ECONOMICS AS A WELFARE SCIENCE: HOLLOW OR HUBRISTIC

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ABSTRACT

Economics as a discipline has achieved tremendous prominence in last over 200 years vis-a-vis other social sciences like political science and philosophy which have a much longer history as a discipline. Veracity of Economics as a scientific study has been questioned by few of the major economic events whether it was the Great Depression of 1929 or financial crisis of 2008. In this paper we are investigating major welfare theoretical framework propounded by economist. Paradigm shift is imperative to formulate holistic indices to measure the public welfare in trans-disciplinary manner.

Keywords: Welfare Economics, GDP as measure of Welfare, Utilitarianism, Pareto Efficiency.

I. ECONOMICS AS A SCIENCE- HUBRISTIC

Economics as a discipline has achieved tremendous prominence in last 200 years vis-a-vis other social sciences like political science and philosophy which have a much longer history as a discipline. However, some of the major economic events, whether it was the Great Depression of 1929 or financial crisis of 2008, veracity of economics as a scientific study has been questioned. Economic theory and its practitioners could neither predict it nor could they prevent it. What has gone wrong? We, as the students of economics, require a serious introspection. This is mammoth issue requiring collective wisdom and efforts. In this paper, we are trying to figure out the issues concerning the prevalent welfare criteria in the literature.

Most oftenly used definition of economics by Lionel Robbins "Economics is a science which deals with human behaviour as a relationship between end and limited means and these means have alternative uses". Portraying and obsessiveness of proving Economics as a science more so as a natural science like Newton's physics which sought to establish universally and timeless valid laws governing reality.

This haughtiness of bringing exactness in a discipline which have thinking participants that is humans who base their decisions mostly on imperfect knowledge and social, cultural religious perceptions and bias has created a huge gap in what economics requires to explain and what it is explaining. Secondly, about our ends or the wants human beings has requires to be properly contextualized. It's imperative to understand the difference between wants and needs. Wants have social manifestation; wants are more of psychological in nature and lies in the mind which has unlimited capacity of thinking and visualisation. This unlimited thinking capabilities of human mind always create an imbalance between resources which are always defeated by these unsatisfying wants. Therefore, humans always remain unsatisfied and hence 'unhappy'. Whereas needs are biological and physical since body has limited capacity hence biological needs can be satisfied- This satisfaction may lead to happiness. As Mahattma Gandhi has aptly remarked there is enough for everybody's need not for everyone's greed. While contesting the issue of limited resources many Modern Welfare Economists are raising pertinent questions about the manners in which these limited resources are allocated. Although it's quite debatable to the extent of being controversial but these economists are arguing that allocation of resources is faulty and maximum number of countries are spending largest share of resources on warfare than on welfare.

Optimisation being the major objective of all economics activities and agents. Social welfare and more so altruistic behavior and optimizing behavior seems contradictory. Brazilian priest Dom H Camera has remarked "if I give to poor, they call me a saint but if I ask why they are poor they call me communist." In most of the neoclassical frame based on rationality and lassize faire consumer neither can be saint nor communist.
Therefore, it would be interesting to analyse this dichotomy in the realism of welfare economics particularly Jeremy Bentham’s utilitarian criteria. Would a rational consumer aiming to maximize his total utility give food to a poor person having unsatiated desires? Let's evaluate this in the realm of major work of welfare economics.

**Major Theoretical Framework of Welfare Economics**

Adam Smith maximization of physical output to neoclassical Jeremy Bentham popularly known as Utilitarianism; Pareto optimality criterion and Kaldor-Hicks compensation rules are some of the notable mention of welfare economics which we will investigate below.

**Growth of Physical Output as a measure of Welfare:**

Adam Smith growth rate criterion as a measure of welfare is based on the axiom of growth in the physical output of the nation. Increasing the size of cake was the philosophy. According to the classical view increase in physical output is a measure of the Welfare of the society. The policy instruments for this economic progress suggested by the classical theories are divisionpecialisation of labour, capital accumulation and international trade and lassize faire.

However, as it is quite obvious, Gross Domestic Product (GDP) is a measure of what can be measured rather than what should be measured. For instance, crime and corruption including intoxication is included in GDP- Can it be taken as a measure of welfare and happiness- we need to introspect. Cuddling of baby and caring of family and loved ones are not included in GDP hence these activities are not increasing the Welfare of the society. Economists require to introspection about the measurement of GDP. Any student of economics must have readthe famous lines of Adam Smith "it is not the benevolence of the butcher, the brewer and the Baker that we expect our dinner, but from the regard of their own interest". A Swedish journalist Katrine wrote a book called "Who Cooked Adam Smith Dinner". It was definitely the benevolence of his mother and later his cousin due to which Adam Smith got his dinner but these benevolent activities of mothers, wives, sisters, cousins etc. are not included in this classical measure of GDP and thereby in the classical welfare criteria. It is disappointing to know that the World Economic Forum (WEF) has reported that world over unpaid work per day is much higher for women than men, in the case of India it is more regressive, about 66 percent of women's work is unpaid hence not reflected in GDP and their contribution is invisible for the Welfare of the society. Thereby she remains Silent, Hidden & Excluded from major spheres of life.

For instance, if we consider only the GDP as measures of welfare India is placed very high, ranking fifth on account of GDP and on purchasing power parity India's rank is third; whereas Human Development Index ranking of India is quite abysmal that is 131 out of 189 countries in 2020. Contrarily countries like Norway and Ireland having ranked 1st and 2nd respectively on HDI however, the ranking of Norway is 33 and Ireland is ranked 66 on the basis of GDP. United State of America which is ranked first on account of GDP whereas the HDI ranking of USA is 17th. Therefore, empirically welfare of a society can't be assessed merely on the basis of physical growth of output.

A very rigorous work is being done by many social scientist including economists to design more comprehensive and encompassing indices for the measurement of welfare. Human Development Index (HDI) not only includes GDP but also parameters like life expectancy, education along with per capita income. Every year UNDP ranks countries based on the HDI and every country endeavors to improve their ranking. More comprehensive happiness index takes into account eleven broad parameters besides purchasing parity-based income and health indicators, it includes freedom to make choices social values and interaction, generosity and trust in the government. Therefore, it's imperative to design more encompassing and empathetic measurement of welfare like OCED Happy Life Index consisting of eleven parameters. Similarly, Quality of Life Index- which popularly known as 'Where to Born' include wide range of development indicators. Quantification of these parameters are evolving and subjectivity and biases are to be minimized.

It is intriguing to note that Adam Smith wrote a very valuable book theory of moral sentiments in 1759 much before the wealth of nation which became very famous and still is taught in most of economics curriculum, ‘The Theory of Moral Sentiments’ is about social man who like an economic man is also guided by self-interest and is also rational having the objective of optimisation. However, he derives utility not only by his own conception but also from social esteem and by being altruistic. Unfortunately, this social man and theory of moral sentiments has not been very much propelled in GDP as measure of well-being because altruism is a non-marketed and non-measurable activity.

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Pareto Optimality as a measure of Welfare:

Pareto optimality criterion simply states that any change if it makes someone better off without making any one worse off is an increase in welfare or vice versa. More specifically, Pareto efficiency may be stated as a situation in which it is impossible to make anyone Better Off without making someone Worse off. There are three major premises on which this efficiency criterion is based: (i) Marginal Rate of Substitution (MRS) between all the consumers should be same, (ii) Marginal Rate of Technical Substitution (MRTS) for the commodities should be equal and (iii) MRTS should be equal to MRS for the commodities.

These optimality conditions are based on some strict assumptions like perfect competition, lassize faire, symmetric informations and no transaction cost. Absence of these conditions will warrant market failure and therefore intervention by government or any third party which will violate the basic structure of Pareto optimality. Therefore, Pareto Welfare Criteria has very limited applicability in the real-world situations.

Kaldor-Hicks Compensation Criterion:

This criterion postulates that any change which may bring benefits to some people (they may be called as Gainers) and losses to others (losers). Gainers may be asked to compensate the losers and if there are still net gains, it may be considered as an increase in social welfare. However, 'Gainers' have advantage to underestimate their gains and 'Losers' are tempted to overstate their losses hence limiting the voluntary transactions. This impasse makes it imperative for third party to intervene. Normally government or judicial authorities has to jump in which it will lead to market failure or some deadweight loss, taking everything beyond the control of welfare economics.

Utilitarian Criterion of Welfare:

Jeremy Bentham utilitarianism simply based on the dictum of pleasure over pain. Nothing matters but pleasure and if there is net pleasure i.e., pleasure is more than pain that is good life and by aggregating the net pleasure the Welfare of the society could be maximized. It is popularly known as greatest good for greatest number also known as felicific calculus. Utilitarianism is consequentialist in the sense that it is end or the outcome of the action which is important not the means. Bentham wrote "Let a man's motive be ill will, call it even malice, envy, cruelty, it is still a kind of pleasure that is his motive: the pleasure he takes at the thought of the pain which he sees, or express, to his adversary undergo. Now even in this wretched pleasure taken by itself is good." In this utilitarians framework utility is neutral to moral or ethical underpinnings.

Bentham viewed it was dangerous to rely on the arbitrary standard of ethics. Assuming it is almost unreal to have ethical and perfect system. He famously remarked, "Is it possible for a man to move the earth? Yes, but he must first find out another earth to stand upon". Hence utilitarianism is simply a felicific calculus greatest good for "greatest number".

Many philosophers and Modern Welfare economist have raised objections to this framework. Major objection raised about the utilitarianism is regarding the Welfare of those who are not included in that greatest number having pleasure. Imagine a situation in which 10 college students are enjoying or deriving pleasure by beating one of their classmates. Utilitarian felicific rule will establish this as greatest good for greater number as pleasure(of 10 people) will be over the pain(of one person), thereby the welfare of the majority will be maximized leading to majoritorism rather than a egalitarian society. Utilitarianism may find merits in mob lynching, filming and viewing of criminal sexual assaults, WWF fighting and many more such instances.

Many policy analysts have started using this framework of pain and happiness as a Cost-Benefit analysis; if benefit exceeds cost that is a good project. A study was conducted by a famous Tobacco Company in Czek Republic about the cost-benefit of smoking, as government imposed extra excise duty. In this study cost was calculated in terms of increased health care expenditure. Study established the benefits such as more tax revenue; health expenditure savings, pension/housing cost savings (due to early death because of smoking) are much larger. Hence proved that "Smoking is highly beneficial for the State". There were uproarious reactions about this cost benefit study of smoking and tobacco company had to withdraw the study and seek public apology. Any student of Economics would'nt want this sort of application of Utilitarianism and consequent welfare.
Immanuel Kant in his categorical imperative has challenged the consequentialist approach of utilitarianism and has profound that "means are of paramount significance instead of the end." He further stated, "The weird values of Bentham would not have had any impact had they not been incorporated into Economics."

II. CONCLUSION:
This evaluation of the framework of welfare criterion prescribed by different economic thinkers definitely requires remodeling. The welfare measured by self aggregation of self interest or by optimizing sensory pleasure without encompassing empathy towards humans, bereft of moral and ethical underpinnings is not only hollow but also hubristic. These welfare measures without tangible and practical applications will create misplaced and wrong confidence in the tools of Welfare Economics. It could be summed up by taking this statement of JS Mill seriously, "A man cannot be a good economist who is only economist." Economists must devise a holistic framework and paradigm shift to prescribe the welfare of humans rather than being hubristic about existing arithmetical methods alone.

REFERENCES:
5. ibid.