Economic Efficiency versus Egalitarian Rights: A Response

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As a first point of agreement, let me declare my acceptance of Hume's law (no prescriptive conclusion can be deduced from positive analysis alone). However, I believe that there is some general agreement among the public (but less so among academic economists, and even less so among philosophers for some deplorable reasons on which I have no space to go into; but see Ng 1988 b) that it is desirable to maximize the general welfare. My 1988 a paper thus takes welfarism as its normative basis but refers readers not convinced by welfarism to my defence of it elsewhere [Ng 1981, 1985]. While the disagreement about the acceptability of welfarism may be due to different basic value judgments not reconcilable by discussion, in my view, it is more likely due to unclear reasoning such as the confusion of non-ultimate considerations with basic values, as argued in Ng [1988 b].

I am not against some form of egalitarianism. If goods were to materialize by an act of God taken as non-repeatable, I would hope they go to the poor (I believe in interpersonal comparable diminishing marginal utility of income; welfarism does not preclude interpersonal comparison). I am against inefficient egalitarianism that ignores the disincentive and distortive effects of redistribution (but I accept some tradeoff between efficiency and equality in income). If the same degree of equality in real income can be achieved, why use a less efficient method? Personally, I am also against egalitarianism that cannot be justified ultimately by utilitarianism, but this is going beyond the scope of my 1988 a paper which tolerates any degree of efficient egalitarianism.

There are quite a few specific points made by ROTHSCILD with which I agree but they are not precluded by my 1988 a paper. Apparently, ROTHSCILD reads a lot more 'between the lines' than is really implied. For example, I am not against the taxing of drinking and smoking on the grounds of external costs or even demerit goods (due to consumer ignorance or irrationality). In fact, my brief discussion of demerit goods based on the divergence of preference and welfare in my 1979/83 book was criticized (this time on the right; it is somewhat reassuring to be criticized from both sides) as illiberal by a reviewer, despite my caution that the undesirable side effects of intervention have also to be taken into account. However, I have no difficulties whatsoever 'in sticking to this principle of subjective welfarism' in my defence of banning slavery. How could I be interpreted otherwise as I explicitly stated: 'If slavery... would not

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reduce welfare in the long run, if I would be much happier becoming a slave, I would be the first to volunteer to be a slave' [1988a, p. 227]! I simply don’t accept any ethical values that forbid something without ultimately some justification on the ground of individual welfare (but I do not preclude animal welfare; ‘individuals’ need not be confined to human individuals). To me, individual welfarism is ultimately speaking absolute everywhere but this does not preclude social discussion. However, I accept that certain principles (e.g. certain human rights) may be so definitely conducive to welfare in the long run that the insistence on them on practical or political ground as if irrespective of their contribution to welfare may be sensible. But this is only because doing so is good for welfare.

How do I know that someone else makes mistakes contrary to his welfare? Common sense and scientific studies (economics, psychology, etc.) may help us answer such questions though not necessarily perfectly accurately. Moreover, I (and probably we, for a sizable number of us) know that I may make mistakes and hence I (we) prefer to live in a society banning slavery, just in case.

While I view welfare as ultimate, I accept possible divergences between welfare and preferences. However, for practical reasons, it is usually best to accept an individual as the best judge of his self-interest. Thus we use individual preferences and, where appropriate, individual willingness to pay (but there are problems of free-riding, infra-marginal surplus where indivisibilities are involved, etc.). However, there are exceptions. Obviously, we don’t want to use the preferences of the insane as necessarily reflecting their welfare.

I also quite agree that, where the tax/subsidy method is ineffective (due to, for example, evasion) or less certain in achieving the desired outcome (equality), some specific measures may be desirable despite their distortive effects. (However, these measures may also be subject to evasion). But this is exactly what my whole Section V on practical difficulties is about. Nevertheless, it is another matter whether this justifies ‘free higher education’ which I believe can be better justified, if at all, by the external benefits of education [Ng 1988:6].

ROTHSCCHILD also argues that, by taking account of non-material factors affecting welfare in our calculus of economic efficiency, this comes very near to turning ‘economic efficiency’ into a loose tautology, since we can hardly measure the ‘efficiency’ of transactions so motivated. Two separate issues are involved here. First, it is not tautological (despite the difficulties of measurement) since anyone not accepting welfarism need not accept my definition of economic efficiency based on welfarism. Secondly, the issue of measurement is one of practical difficulty, not one of principle. Moreover, I think that it is better to have some rough estimates of the effects on welfare of the relevant non-material factors than to ignore them altogether or to regard them as non-comparable with the material gain or loss. In the latter case, how do we make a choice when some tradeoff is needed; a zero or an infinite tradeoff is not usually the right choice.

It is rational for a welfarist to insist on economic efficiency (though some tradeoff with equality may have to be allowed if that has not been taken into account in the definition of efficiency) because that is based on a calculus consistent with welfarism. The pursuit of efficiency promotes welfare. On the other hand the adherence to
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tradition not conducive to welfare (e.g. due to changed circumstances) is usually based on ignorance or irrationality (from the viewpoint of welfarism).

I do not preclude people from having a preference for non-market transactions as such. This is what the term 'procedural preference' is coined for. However, if we ask why people have such preferences, I believe that major explanations are their ignorance of economics, out-dated tradition or cultural influences, and irrational preferences. My 1988 paper is not intended to prove the general acceptance of welfarism, and ROTHSCHILD is right that it provides some evidence of the non-complete acceptance of the price system. However, I think it also provides some evidence suggesting that this non-acceptance may partly be due to their ignorance of economics. If the preference of the public for non-economic modes of decision and action is based on ignorance, then yes, we economists are supposed to talk them out of it.

REFERENCES