

Rights, Freedom, and Welfare in Economics

Prasanta K. Pattanaik

Carnegie Centenary Professor 2006

6 November 2006

Welfare economics is the area of economics that is concerned with judgements about social welfare and criteria for public policy. Since these issues are clearly ethical, welfare economics studies alternative ethical criteria for making such welfare judgements and taking decisions about public policies. The purpose of this lecture is to outline how the ethical criteria used by economists have evolved over time, and how, starting with utilitarianism, welfare economists have extended the ethical foundations of their subject to include considerations of individual rights, freedom, etc., which traditionally did not figure in welfare economics.

More than two centuries ago, in his *Fragment on Government* Bentham (1776) described how he “learnt to see that *utility* was the test and measure of all virtue ... and that the obligation to minister to general happiness, was an obligation paramount to and inclusive of every other.” This principle of utility, or utilitarianism as it was to be called, about which Bentham wrote with such fervour, influenced economics deeply. For a long time welfare economists firmly believed that the only information required for judgements regarding social welfare and the assessment of public policies was the information about people’s utilities (Professor John Hicks called this belief ‘welfarism’).

Indeed, a considerable amount of welfare economics relied almost exclusively on the Pareto principle, which constitutes a particularly weak implication of most forms of welfarism and which stipulates that, given a set of feasible social states, a feasible social state, say x , must never be chosen if there is another feasible social state y which gives no less utility to anybody in the society as compared to x , and gives strictly more utility to some people in the society as compared to x . Even when welfare economists tried to go beyond the Pareto principle, they still remained within the confines of welfarism.

Thanks mainly to the path-breaking contributions of Professor Amartya Sen, welfare economics has slowly emerged from this self-imposed restriction. Over the last four decades or so, welfare economists have: (i) formulated models of individual rights; (ii) studied possible tensions between the respect for individual rights and the Pareto principle, which constitutes one of the weakest criteria in the welfaristic tradition; (iii) explored non-utilitarian conceptions of an individual’s well-being; and (iii) introduced freedom as an important dimension of the well-being of an individual and studied the problem of measuring freedom.

Nor have these changes in welfare economics been confined to abstract theory. They have influenced the formulation of economic policies, especially in developing countries, in a significant fashion. The lecture outlined some of these developments in welfare economics and indicated a few of the tensions that arise in this richer but more complex ethical framework.