generally requires adherence to the disappointment-preventing principle: the minority should not suffer a destruction of their expectations of future abundance.

AGGREGATION AND MEASUREMENT

In principle, a Benthamite measure of society's well-being can be obtained by adding up the happiness or utilities of its citizenry. However, Bentham offers little guidance on how to accomplish this feat. It is difficult to assess policies to redistribute wealth given that happiness cannot be measured, individuals may vary in their ability to enjoy income or wealth, and the same increment of wealth will bring more utility to poorer individuals. Bentham comes close to making interpersonal comparisons of utility, but does not fully pursue the logic of summing utilities. He advocates using wealth as a proxy for happiness, but also recognizes the ambiguous relationship between the two. More wealth brings more happiness, but it is not clear by how much.

CONCLUSION

Clearly Bentham incorporated an embryonic notion of diminishing marginal utility in his analysis of political economy. However, his application did not flourish until it was taken up by W.S. Jevons in the 1870's. Bentham was neither the originator of the concept of utility, nor its most articulate proponent. Yet his utilitarian school of philosophy laid the foundation on which contemporary welfare economics is built.