On Joseph Cropsey's "What is Welfare Economics?"ⁱ

During the 1930 and 40s, an age of 'revolution' in economics, the 'new welfare economics' (hereafter NWE) became an autonomous, highly technical discipline within mathematical economics. This revolution is associated with Paul Samuelson's (1947) *Foundations of Economic Analysis*.ⁱⁱ While its formulae were developed within a utilitarian, moral philosophical framework, by focusing on 'revealed preferences,' NWE dispensed with the psychological commitments of utilitarianism and it could explore the *formal* characteristics of social choice without, so it claimed, highly contested psychological and moral judgments.ⁱⁱⁱ This development fit well with the technocratic self-conception of a burgeoning field that was about to become the privileged policy science (displacing, law, history, civil engineering etc.)

George Stigler – winner of the 1982 Nobel Prize in economics -- argued in 1943 that NWE assumes a question-begging consensus over values in a given society.^{iv} In response, Samuelson never denies this; Samuelson focuses on some technical mistakes in Stigler's examples, ridicules Stigler's tacit elitism ("frankness necessitates the regrettable admission that neither the old nor new welfare economics qualifies as sprightly conversation in the Dale Carnegie, the Oscar Wilde, or even the Oxford Movement sense,") and insists that NWE applies only to "a *limited* set of pairs of situations, it does tell us which *would* be better *if* we had the choice between them," (emphases in original).^v Samuelson insists that NWE rests on "the relatively mild assumptions that (1) "more" goods are "better" than "less" goods; (2) individual tastes are to "count" in the sense that it is "better" if all individuals are "better" off.^{vvi}

This seems to have ended debate over NWE within economics for several decades. Officially, the stance of the profession echoed Samuelson's deflationary position about the aspirations of NWE,^{vii} but in practice it provided a "professional consensus" for so-called 'applied' welfare economics, "to increase, to society's general benefit, the influence on public policy of good economic analysis."^{viii}

Cropsey's 1955 paper challenges NWE on philosophical grounds. Cropsey was well-placed for this because he got a PhD in economics from Columbia University in 1952, where he overlapped with Stigler, who was on faculty; Columbia was home to Abraham Bergson, who wrote one of the seminal papers developing NWE.^{ix} When he published in *Ethics*, Cropsey was still a member of the economics profession.^x

From the current vantage point, Cropsey's most prescient criticism of NWE is this: "The political consequence of [NWE--ES]...is that the maximum satisfaction of preferences takes precedence over the maximum satisfaction of the requirements of justice as the norm of the common good." (124) Restated in Rawlsian terms, Cropsey notes that as a theory of social choice, NWE simply assumes the priority of the Good over the Right without argument. Echoing a familiar criticism, Cropsey claims that "that there does not exist in modern welfare economics a description of optimal distribution conditions based upon a reasoned conception of justice." (122)

Given that, as Cropsey notes, NWE abstracts away from institutions, including institution of justice,^{xi} it is no surprise that "The practically decisive differences between polities are

subordinated to their common economic property: they must all serve to gratify in the highest degree the *arbitrary* preferences of irreducible individuals," (124; emphasis added). So, unlike Rawls, who emphasizes that ultimately NWE is a representative agent theory (1971: 24), Cropsey focuses on NWE's official commitment to individualism (recall Samuelson's second assumption above): "welfare or the good is again conceived as, for every man, unique." (124) Cropsey's distinct criticism (with shades of natural law theory or moral rationalism) is that ultimately NWE rests on brute facts ("idiosyncratic preferences," (116)) which can never be the basis of an adequate conception of Right. It's as if Cropsey is appealing to the principle of sufficient reason here.

In conclusion, I note three general features of Cropsey's criticism of NWE: first, his apparent rejection of the doctrine of what he calls "Individualism." (124) It is surprising to see this rejection at the height of the McCarthy era. Second, Cropsey hints at a kind of natural law doctrine: "the entire structure of modern welfare economics…would need reconstruction upon a plan the profoundest characteristic of which would be the affirmation of a human nature that transcends the feelings of individuals as such." (124)

Third, Cropsey has decidedly metaphysical leanings; he writes, for example:

[T]he foregoing discussion implies that the mathematical method, like every method, has a supra-methodical meaning; every logic presupposes a metaphysic. This is eminently true of mathematics as a method of inquiry in welfare economics...In so far as the application of mathematical analysis to welfare economics either relies upon or itself creates the presumption that (1) knowledge of the flux of a thing is possible in the absence of knowledge of the nature of the thing... (118)

The key insight lurking in this abstruse bit of reasoning is that *if* Samuelson's self-understanding is taken at face value, then when applied to empirical reality, NWE offers knowledge of (hypothetical) relations, not a substantive conception (of Right) worth having. But according to Cropsey even these relations are an "aggregate of the preferences of an unclassified human heterogeneity vis-a-vis an unclassified heterogeneity of goods and services;" they have non-trivial metaphysical commitments: "The mathematical characterization of welfare rests upon a far-reaching assumption as to the role and meaning of species or natural differences among classes of things. In effect it denies those natural specific differences, replacing them by genera each of which is a spectrum of irreducible individuals. But genera not composed of species ought to be called aggregations, or perhaps assortments. The mathematical view of welfare flows from a rearrangement of natural things which is as much a de-ordering as a re-ordering." (124) One need not share Cropsey's metaphysical commitments, to recognize that he is correct that in addition to having undesirable moral consequences, when applied, NWE is also a controversial social ontology.

ⁱIn this paper I explain the context and significance of Joseph Cropsey "What is Welfare Economics?" *Ethics*, 65(2) (1955): 116-125. References to Cropsey's article by page-number alone. I thank Ryan Hanley, M.A. Khan, David M. Levy, Ralph Lerner, Nathan Tarcov, and Kevin Vallier for comments on earlier drafts; the usual caveats apply. ⁱⁱ Paul Anthony Samuelson *Foundations of Economic Analysis* (Cambridge: Harvard University Press, 1947). Samuelson won the second Nobel Prize in economics for "raising the level of analysis in economic science" in 1970 ("The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 1970". Nobelprize.org. Nobel Media AB 2013. Web. 5 Jun 2014.) <u>http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1970/</u>. Cropsey puts it thus: "Professor Samuelson's position among mathematical economists is such that one who seeks an example is not unjustified in turning to his works. I therefore recur to his *Foundations of Economic Analysis*," (122). ⁱⁱⁱ An early survey is: E. J. Mishan, "A survey of welfare economics, 1939-59" *The Economic Journal* (1960): 197-265.

^{iv} G.J. Stigler "The New Welfare Economics," American Economic Review, 33(2) (1943): 355-59.

^v P.A. Samuelson, "Further commentary on welfare economics." *The American Economic Review* 33(3) (1943): 606. ^{vi} Samuelson 1943: 605. Cropsey quotes a version of this argument from Samuelson *Foundations of Economic Analysis*, 223, at the start of his paper (116).

^{ix} Bergson's "A Reformulation of Certain Aspects of Welfare Economics," *Quarterly Journal of Economics*, 52(2), (1938): 310-334, was singled out in Samuelson *Further Commentary on Welfare Economics*. Rawls, too, is aware of its significance, see J. Rawls, *A theory of justice*. (Cambridge: Harvard university press ([1971] 1999, revised edition), p. 229 n 1.

^x Cropsey was at City College of New York, Department of Economics; he spent most of his career in Political Science at The University of Chicago: <u>http://olincenter.uchicago.edu/cropsey_cv.html</u>.

^{xi} Cropsey writes "Professor Samuelson's way of putting this is by saying, "the auxiliary constraints imposed upon the variables are not themselves the proper subject matter of welfare economics but must be taken as given,"7 meaning by "the auxiliary constraints imposed upon the variables" such things as the political framework of society as it limits men's behavior in all senses." (121) Note 7 is to Samuelson *Foundations of Economic Analysis*, 221-2.

^{vii} The official, limited interpretation was reinforced by Arrow's famous impossibility results. See S. M Amadae, *Rationalizing capitalist democracy: The cold war origins of rational choice liberalism* (Chicago: The University of Chicago Press, 2003).

^{viii} A.C. Harberger "Three basic postulates for applied welfare economics: An interpretive essay," *Journal of Economic literature*, 9(3) (1971): 786. (Harberger was the key mentor of the 'Chicago Boys' in Chile under Pinochet.) For incisive criticism, see M. Ali Khan "On Measuring the Social Opportunity Cost of Labour in the Presence of Tariffs and an Informal Sector," *The Pakistan Development Review* 31(4): Part I (1992).