1 About welfarism

> The greatest happiness of the greatest number is the foundation of morals and legislation. Jeremy Bentham.

The term welfarism was coined by the British economist John Hicks (1981: 136). It has been introduced into contemporary debate about social justice by Amartya Sen. Welfarism is a term denoting all theories that demand that we judge the state of a society in general, and just distributions in particular, by the welfare of the people concerned, and by their welfare only. Welfare is an emotional state, subjectively experienced by the person herself. More or less synonymous to welfare are the terms well-being, happiness, desire fulfilment, utility. Utility (from Latin 'utilis': useful) is the preferred term in economic analysis, and it is also the root of the word 'utilitarianism'.

In chapter **??** I wrote that the concept of distributional justice only makes sense for transferable goods: goods that it is possible to portion out and transfer to individuals. Now, welfare is obviously not transferable in this sense. Nor is it clear that welfare is a scarce good. It is far from obvious that my welfare can only be increased at the expense of the welfare of another person.

On the other hand, it is also obvious that welfare is influenced by economic goods. Man does not live by bread alone, but the welfare of a hungry person increases when she is given bread to eat, or money to buy bread. So, distribution of economic goods is up to a point distribution of welfare. Welfarism implies that the distribution of economic goods is evaluated by the effect it has on the welfare of the persons concerned.

There are several welfarist schools of thought. Two notable examples of welfarist theories are utilitarianism and welfare economics. While utilitarianism is a school of moral philosophy, most economists would claim no more for welfare economics than its being a practical tool for analysing 'economic issues, i.e. the problem of allocating scarce resources, and the associated question of the proper distribution of income.' (Hammond 1982: 85)

A typical statement from an economist is:

> The measurement of welfare forms the foundation of public policy analysis. A full consideration of taxes, subsidies, transfer programs, health care reform, regulation, environmental policy, the social security system, and educational reform must ultimately address the question of how these policies affect the well-being of individuals. (Slesnick 1998: 2108)

The quotation above is from a survey of methods for measuring welfare. Now, we may well ask how 'an emotional state, subjectively experienced by the person herself' can be quantified, measured with a number. The short answer is that it cannot. What Slesnick means by 'measuring welfare' is measuring *proxies* for welfare, that is, some variable or variables that are correlated with welfare. For instance, if we can assume that the welfare of an individual increases when income increases, ceteris paribus, income can be used as a proxy for welfare. Then, if a certain policy increases income, we know that welfare also increases, and this knowledge is sufficient to evaluate the policy for many practical purposes.

But when analysing 'the proper distribution of income', it is not sufficient to know that welfare and income are correlated. Suppose two people have the same incomes. Can we conclude that their welfares are also equal? This question raises two distinct problems. The first problem is that of different tastes and needs, what in the literature is called different preferences. The second is that of interpersonal comparability.

If two people have identical preferences, we may tentatively conclude that equal incomes will provide them with equal welfares. The conclusion is tentative, because of the second problem. Many thinkers claim that it is meaningless, impossible, to compare the emotional state of different persons. Others claim that it is possible, by empathy, for one person to put herself in the other's place, and so judge what that other person's feeling are.

In the following, welfarist theories of justice will be discussed *as if* individual welfares are both fully measurable and comparable from one person to the other. The reason is that mathematical analysis is a useful tool for investigating the logical implications and other properties of welfarism, and mathematical analysis presupposes that welfare can be meaningfully expressed in real numbers.

When practicing welfarist policies, we do not in general need the high level of precision of some of the following analysis. No distributional policy is tailored to the exact needs of the single individual. Taxes and public benefits are designed to fit the approximate needs of broadly defined groups such as families with children, senior citizens, wage-earners.

2 Deadweight loss

It is sometimes claimed that policies to increase economic equality make the economy less efficient, and therefore result in there being less to distribute. The claim that greater equality leads to a decrease in the size of the pie is contentious. However, even if the claim is true, a social evaluation function may well prefer an equally distributed small pie to a bigger pie distributed unequally. The trade-off is illustrated in figure 1.

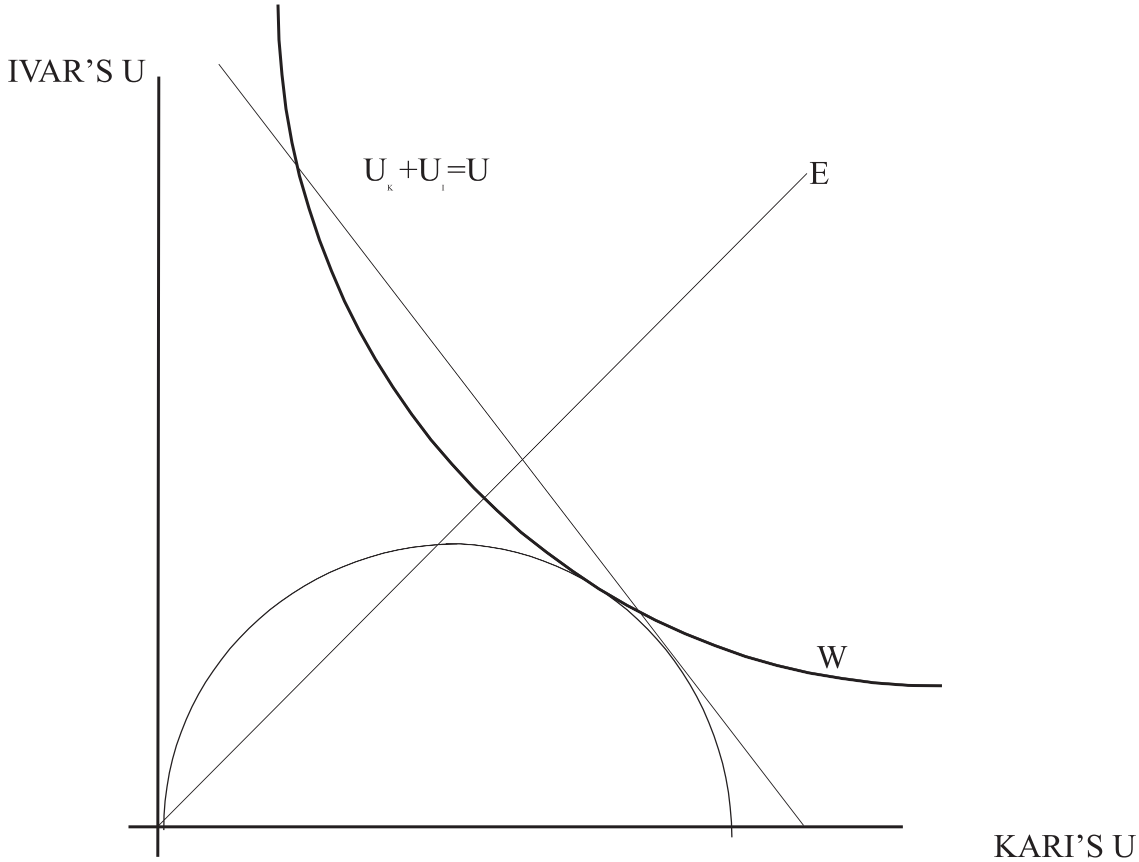

Figure 1: Equality and wealth

The figure illustrates the distribution between Ivar and Kari. Kari is the economically active person, producing society's wealth. Ivar is a disability pensioner, say, and dependent on the income generated by taxing Kari. The analysis is built on the assumption, usual in economic models of optimal taxation, that Kari works less the more she has to pay in taxes. On this assumption, transfers from Kari to Ivar decrease total wealth.

Ivar's individual welfare is shown along the vertical axis, Kari's along the horizontal axis. The curve shows all possible distributions of welfare between Ivar and Kari, L being Kari's welfare when she is allowed to retain the whole pie for herself. Increasing taxation makes Kari produce less. As taxes (and hence also transfers to Ivar) increase, Kari's welfare decreases while Ivar's welfare increases up to the point R. Beyond R, both Ivar's and Kari's welfares decrease.

A utilitarian social evaluation function will decide that U is the best state achievable. The result of a Sen evaluation depends on the degree of inequality aversion; a moderately inequality averse function chooses the point S. Note that neither the utilitarian nor the Sen evaluation function ranks the point of maximal production, L as the best.

The assumption that sharing with Ivar acts as a disincentive for Kari's working is of course decisive for the results. If Ivar were Kari's son, say, she might well work harder in order to provide for him than if she were responsible for herself alone.