

Value Judgement Under Welfare Economics

Individual choices differ because various individuals have different tastes, preferences and ethical beliefs and therefore different value judgements. The vital issues in welfare economics are concerned with social welfare and devising certain criteria to judge the social welfare. Therefore, welfare economics cannot be purely objective or free from value judgements.

It is worth noting that Pareto evolved the concept of social welfare which is said to be free from any value judgements, because it is not based upon any interpersonal comparison of utility. According to Pareto, the social welfare depends upon the welfare of the individuals comprising the society and, according to him, if at least one individual is made better off by certain economic reorganisation and no one being made worse off, the social welfare increases, that is, if any economic reorganisation increases the welfare of one without reducing the welfare of any other, then the social welfare increases.

When such an economic state is reached that through any reorganisation it is not possible to make at least one individual better off with no other being worse off, this is called the state of maximum social welfare or Pareto optimum. However, Paretian concept of social welfare is confined to only limited issue of welfare economics.

Generally, when any economic reorganisation increases the welfare of some, it would reduce the welfare of some others and therefore, in this case, Pareto criteria will not apply. Following Robbins some economists object to making inter-personal comparison of utility to derive welfare propositions, since, according to them, inter-personal comparison of utility is based upon value judgements.

However, Kaldor and Hicks by propounding a compensation principle laid the foundations of New Welfare Economics which is supposed to be free from value judgements. According to this compensation principle, if a change in economic organisation increases the welfare of some and reduces the welfare of others, but those who gain in welfare are able to compensate the losers and still be

better off than before, then the change in economic organisation will increase the social welfare.

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