

Pigovian Welfare Economics

Though Pigou's Economics of Welfare was the first clear analysis of welfare economics, yet the Pigovian conditions of welfare have been criticised on the following grounds. Pigou lays emphasis on the maximisation of welfare, but he does not clarify the notion of maximisation.

Pigovian assumption of equal capacity for satisfaction is scientifically untenable. This represents a broad value judgement in favour of equal distribution of wealth. The capacity for satisfaction of any individual is a subjective thing incapable of objective quantification.

Another trouble with Pigovian welfare economics, is the lack of rigour and operational content in the distinction between private and social products. Pigou seems to have assumed that the divergence between the two is not inherent in the working of the free enterprise system. It is traceable to and can be corrected through governmental intervention. In the real

world, structural failures resulting from immobility, indivisibility and imperfect knowledge are so numerous as to defy correction through social action.

The classification of general welfare into 'economic' and 'non-economic' welfare has also been criticised as too superficial to be made the basis of all welfare analysis. The most destructive criticism of the Pigovian welfare economics was the unrealistic nature of the assumptions of cardinal additivity of the individual utility functions to get the social welfare functions. Economists do not agree with this view because quantitative measurement of utility is not possible.

Pigou's welfare conditions are related to national income. But it is not easy to calculate national income. Again, social welfare does not increase by a mere increase in national income. It is possible that national income may increase due to inflationary rise in prices and poor may become worse off than before.