



“Summary of article by Prasanta K. Pattanaik: Some Nonwelfaristic Issues in Welfare Economics” in Frontier Issues in Economic Thought, Volume 3: Human Well-Being and Economic Goals. Island Press: Washington DC, 1997. pp. 110-112

Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being

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Welfare economics and the theory of social choice normally rest on a philosophical assumption of "welfarism" -- that is, the premise that evaluation of a state of affairs can be based solely on individual utilities. This essay explores recent controversies in welfare economics that challenge or transcend welfarism. This summary concentrates on the debate over the reconciliation of individual rights and liberties with utility maximization, the principal topic of the essay. The author's much briefer discussion of the measurement and evaluation of the standard of living has been omitted.

INDIVIDUAL RIGHTS

A number of widely accepted individual rights, such as the rights to choose one's own religion, marriage partner, and many details of one's daily life, cannot easily be expressed in terms of utilities. Amartya Sen, in a series of articles beginning in 1970, was the first writer to formulate and analyze the problem of rights in the context of welfare economics.

Sen argued that liberalism, defined as a political system that respects individual rights, implies that there are some choices that are reserved to individuals, regardless of the preferences and utilities of others. That is, for each individual, there is at least one pair of social alternatives for which society's preference must be to respect the individual's preference. The two alternatives might be the state of the world as it is today, versus the state of the world with the sole difference that you were forced to change your religion, or the color of your bedroom walls. A weaker condition, "minimal liberalism", assumes only that there are at least two individuals in society who each have final authority over one pair of social choices.

Another formulation of rights, by Alan Gibbard, assumes that social alternatives can be segmented into aspects which lie in the public domain, and other aspects which lie in the personal sphere of each individual (such as the individual's religion or bedroom decor). Under "Gibbard's libertarianism," society accepts each individual's preferences in deciding between alternatives that differ only within that individual's personal sphere.

PARADOXES INVOLVING INDIVIDUAL RIGHTS

Both Sen's and Gibbard's formulations of individual rights lead immediately to logical paradoxes. Sen's "paradox of the Paretian liberal" shows that even minimal liberalism is in

general incompatible with a weak form of Pareto optimality (if every individual prefers x to y, then society prefers x to y). It is hard to imagine a version of welfarism that does not imply this weak form of the Pareto criterion; hence the paradox appears to show that welfarism and individual rights are inherently contradictory.

The proof of Sen's paradox is simple: in a two-person society, suppose that individual 1's preference is decisive over the choice between x and y, while 2 is decisive over the choice between z and w. Suppose x, y, z, and w are the only feasible alternatives before the society. If 1's preferences, in order, are w,x,y,z, and 2's preferences are y,z,w,x, then liberalism leads society to reject y (since 1 prefers x to y) and also w (since 2 prefers z to w). However, neither of the two remaining alternatives, x and z, is Pareto-optimal -- everyone would prefer w to x, and likewise everyone would prefer y to z.

Gibbard's libertarianism similarly can lead to contradictions between the rights of individuals. Surely the choice of which shirt to wear belongs to an individual's personal sphere. Suppose that individual 1 prefers all situations in which 1 and 2 wear different colors of shirts, while 2 prefers all situations in which both wear the same color. Then no combination of shirt colors can be a social optimum -- if they match, 1 will prefer a change, while if they differ, 2 will want to change.

PROPOSED RESOLUTIONS

Sen's paradox could be resolved by modifying either the principle of liberalism or the Pareto criterion. In the first category, some authors note that Sen's paradox relies on "meddlesome" preferences about other individuals' personal choices. One solution would be to exclude the preferences of meddlesome individuals from consideration; but this excludes too much, since even meddlesome people have rights that should be respected.

A similar approach can resolve Gibbard's paradox: if an individual's choices in his/her personal sphere must be independent of others' choices in their personal spheres, the paradox vanishes. This restriction, though, does not seem realistic; different people's choices often are interdependent, and there is no reason to rule out such interpersonal effects.

In some of the examples used to establish the paradoxes, it appears that an individual might profit from waiving or contracting away his/her rights over decisions. Several authors have proposed resolutions of the "Paretian liberal" paradox through allowing an individual to waive or trade decision-making rights, and assuming that the individual will do this whenever it is in his/her interest. However, if everyone can engage in such behavior, analysis of expected outcomes requires the solution of complex game theory problems, in which there is no guarantee that the paradox is resolved.

Sen himself has proposed a resolution that modifies the Pareto criterion rather than the principle of liberalism. A distinction can be made between an individual's actual preferences and the preferences that the individual would like to be counted for the purposes of social choice; the Pareto criterion can be redefined in terms of the preferences that individuals would like to have counted for social choice. If there is at least one individual who would like society to follow

each person's decisions in their respective personal spheres, then the principle of liberalism is compatible with the modified Pareto criterion. However, no explanation is given for the motivations of this individual, who has to give up expression of his/her own preferences on many issues.

CRITICS OF SEN-GIBBARD FORMULATIONS OF INDIVIDUAL RIGHTS

Another line of criticism has objected to the formulation of individual rights adopted by both Sen and Gibbard. Robert Nozick maintains that individuals do not choose between entire social alternatives; rather, each person has a right to fix the features of the world that lie within his/her personal sphere. Social choices can then be made among the alternatives that remain open, once individual choices have been set. Problems based on meddlesome preferences, such as the Paretian liberal paradox, cannot arise in Nozick's framework -- whether or not an individual has meddlesome preferences about other people's actions, he must accept others' exercise of their rights, just as others must accept his.

Nozick's formulation seems more consistent with the intuitive understanding of individual rights. Sen has responded with the claim that the two views of rights are consistent with each other, and that his critics' views logically imply his views as a consequence. Debate over this point is continuing; the author has argued elsewhere that Sen's response has not eliminated the problem in his original formulation of individual rights.

Yet another approach to formal modeling of rights involves the use of game forms (i.e., the matrices or diagrams of game theory, showing the available strategies, but without specification of players' preferences or values of different outcomes). Individual rights may then be represented as limitations on the range of permissible strategies for each player.

The introduction of game theory has provided a more sophisticated analytical apparatus, and has cleared up some problems. Gibbard's paradox of inconsistencies between two individuals' rights cannot arise in a game-theoretic model. Each individual's choices are modeled as permissible strategies -- each chooses his/her own shirt color -- and such choices cannot violate anyone else's rights.

Yet the same approach has not eliminated the Paretian liberal paradox. The familiar prisoners' dilemma game makes it clear that dominant individual strategies need not lead to Pareto-optimal outcomes in the context of game theory. "Sen's seminal insight into the tension between individual rights and even the weakest welfaristic values, such as the Pareto principle, has proved to be very robust." (231-232).