

ISSN 1045-6333

**HARVARD**

**JOHN M. OLIN CENTER FOR LAW, ECONOMICS, AND BUSINESS**

ANY NON-WELFARIST METHOD  
OF POLICY ASSESSMENT VIOLATES  
THE PARETO PRINCIPLE: REPLY

Louis Kaplow  
Steven Shavell

Discussion Paper No. 455

01/2004

Harvard Law School  
Cambridge, MA 02138

This paper can be downloaded without charge from:

The Harvard John M. Olin Discussion Paper Series:  
[http://www.law.harvard.edu/programs/olin\\_center/](http://www.law.harvard.edu/programs/olin_center/)

## **Any Non-Welfarist Method of Policy Assessment Violates the Pareto Principle: Reply**

Louis Kaplow and Steven Shavell\*

### *Abstract*

In our 2001 article in the *Journal of Political Economy*, we show that any non-welfarist method of policy assessment violates the Pareto principle. In their Comment, Fleurbaey, Tungodden, and Chang question whether our result is fully general without imposing what they regard to be strong assumptions (transitivity and independence). However, as we explain in this Reply, their argument is irrelevant to the thrust of our article. Specifically, their argument concedes that if any particular society uses any nonwelfarist principle, there may be a conflict with the Pareto principle. This result means that the vast multitude of principles proposed by policy-makers, philosophers, and others indeed fall within our demonstration.

Forthcoming, *Journal of Political Economy* (2004)

---

\*Harvard University and National Bureau of Economic Research. We are grateful to the John M. Olin Center for Law, Economics, and Business at Harvard University for financial support.

# **Any Non-Welfarist Method of Policy Assessment Violates the Pareto Principle: Reply**

Louis Kaplow and Steven Shavell

© 2003. Louis Kaplow and Steven Shavell. All rights reserved.

In Kaplow and Shavell (2001), we show that any non-welfarist method of policy assessment violates the Pareto principle. In particular, we demonstrate that if a social welfare function from complete descriptions of the world to the real numbers does not depend *solely* on individuals' utilities, and also satisfies a continuity condition regarding a single good, then there must exist situations in which the function rates one state of the world higher than another even though all individuals strictly prefer the second state of the world to the first.

As stated in our article, the import of this conclusion concerns the general use of non-welfarist principles by the public at large, policymakers, and philosophers – for instance, the notion that rewards should be based on merit or that the punishment should fit the crime – and the occasional use of non-welfarist principles by economists – such as the view that horizontal equity should influence tax policy or that individuals' capabilities rather than their utilities should be the focus of social decisions. Our result implies that none of these non-welfarist approaches can be accepted if one endorses the Pareto principle.

The thrust of Fleurbaey, Tungodden, and Chang's (FTC) (2003) comment is that our result, although valid, relies on what they regard as strong assumptions and thus does not apply to every non-welfarist principle. They acknowledge that our result applies “[i]f we consider only social choices based on a unique profile of individual utility functions in society” (p. 1383), and they go on to say that “[w]elfarism, however, as this concept is understood in social choice

theory, requires that the social preference relation in utility space (represented by the function  $W$ ) be the same for all possible profiles of individual utility functions” (p. 1383).

In other words, FTC’s main point is that many social choice theorists define welfarism as embodying not just one but rather two types of restrictions: (1) that social policy decisions in a given society (which has only a single profile of individual utility functions) must depend only on individuals’ utilities, and also (2) that even if social choices in every society are purely welfarist as in (1), the method of social choice may not vary across societies in a manner that depends on non-welfare information. Our result was aimed at (1), and FTC have no quarrel with us in this respect. Their objection is that our result can only be understood to reach (2) as well – thereby additionally ruling out the possibility of different social welfare functions for different societies – if one is willing to make assumptions such as transitivity and independence (p. 1383).

Our response to FTC’s argument is that we agree but it is irrelevant given the purpose of our article.<sup>1</sup> The reason is that restriction (1) is patently violated by all the non-welfarist views of concern to us: the whole range of notions of fairness that are commonly employed by policy-makers, the public, and philosophers from Aristotle to Kant to the moderns. That is, the principles in question all insist that a given society’s decisions should not depend solely on information regarding individuals’ utilities. We explained this in our article (p. 283, with formal elaboration in n. 5) with reference to the principle that the punishment must fit the crime, which clearly is not indifferent between two regimes with identical utilities but with punishments always fitting the crime in one regime and never doing so in the other.<sup>2</sup> That the vast multitude

---

<sup>1</sup>Although not our focus, we do wish to register our belief that the assumptions of ours that FTC highlight in challenging the broader, cross-society reach for our result are, upon reflection, compelling ones, which would be accepted by most philosophers who advance non-welfarist views. We elaborate on the reasons for this stance in Kaplow and Shavell (2000) in response to related prior arguments of Chang, and we note that FTC do not address these considerations.

<sup>2</sup>Indeed, this explanation and formal elaboration immediately follows the very observation of ours that FTC (p.

of non-welfarist principles at issue all have this property – of assessing alternatives for a given society based at least in part on non-utility information – is not only obvious but is also made explicit in our article, is elaborated at length in our related book (Kaplow and Shavell 2002) that we cite, and is not disputed by FTC. Put another way, none of the non-welfarist principles that are often offered in criticism of standard economic policy analysis would be satisfied if every society was, internally, purely welfarist with respect to literally every social decision, as long as the differences among societies’ social welfare functions reflected non-welfare information in some particular fashion.

Finally, we observe that FTC’s suggestion that our result is not original is misleading; in fact, the very theorists they cite in this regard hold a different view regarding the significance of our contribution.<sup>3</sup>

---

1383) criticize as not accurately embodying welfarism. This observation indicates that, under any non-welfarist principle, there must exist a case in which two regimes will not be assessed identically even though every individual’s utility is identical in the two regimes.

<sup>3</sup>FTC assert that “others have derived similar results” (p. 1382), citing Suzumura (2001) and Campbell (2002). However, Suzumura (2001) was written with knowledge of, and his results were derived from, an earlier version of our paper. See Suzumura (forthcoming). In addition, Suzumura’s *Handbook of Social Choice and Welfare* survey refers to our article as “important” and as posing a “devastating question” regarding all non-welfarist values. Campbell (2002) is a post-dated working paper that makes express reference to our article, beginning in its abstract. Furthermore, Campbell and Kelley’s (2002, p. 80) own handbook survey describes our article as offering a “striking new impossibility theorem.”

## References

Campbell, Donald E. "On the Possibility of Efficient but Non-welfarist Policy Analysis."

Manuscript. Williamsburg, Va.: College of William and Mary, 2002.

Campbell, Donald E., and Kelly, Jerry S. "Impossibility Theorems in the Arrowian Framework."

In *Handbook of Social Choice and Welfare, Volume 1*, edited by Kenneth J. Arrow, Amartya K. Sen, and Kotaro Suzumura. Amsterdam: Elsevier Science, 2002.

Fleurbaey, Marc, Tungodden, Bertil, and Chang, Howard F. "Any Non-welfarist Method of

Policy Assessment Violates the Pareto Principle: A Comment." *J.P.E.* 111 (2003): 1382-85.

Kaplow, Louis, and Shavell, Steven. "Notions of Fairness Versus the Pareto Principle: On the

Role of Logical Consistency." *Yale Law J.* 110 (November 2000): 237-49.

\_\_\_\_\_. "Any Non-welfarist Method of Policy Assessment Violates the Pareto Principle."

*J.P.E.* 109 (April 2001): 281-86.

\_\_\_\_\_. *Fairness versus Welfare*. Cambridge: Harvard Univ. Press, 2002.

Suzumura, Kotaro. "Pareto Principles from Inch to Ell." *Economics Letters* 70 (January 2001):

95-98.

\_\_\_\_\_. "Welfarism, Individual Rights, and Procedural Fairness." In *Handbook of Social*

*Choice and Welfare, Volume 2*, edited by Kenneth J. Arrow, Amartya K. Sen, and Kotaro Suzumura. Amsterdam: Elsevier Science, forthcoming.