

HOW WE ECONOMISTS BASTARDIZED BENTHAMITE UTILITARIANISM AND BECAME SHILLS FOR THE WEALTHY

A. BENTHAMITE UTILITARIANISM

Jeremy Bentham (1748-1832), an English philosopher, would have been any ambitious, neurotic, Princeton parent's dream. Young Jeremy studied history and Latin at age four, probably without even attending the British analogue of those upscale Upper East Side *Kindergartens* for which particularly upscale New York babies are coached and prepped from the minute they are born – nay, conceived. Bentham entered Oxford University at age 12 and graduated from there at age 15. He was, like, the perfect geek. He is not known to have engaged in binge-drinking or stuff like that.

He and John Stuart Mill (1806-1873) are widely regarded as the founders of the controversial philosophical school on *Consequentialists*. *Consequentialists* hold that the merits or demerits of human acts – business decisions, legislation, crime and punishment – should be judged strictly by the pleasure or pain, or both, that these acts visit on human beings (or animals), rather than by some other intrinsic merit or demerit of those acts (e.g., some religious merit). Bentham called the attempt to value the total consequences of pleasure and pain of an act as the *felicific calculus*. You have had occasion to engage in *felicific calculus* on your homework assignments, and some day you will hire economists who will perform it for you.



Jeremy Bentham

Bentham, Mill and their disciples believed that the pleasure and/or pain begotten by an act could be quantified and measured as “utility” or “disutility,” which is why they are also known by the more common label of “utilitarians.”

They argued that public policy – in local commerce, international trade and in the law -- should be conducted so as to *maximize the sum of utility in society* which, you will quickly recognize, is very much the same idea that drives modern welfare economics as well. In fact, 19th century utilitarianism can be regarded as the intellectual foundation for what we now know as “welfare economics” or “benefit-

cost analysis. Modern welfare economists are *Consequentialists par excellence*.

The practical problem with utilitarianism – and with its modern successor, the modern welfare economics we teach you -- is how to quantify and measure utility and disutility, especially in a manner that allows one to make *inter-personal utility comparisons* and to sum utility across different individuals into what we economists call “social welfare.”

If you read the writings of the 19th century utilitarians, especially of Bentham, you will discover that they were not at all cavalier about the *cardinality* of utility in practice (where by “*cardinality*” is meant that utility or disutility could be quantified and measured so that, say, 150 utils represented 50% more pleasure than 100 utils, and so on.)¹ Furthermore, they recognized that there existed inter-personal dependencies of utility – what we have called externalities in consumption – and that it would be extraordinarily difficult in practice to make inter-personal utility comparisons, or to sum utilities over different people, without attaching additive weights to individuals. Such weights, for example, might count the utils of some person as more than those of others.

Finally, and very importantly, the utilitarians assumed that the *marginal utility of wealth* was strongly *diminishing* with increases in wealth. In Jeremy Bentham’s words:

Of two people having unequal fortunes, he who has most wealth must by a legislator be regarded as having most happiness. But the quantity of happiness will not go on increasing in anything near the same proportion as the quantity of wealth: – ten thousand times the quantity of wealth will not bring with it ten thousand times the quantity of happiness.

It will even be matter of doubt, whether ten thousand times the wealth will in general bring with it twice the happiness. The effect of wealth in the production of happiness goes on diminishing, as the quantity by which the wealth of one man exceeds that of another goes on increasing: In other words, the quantity of happiness produced by a particle of wealth (each particle being of the same magnitude) will be less at every particle; the second will produce less than the first, the third than the second, and so on.²

The practical implication of the hypothesis of *diminishing marginal utility of wealth* in the context of Benthamite utilitarianism is momentous.

It implies, *inter alia*, that public policy should achieve a more equal distribution of wealth than would be begotten by a market system left to its own devices. The hypothesis, for example, has been used by Benthamite philosophers to advocate progressive taxation, on the “equal sacrifice” principle—equal in terms of disutility of taxes, that is.

¹ In modern consumer choice theory, we deal with *ordinal* utility. It means that we merely can say that a person prefers a thing to something else. Thus, if a person assigns 150 utils to good A and only 100 utils to good B, we can merely say that good A is preferred by the person to B, but we cannot say that the person derives 50% more happiness from good A than from good B.

² http://highered.mcgraw-hill.com/sites/0072875577/student_view0/chapter3/origin_of_the_idea.html#2. By the way, as is mentioned in this source “Bentham donated his own body for dissection, largely to promote acceptance of the practice. This, however, was not the end of Jeremy Bentham. He also left his estate to University College, London, but under the condition that his remains be present at all board meetings. His padded and dressed skeleton still sits (in a glass case) at the college. A wax head sits atop the body, and his actual head was preserved using South American headhunting techniques. Bentham's real head used to sit on a plate between his feet, but in recent years has been relocated to a safe at the college, presumably to protect it from would-be pranksters using it on the soccer pitch or in other unspeakable ways.”

B. MODERN WELFARE ECONOMICS AND BENEFIT- COST ANALYSIS

Modern welfare economics, as we have studied it in this course, can be viewed as an offshoot of Benthamite utilitarianism, albeit one that has made modern welfare economics the handmaiden of the privileged classes. Let us see why this is so.

To apply Bentham's utilitarian construct to their analyses, as they do, modern welfare economists make two highly dubious assumptions, to wit:

1. First, economists assume that the pleasure (or "economic welfare") that a person derives from a good thing **can be measured *cardinally* by the money price he or she is willing to bid for the thing**. Conversely, they assume that the disutility (loss of "economic welfare") that a bad thing visits on a person can be measured *cardinally* by the minimum money price he or she would have to be paid to put up with that bad thing (For example, economists assume that work begets disutility and measure it by the minimum wage (sometimes called "reservation wage") that a worker needs to be offered to put up with the disutility of working rather than enjoying leisure.
2. Second, economists assume that the **marginal utility of wealth is *constant*** at all levels of wealth. Practically, this means that an additional \$100 gain will yield the same pleasure to a billionaire as it would to a pauper, and that a \$100 loss will visit on the billionaire the same degree and intensity of pain as it would on the pauper. This assumption quite obviously departs sharply from Bentham's conception of human nature.

The second of these assumptions is *crucial* to welfare economics in neoclassical economic theory and the benefit-cost analyses based on it.

For example, this assumption – legerdemain, really -- allows welfarist economist Steven Landsburg to offer as the "efficiency criterion" for judging public policy the startling statement that that *"any change in policy that makes George \$2 richer and Martha only \$1 poorer is a good thing,"* without any thought whatsoever given to the relative amounts of wealth possessed by these two human beings.³

Implicitly, most benefit-cost analyses offered by economists proceed on this assumption, aside from the rare instances in which economists use distributive weights, that is, weight equal dollar benefits befalling on different people differently.

C. MAKING THE SOCIAL VALUE OF THINGS (INCLUDING HEALTH CARE) DEPENDENT ON THE WEALTH OF THEIR RECIPIENTS.

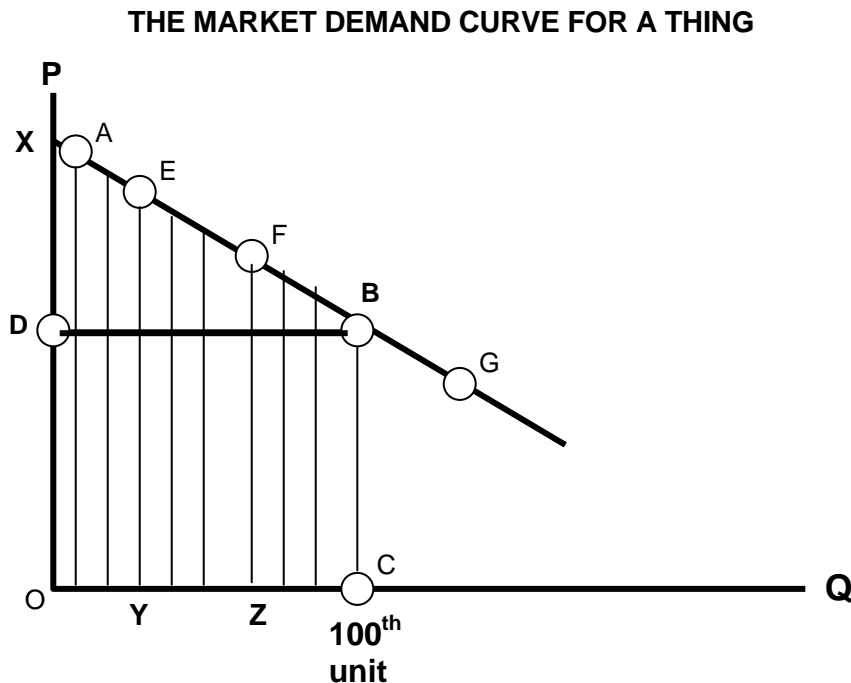
In their normative analyses, economists usually do not advertise explicitly that their social welfare calculus and the assumption of constant marginal utility of money on which it is based implicitly make the value of a thing in good part a function of the wealth of its recipient, as can be illustrated with the standard demand-supply diagram so often used to that end.

Points E, F and B on the market demand curve in Figure can be thought to represent different people. Although each individual may be represented by more than one point on the demand curve, it helps to assume that each individual buys at most one unit of the thing being traded per period.

³ Steven E. Landsburg, *Price Theory and Applications*, 3rd ed., (1995): 258.

The relative position of individuals along the market demand curve may reflect differences in taste. But it is reasonable to assume also that, say, individual E is wealthier than B or G, which is why E is willing **and able** to bid more for the thing than do individuals B or G.

Economists routinely assume that the total **social value** of, say, 100 units of the thing per period can be calculated as the shaded area OCBA and that, after paying a price of D each, the collective social consumers' surplus in this market is the area an output volume DBX. It is thought of as the net social welfare consumers collectively derive from an output volume of 100 units per period.



Consider now points E and F on the curve, representing buyers E and F. Each of them receives one unit of the thing per period. Because E was willing to bid a higher maximum bid price for that unit than did F, economists blithely assume that greater social value (or welfare) is created by the unit going to E than is created if the unit that goes to F – for example, that a drug-eluting stent or a defibrillator implanted in a wealthy person has a greater social value than one implanted in an uninsured person or a poor person covered by Medicaid.

One certainly can understand why many wealthy people find this judgment pleasing, which tends to give market-oriented, normative neoclassical economics such high currency among that social class.

On the other hand, there is no compelling reason why poor people should be charmed by that normative theory. In short, normative economic analysis is not science. It is but one particular ethical doctrine to which you may or may not subscribe.

D. CONCLUSION

It should be clear to you now that modern economic welfare analysis based on willingness to pay criteria – or simply on market principles -- consistently applied in the evaluation of public policy, can easily end up favoring wealthier people who can bid higher money prices for a thing in question

than can poorer people.

In this sense, then, by bastardizing Benthamite utilitarianism as economists have done, they deliberately or inadvertently tend to shill for the more privileged classes in society. No economics text is likely ever to apprise you of this Achilles heel of normative economics. I hold it to be self-evident.

Welfare economists may object vehemently to this accusation. They will argue that they always assume, explicitly or implicitly, that the distribution of wealth in society that begets the bid prices used in welfare analysis is ethically acceptable or, if it is not ethically acceptable initially, that wealth will be distributed so as to make its distribution just, before the proposed policy is implemented.⁴

To be sure, in theory that argument does get welfare economists off the hook. In practice, however, it does not, for the following reason. To redistribute wealth, taxes must be raised and transfer payments must be made. Unless those taxes are lump-sum head taxes (\$X per person), which tend to be politically infeasible, those taxes tend to be imposed on economic activity (sales or income from work). In that form, they invariably beget inefficiencies (the dreaded deadweight losses) which economists abhor. Some economists argue that roughly 30 cents of every dollar taxes raised goes up in smoke through this deadweight loss.

Thus, in practice, we usually find some economists testify before legislators that wealth should be distributed to make the dicta of welfare economics ethically acceptable. At the same time, other testify before the same legislators that such wealth distributions beget inefficiencies – the little deadweight loss triangles we had studied – and these should be avoided. Sometimes the same economists employ both arguments, although at different points in time, as the occasion warrants.

Collectively, then, as a profession, economists typically accept whatever distribution of wealth prevails as the ethically acceptable foundation for their welfare analyses. In my view, that posture has the effect of making modern applied welfare economists collectively shill on behalf of the privileged classes. We have seen how that works in the context of health care and in the context of the all-volunteer army.

It works that way in many other contexts as well – for example, in the equanimity with which economists have beheld the inexorable drift in ever greater income inequality in recent decades. As long as average GDP per capita rises, economists assume that **social welfare has** been improved.

What do you think about this issue?

⁴ Economists make this argument with the *Second Optimality Theorem* of neoclassical economics, which holds that if all markets are perfectly competitive, every thing people exchange is traded in the market and properly priced, and there are no economies of scale in producing these things, then any desired distribution of outputs among members of society can be achieved by private markets simply be redistributing income among members of society to achieve that goal, because there is then a unique, one-to-one relationship between the initial income distribution among members of society and the ultimate distribution of output among members of society (see Kenneth Arrow, "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review* 53 (1963): 941-73).