

Value Judgement Under Welfare Economics

What Welfare Economics is about?

We shall discuss whether any allocation of resources is efficient or not. By efficiency in economics we mean whether any state or situation regarding resource allocation maximises social welfare. In welfare economics attempt is made to establish criteria or norms with which to judge or evaluate alternative economic states and policies from the viewpoint of efficiency or social welfare.

These criteria or norms serve as a basis for recommending economic policies which will increase social welfare. Thus the norms established By welfare economics are supposed to guarantee the optimal allocation of economic resources of the society.

Putting it more specifically, Prof. Baumol writes, “Welfare Economics has concerned itself mostly with policy issues which arise out of the allocation of resources, with the distribution of inputs among the various commodities and the distribution of commodities among various consumers.” And it may be emphasised again that allocation of resources is efficient or optimum when social welfare is maximum.

The inter-relationship among various parts of the economy means that certain particular change in one part of the economy affects resource allocation in all other parts of it. Thus, a central problem in welfare economics relates to whether a particular change in resource allocation will increase or decrease social welfare.

However, an almost insurmountable difficulty which is faced in welfare economics is that it is not possible to measure social welfare objectively, for it involves making interpersonal comparison of utilities or welfares of different individuals comprising the society.

In order to avoid making interpersonal comparison of utility, whose scientific nature has been challenged, among others, by Lord Robbins, economists have mostly used what is known as Pareto- optimality criterion for evaluating whether social welfare increases or decreases as a result of a specific change in economic state, situation or policy.