

## PARETO OPTIMALITY IN POLICY ESPOUSAL

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The concepts of Pareto optimality and Pareto-optimal change continue appearing in academic discussions as supposed criteria of policy and keys to a positive science of political economy. Much has been said against this idea, but the criticisms have been partial and scattered. The present paper seeks to systematize and extend them. (It incidentally stresses, in section IX, what the Pareto concepts *are* good for.) It risks the charge of being old-fashioned by openly espousing a basis for policy recommendations that the Pareto-optimizers themselves have been creeping back to, albeit unwittingly or under camouflage.

### I. PRELIMINARY OBJECTIONS

First, for completeness, let us note several objections to the Pareto concepts as policy criteria that are too familiar or unimportant to require fuller discussion.

1. The Pareto optimum is not unique; in principle, there are infinitely many Pareto-optimal states.

2. Although any non-optimal position is dominated by other positions attainable by Pareto-optimal moves, there is no presumption that *any* optimum is preferable to *any* non-optimum. (In the Edgeworth box diagram, a point off the contract curve is not unequivocally worse than points on the contract curve outside the “football” of which it forms one tip.)

3. Many writings employing the Pareto concepts consider how an optimal corrective might be found for one particular distortion (due, perhaps, to externalities) or for a narrow range of related distortions. On the assumption that the distortions considered are the only ones in the whole economy, such an analysis can be a

useful exercise or pedagogical device (see section IX below). It is less acceptable as a basis for real-world policy recommendations or even as mere decoration in a serious policy discussion. It runs afoul of the fact that “distortions” — so labeled from the standpoint of the most abstract kind of theory — exist all over the place in the real world. Correcting merely one or a few of them risks incurring the problems described by the general theorem of the second best.

4. Optimality does not stand still. Measures designed to correct certain distortions are themselves likely to have unforeseen effects on the supposed “givens” (“wants, resources, and technology”) of the system. Events besides policy measures are also constantly changing the “givens” and thus the supposed optimum being sought. As Warren Nutter writes, “It is literally impossible to keep up with these changes analytically. What makes sense as a policy today, viewed in terms of the ‘Paretian’ standard, will make no sense tomorrow.” It is perverse to judge “the ‘betterness’ of a policy on the basis of how far it advances a society toward an unattainable, inconstant goal.”<sup>[1]</sup>

5. Invoking Pareto optimality has aspects of a bad joke. Gordon Tullock’s example of the fraudulent charity that the donors believe to be legitimate illustrates the difficulty of handling situations in which people do not know the consequences of actions or policies.<sup>[14]</sup> The donors gain from feeling benevolent. The charity’s promoters gain financially. Its supposed beneficiaries are simply unaffected. Its existence would seem not to violate Pareto optimality. An adequate assessment of the state of affairs in which such frauds can succeed would require returning to a broader basis of appraisal. Other examples of

the bad-joke aspect occur in economists' worry over externalities. The joke lies in concentration on a ridiculously small fraction of the ways in which people can harm or benefit each other, ways that happen to be associated with the production or consumption of economic goods.

6 Application of the Pareto criterion and the associated unanimity requirement in the real world is bedeviled by incompleteness and cost and waste of knowledge, costs of negotiation and enforcement, misrepresentation of preferences, the influence of emotional factors and of bargaining strength and tactics, and stubbornness motivated by hope for exceptional gain or desire for attention.<sup>121</sup> One could try to sidestep some of these difficulties by applying the Pareto criterion only on the "constitutional level" — a gambit appraised later in this paper.

7. The unanimity requirement has a status quo bias that mere disavowals do not dispel. Buchanan and Tullock say that any change in the social contract, "if it is desirable at all, can always find unanimous support, given the appropriate time for compromise". "Any change that secures unanimous support is clearly 'desirable', and we can say that such a change is 'in the public interest'. . . . However, we go further and state that, for *any* change in the public interest, unanimous support can be achieved."

From the proposition that any change which is "desirable" or "in the public interest" can command unanimous support, it follows rigorously that a change *incapable* of commanding unanimous support is *not* "desirable" or "in the public interest". In an earlier remark about proposals lacking unanimous support, Buchanan and Tullock say that "the welfare economist stops at the Pareto rule and disavows all claims to positive conclusions beyond its limits. He does not, however, normally suggest that collective action beyond the confines of the Pareto rule is undesirable; he is simply silent on such matters".<sup>131</sup> Yet Buchanan and Tullock break this silence in the remarks quoted, which are logically equivalent to saying that a change incapable of commanding unanimous support is undesirable. Their methodological principle, taken seriously, would imply a recommend-

ation against all policy changes (except the few, if any, that could command unanimous support).<sup>141</sup> Continuity has value, of course; but it is suspicious that recommendations against change should flow from sheer methodology. An escape from this embarrassing bias might be sought in doctrines of unanimity "on the constitutional level" or of what might be called "honorary unanimous consent". But, as argued later, such an escape abandons the Pareto criterion.

## II. PSYCHOLOGICALLY EFFECTIVE TERMS

However unintentionally, then, the concepts of Pareto optimality and Pareto-optimal change come to be used in ways that bring to mind Karl Brunner's remark, in another context, about "logically pointless but psychologically effective sentences".<sup>151</sup> Examples occur in the literature of "Pareto-optimal redistribution",<sup>161</sup> which elaborates on the familiar point that potential donors might themselves gain satisfaction from rises in the income or material well-being or utility levels of potential recipients of transfers, or from the recipients' additional consumption of specific "merit goods", such as housing, nutritious foods, medical care, or education. Each donor might be willing to make his contribution only on condition that his fellow potential donors contribute their supposed fair shares as well. Greater equality may be in the nature of a public good.<sup>171</sup> The familiar free-rider problem may arise: each potential donor has an incentive to shirk his own contribution and get a free ride on the redistribution accomplished by his fellows. Concealment of true intensities of tastes for redistribution, together with costs of negotiating and enforcing agreement, might well bar a voluntary solution. Coercion would be necessary to achieve the redistribution desired by the donors themselves.

Such discussions convey a vague impression that since transfers by government action would be necessary for Pareto optimality, a scientific and value-free argument for such redistribution has been found.<sup>181</sup> Such an idea appears to be one particular example of

illegitimately sliding from a general-equilibrium context into partial analysis; if a particular policy would be necessary, among other things, for a Pareto optimum, then it is desirable almost without regard to those other necessary conditions. If a Pareto optimum would require payment of interest on international reserves, for example, that necessity appears as an argument relevant to the real world.<sup>[9]</sup>

### III. THE "CONSTITUTIONAL" APPROACH TO AVOIDING VALUE JUDGMENTS

A rather different interpretation of the Pareto concepts searches for policy *packages* yielding gain for all or some persons and loss for none. Unanimous consent is not expected for each separate feature of a policy change, but only for the entire package, which will include compensation in other features or even in money for persons otherwise harmed. Actually, the ideal of unanimous agreement remains inapplicable. If I, as a purist adherent of the Pareto criterion, may recommend a policy package only when *everybody* favors it, then I am reduced to saying, emptily, that if I and everyone else favor it, then I favor and recommend it.

Weakening the criterion to one of *near-unanimity* would leave some questions dangling about whose opinions are not to count. To scorn dissenters from an overwhelming preference as holdouts for unfairly large gains, as childish publicity-seekers, or as oddballs does not square very well with an approach that shuns controversial value judgments. A more appetizing escape from a literal to an honorary unanimity criterion looks, then, for consensus in favor of the whole social-decision-making process and of the totality of policy measures evolving over time.<sup>[10]</sup>

With consensus remaining his key concept, though "on the constitutional level", the political economist can continue to invoke the Pareto criterion and to cherish the ideal of a nearly value-free political economy. Apart, perhaps, from a bow to "the individualistic ethic", he can still hope to avoid appraising policies in the light of his own values.

It is right, in my opinion, to call for economy in the appeal to value judgments. Hastily chalking up disagreement over policies to an impasse over values can cut short investigation and reasoning.<sup>[11]</sup> Confusing two kinds of disagreement — over values and over positive propositions — intertwines with confusion between actual or supposed success in influencing policy and success in achieving scientific generalizations.<sup>[12]</sup> Occam's Razor is a handy tool when value judgments come into policy discussions.

But attempts to banish value judgments, or programmatic pronouncements about doing so,<sup>[13]</sup> tend in their own way to undermine scientific standards. When value judgments go unrecognized, it is impossible to examine them and to show (as I believe to be almost always true) that policy disagreements do not trace to disagreement over ultimate or fundamental values.<sup>[14]</sup> All policy recommendations rest not only on positive propositions but also on conceptions, at least tacit, of desirable and undesirable states of affairs. Frankly to recognize this necessary role of value judgments is not to sanction a lesser degree of scientific rigor than the Pareto-optimizers want. It is simply to avoid self-deception.

Such self-deception bedevils weakened versions of the political economy of consensus. Doctrines envisaging tacit unanimous consent to the entire decision-making process rather than to specific proposals remain vague on just how any propositions about optimality on this constitutional level might be made operational or tested. Weakening the Pareto criterion into one of tacit unanimity seems, by the way, to abandon one of the original arguments for the requirement of actual unanimity — that it served as the only clear-cut test of whether the gains from a proposed policy measure would exceed the costs.<sup>[15]</sup>

What does constitutional or tacit consensus really mean, after all? To interpret any legislation enacted in conformity with the legal constitution as Pareto-optimal would empty the Pareto criterion of meaning. Perhaps some constitution is envisaged more pervasive or binding than the legal one — some social, ethical, or spiritual constitution, or some

fundamental natural law — ; for the suggestion that people are consenting to the constitution by continuing to live in their society<sup>161</sup> could hardly refer to the legal constitution as it currently reads. But if some more pervasive constitution is envisaged, then all amendments to the legal constitution and even all revolutions consonant with the pervasive constitution would presumably count as Pareto-optimal on the constitutional level. Again the concept is empty.<sup>171</sup>

No one could expect all aspects of the social constitution, broadly interpreted, to be explicitly codified in full detail; for ethical or natural-law notions enter into it. Disparagement of the orthodox idea of moral restraints on political behavior<sup>181</sup> comes inappropriately, therefore, from writers who recognize the wisdom of constitutional restrictions, broadly conceived.

#### IV. THE NEED FOR ADVOCACY

If we cling to the idea of consensus as a test of desirability, we still must recognize that a sensible test requires *discussion*. The persons whose assessments of gain and loss are to count must understand a proposed policy measure and its probable consequences. The knowledge they need includes not only specific facts but also the relevant theories of economics and other disciplines. Yet fallacious theories are notoriously prevalent. People's untutored *opinions* about policies are unlikely to correspond closely to their *preferences* about results to be sought.

Ideally, experts with the relevant knowledge can help raise the quality of political discussion. Constructive discussion of a proposal requires advocacy by those who favor it. To say that the political economist should not advocate his proposal but merely explain its expected consequences is to make a thin and untenable distinction.

The danger of *policy drift* heightens the importance of forthright advocacy. In a two-party democratic system, at least, the parties tend to avoid distinguishing their positions sharply.<sup>191</sup> The kinds of choices that voters and politicians consider feasible (and, conversely,

what positions they consider unrealistically extreme) are conditioned by how policy has been drifting. Discussion dominated by politicians does not adequately consider long-run repercussions and long-run compatibilities and incompatibilities among various objectives and measures. Major choices, such as ones concerning the general character of the economic and social system, may get made by default, as the cumulative result of piecemeal decisions whose overall tendencies were not realized when they were made.<sup>201</sup>

These facts point to a role for social philosophers who stand back from practical politics and current fashions in opinion and try, instead, to see how different lines of policy would affect the character of society. Their job is to consider the long run and the big picture and to speak on their own responsibility rather than as mouthpieces for some supposed consensus.

Granted, then, the need for advocacy, the question arises of its proper duration. After failing for how long to achieve unanimity (or honorary unanimity) is the social philosopher supposed to desist? No time limit seems obvious. A conscientious social philosopher would seem to have only one defensible test of whether he should continue advocating a policy — whether he considers the policy desirable enough to make his continued efforts in its behalf worth his while. To suggest, as an alternative criterion, the unanimous consent that people *would* give if they had been fully informed by thorough advocacy and full discussion would be to make an empty distinction.

#### V. PARETIAN VALUE JUDGMENTS

Equally empty would be an attempt to distinguish between discussion confined to positive analysis and discussion frankly extending to values. The Pareto criterion does not avoid value judgments.<sup>211</sup> To introduce this point, let us review a notable article by Amartya Sen.<sup>221</sup> Sen argues that no collective choice rule can simultaneously satisfy the following three conditions:

*Unrestricted Domain:* All attainable states

for which individuals have preference rankings come within the domain of social choice.

*The (weak) Pareto Criterion:* If all individuals agree in their preference between two alternative states, then society holds that preference.

*(Minimal) Liberalism:* Each of at least two individuals may determine at least one choice, such as whether he himself sleeps on his back or his belly. (A fuller-fledged liberalism, according such decisiveness to more than two individuals and over more than one pair of alternatives apiece, would widen the scope for clashes between liberalism and the Pareto criterion; but Sen is content to show that clashes can occur *even* when liberalism is narrowly restricted.)

One of Sen's examples involves two persons and three mutually exclusive states of affairs. In the present altered format, states rank in each person's preferences as shown by how high on the page their alphabetical labels appear.

Person 1	Person 2
z = no one reads <i>Lady Chatterley's Lover</i>	x = 1 reads <i>LCL</i>
x = 1 reads <i>LCL</i>	y = 2 reads <i>LCL</i>
y = 2 reads <i>LCL</i>	z = no one reads <i>LCL</i>

In a social choice between states *x* and *z*, liberalism would suggest letting 1's preferences prevail, since he should not have to read the book if he does not want to. In a choice between *y* and *z*, similarly, liberalism would respect 2's preference about his own reading. The liberal social ranking, then, puts *z* over *x* and *y* over *z*. State *y*, handing the book over to 2, would seem to be the ideal outcome — except that state *x* is Pareto-superior. The Pareto principle and the principle of liberalism yield an inconsistency of choice.

The individual preference rankings may seem impossibly odd, but they can be rationalized. Person 1 is a prude who prefers that no one read the obscene book but who would rather read it himself than expose his supposedly more impressionable fellow-citizen to it. Person 2 would enjoy the book but would enjoy even more the thought of the prude's reading it.

Actually, the oddness of individual preference rankings should not be an issue. *Of course* particular configurations of preferences could sidestep a clash between the liberal and Pareto principles. The point is the possibility of clash. Sen comes close to making the crucial point that the very conception of a liberal society calls for distinguishing among the particular tastes of individuals, according some tastes more and some tastes less respect. "The ultimate guarantee for individual liberty may rest not on rules for social choice but on developing individual values that respect each other's personal choices." "While the Pareto criterion has been thought to be an expression of individual liberty, it appears that in choices involving more than two alternatives, it can have consequences that are, in fact, deeply illiberal."<sup>23</sup> (A closely related diagnosis of the clash, it seems to me, would focus on the condition of Unrestricted Domain, which regards all alternative states as subject to *social* choice.)

Sen's article drew two published criticisms. Neither squarely takes issue with the particular way that his example reproduced here applies his interpretations of liberalism, social states, and decisiveness. An intuitively appealing conception of liberalism would let each individual be unquestionably decisive only for what John Stuart Mill called purely self-regarding decisions. Yet a decision whether someone or *no one* should read the book is, after all, partly on other-regarding decision, one affecting *another* person's reading.<sup>[24]</sup>

The critics raised objections rather different from this one. Liberalism, according to Y. K. Ng,<sup>[25]</sup> holds that each individual should be decisive in matters that significantly affect him but not other persons. Sen could produce a clash between the liberal and Pareto principles only by ignoring intensity of preference. In the example of *Lady Chatterley's Lover*, one person's reading affects another's feelings strongly enough to override the liberal presumption that reading is solely a person's own business.

Unlike Ng, I would focus attention more on the nature than on the intensity of preferences. One person might have an intense desire to be a busybody and to control the behavior of other

persons, even though their behavior did not affect his own welfare straightforwardly enough to concern him legitimately.<sup>[26]</sup> Liberalism, as I understand it, would find such tastes deplorable — and the more intense, the more deplorable. A liberal would consider it a virtue of particular social institutions and policies if they did not tend to promote or reinforce such tastes. In a liberal society, certain externalities would not count heavily, such as the distress that a prude would feel about the Rabelaisian reading of his neighbors. In contrast with a totalitarian or a tribal society in which people see externalities all over the place and in which government or tradition therefore controls the individual's life in detail, a liberal society narrows the range of supposed externalities dignified by social policy.

Claude Hillinger and Victoria Lapham<sup>[27]</sup> also question Sen's conception of liberalism, but from a different standpoint than Ng's. They define liberalism "as the desire not to coerce individuals to accept choices that they would not have made voluntarily . . . when the actions of one individual do not impinge on the welfare of others, then liberalism follows as a special case of the Paretian principle." In the example of *Lady Chatterley's Lover*, Sen's liberal principles "require that person 1 should not be compelled to read Lawrence and person 2 should not be prevented from doing so. What basis is there for this assertion other than the personal taste of Sen, who presumably does not care who reads Lawrence? Since his taste is not shared by the members of his hypothetical society, why should it be imposed on them?" In the presence of externalities, Hillinger and Lapham "cannot conceive of any 'principle of liberalism' which would govern what actions are to be left to individuals independently of the majority preference of the individuals concerned."

After that remarkable statement, they summarize, maintaining that when individual choices are interdependent,

there applies no general principle of liberalism of which we are aware, although the Pareto principle applies. Therefore, there cannot be any conflict between the two principles. The contradiction obtained by Sen is the consequence of his imposing on the social

choice of a society arbitrary values which conflict with the preferences of individuals in the society.

To Hillinger and Lapham, then, the Pareto principle is supreme, discrediting any incompatible conception of liberalism. Any readiness to treat some tastes with less respect than others clashes just as much with liberalism, as they understand it, as with the Pareto principle. To them, meddlesome and live-and-let-live tastes are equally worthy. They consider it a damaging charge to say that Sen wants to "impose" values on society that conflict with the preferences of its members. But Sen is not trying to impose anything. Implicitly, to be sure, he is recommending liberal values over busybody or totalitarian values. He is presumably prepared to explain why a greater respect for some kinds of tastes than for others is conducive to a society whose members have relatively good chances of leading satisfying lives.

In his own reply, Sen notes that the liberalism of Hillinger and Lapham

would seem to demand freedom of individual action only when a person's action is not opposed by anyone else . . . their brand of liberalism . . . is completely redundant in the presence of the Pareto principle . . . [It] would say nothing on minority rights, nothing on the right to privacy, and nothing on noninterference in personal lives. It would defend a person's freedom of action only so long as nobody else objects to that action.

I would readily concede that my theorem asserted nothing about this empty box which HL call liberalism. This is, in fact, not a concession, it is an assertion.<sup>[28]</sup>

The exchange, it seems to me, leaves Sen's paper looking even more impressive than it did in the first place.

Other writers have also challenged the value judgments concealed in the Pareto criterion. John Rawls's *A Theory of Justice* illustrates how a thoughtful man can do so.<sup>[29]</sup> (To recognize this example, one need not accept Rawls's particular conception or principles of justice.) In the appraisal of institutions and policies, Rawls explicitly accords justice priority over efficiency.

Many liberals insist — as Kurt Baier notes with apparent agreement — that although social action should indeed aim at maximizing individual satisfaction, it should also take

account of what individuals find satisfaction in. Preferences based simply on ill will or on the enjoyment of others' misfortunes should not influence policy. "'Social Welfare' can thus hardly mean the same as 'social choice pattern derived from individual choice patterns in accordance with a reasonable constitution.'" It "neither normally coincides with nor means the same as 'social choice pattern derived by a certain method' . . ." <sup>[30]</sup> Sidney Alexander is emphatic: "Whether Pareto-optimality is right or wrong, it is normative to the core." Economists have erred in granting "a monopoly to Pareto-optimality. If it had to compete in the marketplace for ethical ideas it could not . . . long survive." <sup>[31]</sup>

What accounts then for the widespread, if rather passive, acceptance of the Pareto criterion? Alexander notes "the impersonality of its appeal". It takes each person's normative standard as final to himself; no one finds his values contradicted by it; so no one is inclined to object. It seems that "everyone can reasonably subscribe to it whatever his desires." <sup>[32]</sup> Or, as Baier suggests, the criterion is appealing because it seems to bypass the problem of appraising the legitimacy of various tastes or preferences by allowing all, indiscriminately, to count in the social-decision-making process. Yet this does *not* really bypass the problem. To regard all preferences as "equally legitimate" and as deserving to

weigh equally, or in proportion to their intensity[. . .] may sanction a policy that obligates a person to act against, for instance, his preferences in food, housing, sex and so forth, because a majority (though directly unaffected by his doing so) intensely *dislikes* the thought that he should indulge them. <sup>[33]</sup>

## VI. OBJECTIVE ANALYSIS OF TASTES AND VALUES

In indiscriminately according all tastes a legitimate potential influence on policy, the Pareto criterion embodies a sweeping value judgment. <sup>[34]</sup> It implies a denial, furthermore, that tastes and values of a more specific kind can be objectively or quasi-objectively right or wrong, at least in the sense of being consistent or inconsistent with a coherent social philosophy. In effect it echoes the familiar remark that

economists as such have no business making judgments about tastes.

Yet Burton Weisbrod has registered a mild dissent. <sup>[35]</sup> He considers persons contemplating alternative states of affairs on the constitutional level, or behind a "veil of ignorance". In one state, each person has a utility function characterized by narrow and perhaps ruthless self-interest; in the alternative state, each person's utility function exhibits a decent considerateness of other persons. Which state would rational and knowledgeable persons prefer? Whichever state they were in when making the comparison, they would prefer the state in which persons were considerate. They would understand and regret the otherwise unnecessary expenditure of resources required to cope with people's untrustworthiness and predatoriness. In an intelligible sense, it is more efficient for the members of a society to be considerate than to be untrustworthy and predatory.

Weisbrod's argument may seem thin, leaving only slight scope for appraising tastes. Yet is is significant as an opening wedge. (Weisbrod claims, by the way, that he has shown how the Pareto framework can be extended even to dealing with utility functions. What he has extended, it seems to me, is Pareto *terminology* — and extended it too far. To say that all analyses of desirability are analyses made with the aid of the Pareto criterion is to empty that criterion of its last vestige of meaning.)

The quasi-objectivity of tastes and values can be a fruitful working hypothesis, comparable to the scientist's working hypothesis of the uniformity of nature. Things may or may not be objectively good or bad, values may or may not be really right or wrong; but to leave open the possibility of objective truth on such matters promotes investigation and discussion. Discussion need not be confined to how values and tastes, taken as given, can be served or gratified. Reasoning employing analysis from economics and other disciplines can help systematize value judgments and reveal hierarchies, compatibilities, and clashes among them. Demonstration of clashes can lead people to revise their relatively specific values, choosing others that accord better with each other and

with their more fundamental values. As Sen suggests, standard remarks about the futility of arguing over value judgments stem from implicit concentration on *basic* value judgments only.<sup>[36]</sup> Yet it is sometimes possible to show that a judgment in someone's value system is *not* basic. The opposite is not true. To take a given judgment as basic "is to give it, at best, the benefit of the doubt. It seems impossible to rule out the possibility of fruitful scientific discussion on value judgments."

Sidney Alexander endorses the "Socratic notion that men . . . can devise impersonal means . . . of evaluation of normative judgments, that they can cooperate in progressive rational inquiry directed toward making these judgments soundly . . .". An apparent difference in values may turn out to hinge on differing descriptive, operational, predictions of the consequences of the policies considered. It is premature to vest "allegedly irreconcilable values in issues that can in fact be determined operationally against the background of more fundamental value judgments." " . . . within a problematic situation the issues are empirical . . . any purely normative question lies at the next higher level." No normative principle need be regarded as ultimate. A disputed principle will be found to depend "on still other empirical facts or on a still higher normative principle. We can repeat the process indefinitely, so long as we do not come to a normative principle that we refuse to discuss. If . . . no particular principle is inherently a *first* principle, there is no necessary stopping place." This infinite regress is benign; for an impasse would force us "to the barricades." If room always remains for investigation and discussion, "we need go to the barricades only at infinity, which is never".<sup>[37]</sup>

Overlooking these points and taking as given, and as of equal dignity, values that may not be ultimate values at all, the Pareto approach tends to choke off analysis of them prematurely. To the extent that it is not simply empty to recommend adoption of any set of changes that everybody — or an "honorary" consensus — thinks desirable, then it is hasty and even unscientific. People do not fully understand their wants or supposed wants and the ways in

which the gratification of some may entail the frustration of other wants, which may be more basic or enduring. Room always remains for investigation of such matters. On a less psychological or philosophical plane, it is relevant to repeat that people do not understand all the probable consequences of contemplated policy changes. They do not fully understand how particular measures may eventually change the general character of their society.

## VII. LIBERALISM (LIBERTARIANISM) AS A COUNTEREXAMPLE OF THE PARETO APPROACH

Akin to its indiscriminate respect for all values is the tendency of the Pareto approach to regard whatever emerges from market transactions as ethically valid (with qualifications about externalities and so forth). Suppose one man were to buy another man's abject fawning submissiveness or buy his submission to torture to gratify the sadistic tastes of the first man. Does the Pareto criterion bless such transactions, noting gains from trade? It would be merely comical to point out the requirement that the sadists compensate not only the torture victims but also whatever tender-hearted third parties might be pained by the knowledge of the torture. It would be merely comical to point out that there might be no way to compensate and obtain the consent of all pained third parties, perhaps because some of them might belong to future generations. The comedy consists in trying to dodge responsibility for judgments about the characters of men and society by resort to notions of voluntary transactions, gains from trade, and externalities.

Many liberals (libertarians) favor a market economy as the kind of economic arrangement that positive analysis suggests to be most compatible with personal freedom and with voluntary cooperation among individuals in pursuit of their own happiness. Such liberals consider material benefits almost as incidental, though welcome, extras.<sup>[38]</sup> It is startling, then, to find the market tacitly exalted into a source or validator of values. It is startling to find the concepts of market, voluntary transactions,



gains from trade, and government as a trading mechanism exalted to the be-all and end-all of an allegedly liberal conception of the good society, with the question ignored or disparaged of what sorts of tastes and human personalities this conception respects and promotes. Actually, the market is a technically advantageous *instrument* for facilitating the pursuit of happiness, not the very fountainhead-by-default of a conception of the good society. The market is no substitute for social philosophy.

Liberalism, in contrast with the Pareto criterion, is a set of value judgments and positive propositions that add up to a particular conception of the good society. Liberalism values the well-being of actual human beings as they themselves perceive it. It does not scorn, however, all attempts to discriminate between worthy and unworthy tastes, between those that ought and those that ought not to count in the formation of social institutions and policies.<sup>[39]</sup> It (or, at least, the brand that seems persuasive to me) does not disparage consideration for the well-being of people besides oneself, or even of future generations; but it does recognize that values, satisfactions, and frustrations pertain to actual human beings rather than to transcendent metaphysical entities such as "society" or the state. It seeks institutions that minimize the scope for each person's exercise of his freedom to clash with the freedom of other persons. It calls for limiting man's power over man, for dispersing power, and, in turn, for avoiding unnecessary linkage of economic and political power.

If social philosophy has any role at all, it is to contribute to achieving a consensus about what social institutions and policies and attitudes are desirable. Its job is to paint a coherent picture of the good society. It cannot just offer a ticket instead of a picture, a ticket reading that the good society looks like whatever a substantially unanimous opinion thinks it looks like. That would be to abdicate, to offer no guidance at all.

De Tocqueville and John Stuart Mill inveighed not only against governmental tyranny but also against the conformist pressures of public opinion. Liberalism positively values diversity, tolerance, and a live-and-let-live spirit. Recognizing that today's public policies influence what private attitudes may prevail tomorrow, it warns against state actions tending to dignify tyrannical and meddlesome tastes.

An action or policy that embodies meddlesomeness cannot be represented as liberal merely by postulating that it is freely agreed to. To define liberalism as sanctioning whatever policies are freely chosen, or to define it in terms of the procedure used in determining agreement or of the degree of agreement, is to destroy it as a particular conception of the good society. A unanimous decision to adopt totalitarianism would not be a liberal decision, for liberalism values approximately the opposite social arrangements.

## VIII. POLICY, ATTITUDES, AND CHARACTER

Far from merely reflecting and implementing people's attitudes, values, and tastes, policy also influences them — if not by actively shaping or changing them, then by dignifying and reinforcing them. For an example widely appraised as "good", consider how laws and court decisions in the United States since World War II have altered attitudes toward discrimination against blacks. Examples of "bad" effects might be found in considering how welfare measures of certain kinds supposedly tend to breed successive generations of families who grow up believing that it is acceptable not to work for a living, or in considering the idea that unemployment-compensation recipients should not have to accept jobs apparently felt beneath their dignity. Consider how redistributive measures predicated on the supposed injustice of material inequality may tend to erode respect for property rights. Consider how tariff protection tends to dignify employing government power to obtain private benefits at other people's expense.<sup>[40]</sup>

Numerous private as well as public activities do change, and are intended to change, attitudes, values, wants, and tastes, as well as resources and technology, thereby changing the "Pareto frontier". There could hardly be a strong consensus in our society that current preferences are sacrosanct.<sup>[41]</sup>

Attitudes and traditions and the policies that alter or reinforce them can influence material conditions, as whether a country has a primitive or a modern economy. They may well have more effect on people's standard of living than whether or not competition is pure, whether externalities of relatively ordinary kinds go uncorrected for, and similar concerns that form the stock in trade of price theorists and welfare economists.

Alexander chides economists for recognizing the problem of externalities only from the point of view of Pareto optimality. Actually, he says, our whole culture is a "smoke nuisance". "... our economic institutions play a leading role . . . in determining what sort of men we turn out to be . . .". This "neighborhood effect . . . is opaque to Pareto-optimality because a man is not likely to be prepared to pay for being made other than he is the amount that it would be worth to him to be a different man, a worth that he could recognize only if he *were* a different man". The question thus arises "of what sort of wants we should generate, what sort of men we should make".<sup>[42]</sup>

John Stuart Mill expressed similar concerns. One important test of political institutions, he said, was "how far they tend to foster in the members of the community the various desirable qualities, moral and intellectual . . .". Government is not only "a set of organised arrangements for public business" but also "a great influence acting on the human mind"; and that vital influence may turn out either beneficial or mischievous. A government is to be judged, therefore, partly "by its tendency to improve or deteriorate the people themselves . . .".<sup>[43]</sup>

Mill also showed concern for possible influences on people's characters and tastes in his comments on deficiencies in the doctrines of Jeremy Bentham. Bentham needed more knowledge than he had "of the formation of character and of the consequences of actions upon the agent's own frame of mind . . .".

He thought it an insolent piece of dogmatism in one person to praise or condemn another in a matter of taste; as if men's likings and dislikings, on things in themselves indifferent, were not full of the most important inferences as to every point of their character; as if a person's tastes did not show him to be

wise or a fool, cultivated or ignorant, gentle or rough, sensitive or callous, generous or sordid, benevolent or selfish, conscientious or depraved.<sup>[44]</sup>

Some of the foregoing remarks, as well as Alexander's complaint that the exclusion of normative standards other than Pareto-optimality "grants our social institutions immunity from criticism other than on grounds of efficiency",<sup>[45]</sup> may seem to echo the radical critics of capitalism. But methodological slogans will not squelch such criticism. In some respects, particularly in its complaints about the narrowness of traditional economic policy judgments, I sympathize with it. We must be willing to discuss how economic and social institutions affect people's life-styles and values, and even how the different ranges of choice of life-styles and values afforded by alternative social-economic systems facilitate or impair the pursuit of happiness. The range of relevant knowledge is of course tremendous,<sup>[46]</sup> and some of that knowledge is conjectural or missing. This fact underlines how far we are from an impasse over fundamental value judgments and how much scope remains for research and discussion to narrow disagreements.

The remarks made or quoted in the last few pages may alarm some readers. In warning against the Paretian view of tastes as "given" and in recommending that social philosophers concern themselves with how policies might affect tastes, attitudes, and personal characters, am I not taking a very activist and almost a totalitarian view of government? Am I not being arrogant and almost dictatorial in suggesting the possibility of objective truth even in this area of value judgments?

My answer has three parts. First, if policies do unavoidably affect attitudes and tastes, either changing or reinforcing them, then it is perverse to pretend otherwise and argue that the government should pursue an impossible neutrality. We may welcome the presumably liberal ideal underlying the muddled view that political economists should take tastes as "given" and immune from criticism or influence, but we can hardly serve our ideals by allowing the muddle to go unexamined. That view is reminiscent, in a way, of a misunder-

standing about free speech, a mistaken notion that all ideas deserve a respectful hearing. Freedom of speech means noninterference, not respect for all ideas. In fact, part of the sound case for free speech is the contention that there is a better way — discussion — of dealing with wrong ideas than forcibly suppressing them. Similarly, liberalism recognizes a role for discussion in dealing with bad taste.

Although individuals' tastes are largely a social product and although how policy may affect them legitimately concerns the social philosopher, complacency about overriding people's tastes does not follow in the least. A man's tastes are *his* tastes, and the frustration of having them overridden is unpleasant for *him*, regardless of just how his tastes were shaped by his society.<sup>147</sup> There is no contradiction between wanting to let people gratify their own tastes and taking heed of what influences shape those tastes, and how.

A second part of my answer is that concern for the effects under discussion need not necessarily lead to recommendations for a hyperactive government. On the contrary, analysis of such effects might support recommendations for drastically restricting the scope of government. Attention to interactions among policies and attitudes and tastes helps reveal how broad a range of empirical considerations may bear on the desirability of policies. Thirdly, the working hypothesis that quasi-objective truth may be found even in the realm of values does not arrogantly claim special insight for a dictatorial elite. On the contrary, it recommends the ordinary scientific procedures of investigation and discussion.<sup>148</sup>

## IX. THE EFFICIENCY VIEW VERSUS THE CONSTITUTIONAL VIEW

An important line of defense of the Pareto concepts as policy criteria relates to their clear usefulness in abstract theory. This defense asserts the need for a concept or standard of *efficiency* against which to appraise actual or contemplated states of affairs. But the concept of efficiency is most applicable to rather narrowly technical or economic aspects of

welfare — patterns of resource allocation, production, exchange, and consumption. A pattern is not fully efficient if some technically feasible shift in any aspect of it could benefit at least one person while harming no one.

The Pareto concept of efficiency, narrow and rigorous as it is, has great pedagogical value in price theory. It can help one grasp the abstract, barebones logic of a competitive market economy, or of a centrally administered economy successful in achieving certain features of an ideal competitive economy. The concept can be useful in demonstrations of the gains still to be reaped in non-Pareto-optimal situations. It helps one achieve an intellectual appreciation of the equality of the various marginal rates of substitution and transformation in the situation toward which a competitive market economy tends (apart from externalities and so forth) as economic actors respond to the information and incentives conveyed by prices. Theorems of correspondence between competitive equilibria and Pareto optima can have an austere intellectual beauty. On a less exalted plane, students may gain facility in price theory by studying it both backwards and forwards, not only starting with the concept of long-run competitive equilibrium and deriving its welfare properties but also starting with those properties and seeing how perfect competition would tend to achieve them.<sup>149</sup>

All of this is quite different from erecting a Pareto-optimal state as a benchmark or ideal in comparison with which states of affairs in the real world are to be approved or condemned. It is different from insisting that policy changes be Pareto-optimal. Elegant abstractions have an unquestioned role in theory, but their direct and overriding application to policy in the complicated real world is quite a jump.

If we must have a standard against which to appraise reality, we might well adopt the looser view of a competitive market economy as a device for gathering and transmitting information about not-yet-exhausted opportunities for gains from trade (including "trade" with nature through production or through rearrangements of the pattern of production), for conveying incentives to exploit such opportunities, and for coordinating decentralized activit-

ies.<sup>[50]</sup> With this mechanism in mind, we may find arguments — though not conclusive arguments — for particular strands of policy because they facilitate its operation. We may — though again, not conclusively — condemn other strands of policy because they impair access to opportunities for gains from trade, because they distort the information or incentives transmitted by prices, because they obstruct the market process of coordinating decentralized activities, or even because they rest on and thereby dignify fallacious arguments. But such narrowly economic criteria cannot be conclusive because, for one thing, they do not come to grips with the sociological and psychological considerations that may also be relevant in appraising institutions and policies.

Do not the recognized merits of cost-benefit analysis dignify the Pareto criteria of policy? Though far from the same, the two approaches are related. Considering whether the benefits from a proposal would exceed the costs amounts to considering whether a package of changes, including side-payments, might conceivably be worked out from which some or all persons would gain while none would lose. The usefulness of cost-benefit analysis does not hinge on the full actual implementation of such policy packages. Nor does it even hinge on great precision in the measurement, totaling, and comparison of costs and benefits. Perhaps the chief merit of cost-benefit analysis lies in bringing some standards, some discipline, into discussions, lessening the influence of sheer eloquence and poetry. But this contribution is pretty far from actual application of the Pareto criteria.

Prized for its intimate connection with the concept of efficiency, the Pareto concept finds its principal usefulness in the contemplation of "results" of the operation of the market in the form of particular — but abstractly conceived — allocations of resources and goods. It serves in pure price theory, not in contemplating the concrete "results" observed in the real world. James Buchanan essentially recognizes this point when he says that "the Pareto criterion is of little value when employed solely to classify 'results' defined with respect to the orthodox

economic variables, inputs and outputs of goods and services possessed by different persons in the social group". Instead, he suggests, "the criterion must be extended to classify social rules which constrain the private individual behavior that produces such results".<sup>[51]</sup>

The latter view of the Pareto criterion can hardly be reconciled, it seems to me, with the view that would employ it in appraising the efficiency of allocations. These two different uses or defenses of the Pareto criterion are incompatible — unless, perhaps, they are segregated in completely separate contexts.

If, in denying the applicability of the Pareto criterion to the appraisal of "results", Buchanan means that social philosophers and economists seldom face an occasion or opportunity to appraise concrete, specific real-world allocations, he is clearly right. Among other reasons, they lack the detailed specific knowledge necessary for such appraisals. Their appraisals must deal, rather, with rules, institutional arrangements, and systems. Buchanan agrees with my colleague Rutledge Vining,<sup>[52]</sup> who emphasizes that legislators and their advisors are choosing among alternative patterns of legal and institutional constraints rather than among alternative specific results or allocations. (Vining and Buchanan differ, however, on the meaningfulness of the Pareto criterion in discussions over policy, so conceived.)

The contrast is tremendous between abstractly contemplating the allocations that would result from market processes and contemplating supposedly optimal configuration of legal and institutional constraints. In abstract theorizing we can conceive — and instructively so — of an allocation from which no Pareto-optimal move can be made. But what is a set of policies or rules from which no such move can be made? Insofar as no policy changes can be found in the real world that would harm literally no one, then, in a corresponding sense, the existing combination of policies is Pareto-optimal. That label, however, would be pretentious. How can we rule out discovery or invention of a new policy package that would benefit some persons while inflicting net loss on none? The range of discoverable or inventable policy packages can

hardly be taken as given in the same sense that "wants, resources, and technology" (and institutions) are conventionally taken as given in abstract price theory, especially since the search for consensus by Buchanan's political economist is supposed to include a search for just such discoveries or inventions. Its success renders existing policies no longer Pareto-optimal. Existing policies, in short, either do or do not count as Pareto-optimal, depending on just how the concept is extended beyond its role in abstract price theory.

For still further reasons this extension is illegitimate. Legal and institutional constraints are supposed to be rules of the game within which people strive to make the most of their opportunities amidst ceaseless change in wants, resources, and technology. The very point of having rules presupposes their having a certain stability and dependability, which would be undermined by continual efforts to make supposedly optimal changes in them.

What is useful in policy discussions, then, is not a supposed benchmark of Pareto-optimality against which to compare or test each proposed set of rules but rather a comparison among themselves of what alternative sets of rules add up to — alternative economic and social systems.<sup>[53]</sup>

Advocates of socialism typically do not say that their system would be Pareto-optimal, that it could command unanimous consent. At their best, they are arguing that the arrangements they recommend would facilitate the pursuit of happiness better than any alternative arrangements. A rigorous adherent of the Pareto criterion would presumably scorn this brand of political economy as loose and sloppy and would refrain from discussion with the socialists on the grounds that he must remain silent about policies, or constitutions, that would harm some people while benefiting others. If the contention under discussion is that socialism would give the best chance of happiness to the person considered at random, considered as stripped from any distinctive personal characteristics or role in society, then the Paretian political economist might feel entitled to enter the discussion, contributing an analysis of potential unanimity on some sort of super-

constitutional or pre-constitutional level. This gambit amounts, however, to *not* taking seriously, after all, the restrictions that the Pareto criterion would otherwise impose on its adherents.

## X. THE GOOD SOCIETY

We might as well return — openly — to appraising policies in the light of our own conception of the good society. As Clarence Philbrook says, "Only one type of serious defense of a policy is open to an economist or anyone else: he must maintain that the policy is good".<sup>[54]</sup> Such a contention logically has two parts or bases: (1) a positive analysis predicting what results the recommended policy would have, and (2) a judgment that those results are on the whole desirable, that is, in conformity with the advisor's conception of a good society, which he should be prepared to avow openly. This approach need not mean conceiving of "society" as some metaphysical entity whose interests transcend those of its individual members. On the contrary, the good-society approach recommends appraising social institutions according to how effective they are likely to prove in facilitating voluntary cooperation among individuals in their pursuit of their own happiness.

With prospects for happiness forming the criterion of a good society and thus of policy, questions might seem to arise about a choice between maximum aggregate or *per capita* utility<sup>[55]</sup> on the one hand and lesser aggregate or *per capita* utility associated with a more nearly equal distribution on the other hand. I conjecture, however, that such questions simply dissolve on the level of discourse concerned with basic institutions. Is it really possible to specify a set of institutions that would give greater total (or *per capita*) utility but a lesser degree of equality and an alternative set that would give lesser total (or *per capita*) utility but a greater degree of equality? (The obvious quibbles about comparing and adding up the utilities of different persons — waived here — would reinforce my conjecture about the nonoperationality of questions about a tradeoff between total utility and its distribution.) One

can, of course, conceive, at one extreme, of a complete absence of redistributive measures (other than private charity) or even of institutions and measures positively reinforcing the inequalities resulting from heredity and luck, and conceive, at the other extreme, of egalitarian policies such as *per capita* grants financed by drastically progressive income and wealth taxes and even the confiscation of all income and wealth above certain ceilings. But plausible arguments suggest that either the antiegalitarian or the egalitarian extreme would result in lesser total or *per capita* utility (or less attractive prospects either for the man considered at random or for the least advantaged members of society) than some intermediate policy. Such arguments would enlist facts and theory from various fields of knowledge.<sup>[56]</sup> Similar considerations would still apply, if less unambiguously, to comparisons between alternative intermediate (nonextreme) policies. We would never obtain all the detailed factual and theoretical knowledge necessary to judge that policy A would yield more utility more unequally distributed while policy B would yield less utility less unequally distributed. Further knowledge would always remain relevant to an assessment of the attractiveness of the contemplated society; and we would never, I conjecture, face no recourse but to make a sheer value judgment between utility and equality. We would never encounter a situation in which the question of the tradeoff had to be faced. This question, like some others in social philosophy, can appear to arise because we have not faced the prior question of in what *context* it could relate to a genuine issue.

Though emphasizing that one's conception of the good society depends on one's values, I also conjecture that sufficient investigation and discussion would reveal a substantial consensus on fundamental values (such as human happiness) and, through positive analysis, on more specific values in turn. If so, values possess a quasi-objective validity.<sup>[57]</sup> If a social philosopher or policy advisor fails to face the question of values squarely and, instead, tacitly employs the relatively unexamined specific values of "the community" or of persons who make mutually satisfactory exchanges, he is in effect

adopting those values himself without analyzing them. Such acceptance of other people's values parallels, in a way, the concern for other people's assessments of political feasibility that, when allowed to contaminate supposedly expert judgments of desirability, has been rightly condemned in discussions of "realism" in policy espousal. People who trim in that way are scrambling onto each others' bandwagons.<sup>[58]</sup>

## XII. CONCLUSION

My view may seem elitist or dictatorial. But whether a situation that will result from a proposed policy is good or bad is not simply a matter of whether or not the policy can now command the support of a majority or even of everybody. If I were to imply that the desirability of a policy did depend on the degree of support for it, I would be doing a little bit to subvert that rational discussion which itself forms part of the democratic ideal. Favoring a policy opposed by a vast majority would not mean wanting to impose that policy by force, even if I could. The means whereby policies are put into effect is itself terribly important. There is nothing inconsistent about emphatically advocating a certain policy, yet rejecting its imposition by antidemocratic means.

Is the policy advisor who believes in objective good and bad, right and wrong, claiming superiority for his insights over those of everyone else? No; he is just honestly stating what his insights are. His views on topics in which he is a specialist are indeed probably worth more than those of most other people, just as other people probably have better-based views than he does about plumbing or manufacturing or shopkeeping or politics or other fields in which he does not specialize. His particular job is to seek and communicate positive knowledge that, in combination with frankly avowed and carefully examined value judgments, leads to policy recommendations. But he claims no infallibility. He is simply making his contribution to investigation, reasoning, and discussion. He can best help to root out error, including error of his own, by being clear and forthright. There would be little hope

of reaching meaningful consensus (even if that were the criterion of desirability) unless participants in the discussion were willing to state frankly what their judgments were, instead of trying to adjust theirs to those of everyone else. Frank advocacy of what he thinks good is part of his job.

In conclusion, I am not scorning abstract economic theory, in which the concept of Pareto optimality plays an important role. I am warning against the impression — an impression conveyed by misapplication of the Pareto terminology — that narrowly economic concepts and considerations, perhaps employed along with a much broadened conception of the range of economic transactions, can be decisive on matters of policy. I am asking that we do not camouflage with Paretian slogans our unavoidable return to the good-society approach to policy espousal. I am decrying psychological rather than logical effectiveness in terminology and writing style; I am calling for forthrightness and clarity.

# NOTES

I am indebted to William Breit for stimulating discussions and for encouraging me to write this paper and to John H. Moore and, in particular, Edgar K. Browning for helpful comments on an earlier draft.

1. G. Warren Nutter, "Economic Welfare and Welfare Economics," *Journal of Economic Issues* (June, 1968), p. 167.
- 1A. Gordon Tullock, "Information Without Profit," *Papers on Non-Market Decision-Making* (Charlottesville, Va.: Thomas Jefferson Center, University of Virginia, 1966), pp. 141–159.
2. Some of these difficulties are discussed in Clem Tisdell, "Some Bounds Upon the Pareto Optimality of Group Behavior," *Kyklos* (1966), pp. 81–105. Some points regarding information are developed by Roland N. McKean and Jora Minasian, "On Achieving Pareto Optimality — Regardless of Cost!" *Western Economic Journal* (Fall, 1966), pp. 14–23. They show, for example, that marginal-cost pricing in the conventional sense in the familiar decreasing-cost case might wastefully sacrifice information about consumers' demands for the good or service involved.
3. James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor, Mich.: University of Michigan Press, 1962), pp. 261, 285, 92 respectively.
4. Abba P. Lerner notices "a cult of 'objectivity' that . . . essentially amounts to a refusal to consider any significant welfare problems since it is very hard to think of any policy to benefit some people which would not also bring some damage to others". Abba P. Lerner, "The Economics and Politics of Consumer Sovereignty," *American Economic Review* (May, 1972), p. 263.

For conjectures about the motives of Ludwig von Mises and James Buchanan for allegedly espousing the "peculiar and unsatisfactory principle" of condemning all changes from which anyone at all would lose, see Brian Barry, *Political Argument* (New York: Humanities Press, 1965), pp. 51–52.

5. Karl Brunner, "The Role of Money and Monetary Policy", Federal Reserve Bank of St. Louis *Review* (July, 1968), p. 13n.
6. Notable early contributions were Harold M. Hochman and James D. Rodgers, "Pareto Optimal Redistribution", *American Economic Review* (May, 1972), pp. 542–557, and Edgar O. Olsen, "A Normative Theory of Transfers", *Public Choice* (Spring, 1969), pp. 39–58.
7. Cf. Lester C. Thurow, "The Income Distribution as a Pure Public Good", *Quarterly Journal of Economics* (May, 1971), pp. 327–336. Thurow speaks of the "Pareto optimum income distribution" at which "the marginal costs (transfer payments) of moving toward more equality are just equal to the net marginal social benefits of moving toward more quality". *Ibid.*, p. 331. Achieving the optimum distribution, so conceived, involves tax payments by those who desire the move to greater equality and compensatory payments to those who dislike greater equality as well as the transfers to change the distribution in the optimal way.  
"Since the income distribution is a public good, equilibrium is reached at the point where the sum of the marginal rates of substitution between income and the income distribution for each individual is equal to the marginal rate of transformation between transfer payments and the income distribution. . . . When [this condition] is fulfilled, a Pareto optimal income distribution has been reached . . ." *Ibid.*, p. 334.
8. George Daly and Fred Giertz, "Welfare Economics and Welfare Reform," *American Economic Review* (March, 1972), pp. 131–138, provide an example of coming closer, on the explicit level, to disavowing than affirming any idea that the necessity of something or other for a Pareto-optimal result constitutes a recommendation for it. Characteristically, however, they still employ the Pareto concept as if it were relevant to real-world policy-making. Characteristically, also, they vaguely disparage the market for being unable to handle externalities related to income distribution in a Pareto-optimal way. (Their chief *explicit* message is the familiar one that the particular way in which the utility of potential donors may depend on the consumption patterns of the potential recipients may recommend transfers in kind rather than in cash. So may political considerations.)
9. Herbert Grubel even introduces the concepts of "Pareto optimal exchange rate fluctuations", the "Pareto optimal rate" of interest on Special Drawing Rights, and the "Pareto optimal amount of international reserves". The latter apparently means the amount of reserves that authorities intervening to influence exchange rates would effectively demand if the reserves bore interest at a rate equalling the marginal productivity of invested real resources. Herbert G. Grubel, "The Case for Optimum Exchange Rate Stability", *Weltwirtschaftliches Archiv* (1973), pp. 351–381.
10. This is the approach of Buchanan and Tullock, *The Calculus of Consent*, *passim*. For a recent restatement,

- illustrating that notions of Pareto optimality on the constitutional level remain current, see Harold M. Hochman, "Individual Preferences and Distributional Adjustments", *American Economic Review* (May, 1972), especially p. 359.
11. A "widespread tendency to attribute policy differences to differences in value judgments" arises, according to Milton Friedman, "because it is often so much easier to question a man's motives than to meet his arguments or counter his evidence. We can shortcut the hard process of analysis and collection of evidence, and at the same time bring the support of indignation and moral fervor to our views. . . ."
  12. Cf. P. T. Bauer, *Dissent on Development* (Cambridge, Mass.: Harvard University Press, 1972), pp. 449-451 and *passim*, elaborating points originally made in Bauer, "International Economic Development", *Economic Journal* (March, 1959), especially pp. 106-107, 123.
  13. Gordon Tullock says, for example: "If a proof has been developed that some particular change is Pareto optimal, then we can demonstrate, on the basis of our criteria, that this change should be adopted without any ethical presuppositions at all." Gordon Tullock, *The Logic of the Law* (New York: Basic Books, 1971), pp. 8-9. In concluding a paper concerned with applying Pareto criteria to redistributive measures in particular, James M. Buchanan emphasizes that "nowhere in the discussion has it been necessary to introduce external ethical norms. . . . The redistribution that 'should' be performed at various levels of government is that which individuals, acting through their collective entities, local and central, expressly prefer. . . . There is no cause for retreat into obscurantist ethics, which does little more than embroil us, one with another, over just whose personal set of values 'should' be selected by that nonexistent yet subservient elite through which too many of us seek in unconscious willingness to subvert ordinary democratic process". James M. Buchanan, "Who Should Distribute What in a Federal System", in *Redistribution Through Public Choice*, eds. H. Hochman and G. Peterson (New York: Columbia University Press, 1974), pp. 39-40.
  14. On the concept of "fundamental" or "basic" value judgments and their limited role in controversies over courses of action, see Paul Edwards, *The Logic of Moral Discourse* (New York: Free Press, 1965), Amartya K. Sen, *Collective Choice and Social Welfare* (San Francisco: Holden-Day, 1970), Chapter 5, and Section VI below.
  15. The argument for such a test appears in James M. Buchanan, "Positive Economics, Welfare Economics, and Political Economy", *Journal of Law and Economics* (October, 1959), pp. 124-138, and Buchanan, "Economic Policy, Free Institutions and Democratic Process", *Il Politico* (1960), pp. 265-277. Even that test had flaws. Unanimity might not be a necessary condition even though a sufficient condition of a Pareto-optimal change. A person might vote against a change that would benefit him because he was holding out for a still more advantageous change. Kurt Klappholz, "What Redistribution May Economists Discuss?" *Economica* (May, 1968), p. 195n.
  16. Cf. the remarks of Buchanan and Tullock, *Calculus of Consent*, pp. 254, 260-261, on the "essence of the contractual conception of the collectivity": "... each and every participant has, implicitly, accepted the 'contract' embodied in the rules of the game when he chooses to play". "The 'social contract' is best conceived as subject to continual revision and change, and the consent that is given must be thought of as being continuous. . . . We do not conceive the 'constitution' as having been established once and for all. We conceive the contractual aspects to be continuous, and the existence of a set of organizational rules is assumed to embody consensus".
  17. David Hume mocked the interpretation of any such passiveness as consent: "We may as well assert, that a man, by remaining in a vessel, freely consents to the domination of the master; though he was carried on board while asleep, and must leap into the ocean, and perish, the moment he leaves her." David Hume, "Of the Original Contract", repr. in *Hume's Ethical Writings* ed. A. MacIntyre (New York: Collier Books, 1965), p. 263.
  18. It is not clear, however, whether Buchanan and Tullock would count all changes conforming to the pervasive constitution as Pareto-optimal. In sentences interwoven with those quoted in the preceding footnote, they say that any change in the social contract, "if it is desirable at all, can always find unanimous support, given the appropriate time for compromise. . . . The implicit rule for securing the adoption of changes in these organizational rules (changes in the structure of the social contract) must be that of unanimity. This is because only through the securing of unanimity can any change be judged desirable on the acceptance of the individualistic ethic." Buchanan and Tullock, *Calculus of Consent*, p. 260.
  19. The equivocation surrounding such concepts as consensus on the constitutional level, tacit consent, and unanimously agreed revision of the social contract does, in any case, raise doubts about their meaning.
  20. "[M]uch of orthodox political thought", according to Buchanan and Tullock, *Calculus of Consent*, pp. 266-267, "seems to be based on the view that the collective-choice process reflects a partisan struggle in which the beneficiaries secure gains solely at the expense of the losers". In that view, political order depends "on the strength of moral restraints placed on human actors. If, by contrast, a broader and, we think, a more 'correct' conception of political choice is adopted, there need be less reliance on moral restraints of individuals".
  21. See, *inter alia*, Harold Hotelling, "Stability in Competition", *Economic Journal* (March, 1929), pp. 41-57. This spirit of competition is far from totally bad. Having no momentous issues sharply dividing the population and requiring once-and-for-all decision probably does tend to promote social peace and cohesion.
  22. A related point is stressed by an avowed radical, Robert Paul Wolff, *The Poverty of Liberalism* (Boston: Beacon Press, 1968), especially chapter 3.
  23. Buchanan and Tullock recognize this point in some (untypical) passages. Their methodological individual-



ism, taking as point of departure "the calculus of the rational utility-maximizing individual as he confronts . . . constitutional choices", is an approach that "must embody philosophical commitments". *Calculus of Consent*, p. 265.

22. Amartya K. Sen, "The Impossibility of a Paretian Liberal", *Journal of Political Economy* (Jan./Feb., 1970), pp. 152-157; its essence is reproduced in Sen, *Collective Choice*, esp. chapter 6.
23. Sen, "Impossibility of Paretian Liberal", pp. 155-156, and 157 respectively.
24. Mill viewed the self- and other-regarding distinction as a matter of fact: yet actually it is fuzzy. It concerns what things men choose to take an interest in and whether their interest is rightful or not. See Wolff, *Poverty of Liberalism*, pp. 24-25.  
I would add that the value judgments at issue are almost certainly not ultimate or fundamental. They are discussible in terms of how the character of the society is likely to be affected by where the line is drawn between self- and other-regarding actions.
25. Y.K. Ng, "The Possibility of a Paretian Liberal: Impossibility Theorems and Cardinal Utility", *Journal of Political Economy* (Nov./Dec., 1971), pp. 1397-1402.
26. In chapter 6 of *Collective Choice*, Sen introduces the term "nosiness" to characterize a concern with supposed externalities that a liberal would consider illegitimate.
27. Claude Hillinger and Victoria Lapham, "The Impossibility of a Paretian Liberal: Comment by Two Who Are Unreconstructed", *Journal of Political Economy* (Nov./Dec., 1971), pp. 1403-1405.
28. Amartya K. Sen, "The Impossibility of a Paretian Liberal: Reply", *Journal of Political Economy* (Nov./Dec., 1971), pp. 1406-1407. Peacock and Rowley agree with Sen and extend his argument. Alan T. Peacock and Charles K. Rowley, "Pareto Optimality and the Political Economy of Liberalism", *Journal of Political Economy* (May/June, 1982), pp. 476-490.
29. John Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971).
30. K. Baier in Hook, *Human Values*, pp. 127-128, 133.
31. Alexander in Hook, *Human Values*, p. 108. Surprisingly, perhaps, for authors who get so much mileage out of the Pareto criterion, Daly and Gierzt admit that some economists might find it "ethically objectionable" in certain contexts, since it "is, after all, an ethical standard". Daly and Gierzt, "Welfare Economics", pp. 131-138.
32. Alexander in Hook, *Human Values*, p. 109.
33. Baier in Hook, *Human Values*, p. 130.
34. I wonder how deeply the adherents of the Pareto criterion really believe this judgment. A willingness to appraise other people's tastes is hardly absent from their informal conversation, at least.
35. Burton A. Weisbrod, "Comparing Utility Functions in Efficiency Terms or, What Kind of Utility Functions Do We Want?", *American Economic Review* (December, 1977), pp. 991-995.
36. Sen, *Collective Choice*, pp. 62-64.
37. Alexander in Hook, *Human Values*, pp. 105-107, 114-115.
38. Perhaps the most eloquent and prolific writer in this tradition was Wilhelm Röpke. As Peacock and Rowley, "Pareto Optimality", p. 489 remind us, "The

liberal economist has always recognized that when he makes policy recommendations he is responsible for them in the round and that such recommendations are derived from a social and political philosophy embracing far more elements than arrangements which are designed solely to promote economic efficiency".

39. In a lengthy passage whose unfortunate wording requires a charitable interpretation, P. K. Pattanaik makes a similar point, maintaining "that individual preferences may be at different levels of objectivity and that it seems more reasonable to base social preferences on a higher-order individual evaluation — ethical preferences — rather than on a lower-order evaluation — subjective preferences". P. K. Pattanaik, "Risk, Impersonality, and the Social Welfare Function", *Journal of Political Economy* (Nov./Dec., 1968), pp. 1161, 1163.  
Compare also the doctrine of John Rawls, reviewed in footnote 57 below, on the frame of mind appropriate for individuals making judgments on what social institutions are desirable.
40. Although the cause-and-effect propositions underlying these possible examples might be wrong, the examples still serve to stimulate reflection on how policies can affect attitudes.
41. Jerome Rothenberg, *The Measurement of Social Welfare* (Englewood Cliffs, N.J.: Prentice-Hall, 1961), pp. 72, 98.
42. Alexander in Hook, *Human Values*, p. 110.
43. *Representative Government*, chapter II, pp. 193, 195, in John Stuart Mill, *Utilitarianism, Liberty, and Representative Government* (London: Dent, 1910, rpt. 1929.)
44. "Bentham", in *Selected Writings of John Stuart Mill*, ed. M. Cowling (New York: New American Library, 1968), pp. 52-53.
45. Alexander in Hook, *Human Values*, p. 111.
46. Moral philosophy, for example, is relevant. As Mortimer Adler says, "Unless we know what a good life is and how it can be attained, we cannot know what a good society is and the shape that its institutions should take in order progressively to realize the ideal of a healthy community and one that is just in its economic and political arrangements". Mortimer J. Adler, *The Time of Our Lives* (New York: Holt, Rinehart, and Winston, 1970), p. 322.
47. For development of a related point, see F. A. Hayek, "The Non Sequitur of the 'Dependence Effect'", *Southern Economic Journal* (April, 1961), reprinted in his *Studies in Philosophy, Politics and Economics* (Chicago: University of Chicago Press, 1967), pp. 313-317.
48. On this last point, compare Duncan MacRae, Jr., "Scientific Communication, Ethical Argument, and Public Policy", *American Political Science Review* (March, 1972), pp. 38-50.
49. Abba P. Lerner, *The Economics of Control* (New York: Macmillan, 1944) is a good example of what I have in mind. It is unimportant that Lerner does not actually employ the term "Pareto optimality". Also see J. E. Meade, *Trade and Welfare* (London: Oxford University Press, 1955).
50. Even on the theoretical as well as the practical level, Allais recommends the dynamic conception of a decentralized search for realizable surpluses (or net gains) over the static and centralized conception of an

- optimal pattern of production, exchange, and so forth. Changes in wants, resources, and technology are constantly giving rise to new opportunities to realize surpluses. Maurice Allais, "Les théories de l'équilibre économique général et de l'efficacité maximale", *Revue d'Economie Politique* (1971), pp. 331-409.
51. James M. Buchanan, "The Relevance of Pareto Optimality", *Journal of Conflict Resolution* (December 1962), p. 341.
  52. Rutledge Vining, "On Two Foundation Concepts of the Theory of Political Economy", *Journal of Political Economy* (Mar./Apr., 1969), pp. 199-218.
  53. Nutter finds "much to be said for encouraging economists to abandon altogether the field of welfare economics as it has developed and to substitute more sophisticated study of alternative economic systems. Let economists raise the question of what system works best, all relevant considerations being taken into account, and not what specific policies are desirable regardless of system". Nutter, "Economic Welfare", p. 169.
  54. Clarence E. Philbrook, "'Realism' in Policy Espousal", *American Economic Review* (December, 1953), pp. 846-859. The title of the present article derives, obviously, from Philbrook's title.
  55. The aggregate and *per capita* criteria diverge if the policy chosen affects the size of population. I simply bypass the metaphysics involved in comparing these criteria. (Even the choice posed in the text is not operational, as I try to show.)
  56. For an attempt at such an argument, see Leland B. Yeager, "Can a Liberal Be an Equalitarian?", in F. A. Harper and others, *Toward Liberty* (Menlo Park, Calif.: Institute for Humane Studies, 1971), II, 422-440.
  57. See the already cited works by Paul Edwards, Mortimer Adler, and Sidney Alexander in Hook, *Human Values*, among others. My thinking has also been influenced by the "Objectivist" writings of Ayn Rand. Though interpretations of Rawls, *Theory of Justice*, differ widely, it seems to me that Rawls espouses values in a relatively forthright way, regarding them as quasi-objectively valid. Rawls conceives of an "original position" in which parties discuss and agree on the basic principles of social organization. Although aware of the general facts of physical and human nature, the parties are ignorant of any specific characteristics of their society, of their own statuses in it, of their own distinctive personal characteristics, and even of what generations in time they belong to. This concept, as I interpret it, is a heuristic device for putting social philosophers into a proper frame of mind. In it, they are able to ignore their personal circumstances and tastes and so reach agreement on what principles of social organization would be *fair* for all members of a society. Investigation of the more specific characteristics of a good society must invoke not only basic principles, however, but also the contingent empirical findings of psychology, economics, and other disciplines, findings always subject to revision and extension by further research and discussion.
  58. Although Rawls labels his doctrine "contractarianism", I see no operational difference between appealing to a *conceptual* social contract and doing what I interpret him as actually doing — asking himself what a social philosopher can in good conscience recommend on his own responsibility when in a proper frame of mind. He is less anxious than Buchanan and Tullock to shed personal responsibility for the values unavoidably involved in policy choices. Respecting Rawls for this reason does not imply, of course, agreement with the particular values that he espouses.