Positive Economics, Welfare Economics, and Political Economy

Economic theory, as we know it, was developed largely by utilitarians. Admitting the measurability and interpersonal comparability of utility and accepting the maximization of utility as an ethically desirable social goal, neoclassical economists were able to combine an instinctively human zeal for social reform with subjectively satisfactory scientific integrity. The positivist revolution has sharply disturbed this scholarly equilibrium. If utility is neither cardinally measurable nor comparable among persons, the economist who seeks to remain "pure" must proceed with caution in discussing social policy. The "positive" economist becomes an inventor of testable hypotheses, and his professional place in policy formation becomes wholly indirect.

Milton Friedman has provided the clearest statement of the positivist position,[1] and he has called for a distinct separation between the scientific and the non-scientific behavior of individuals calling themselves economists. But economics, as a discipline, will probably continue to attract precisely those scholars who desire to assist in policy formation and to do so professionally. The social role of the economist remains that of securing more intelligent legislation, and the incremental additions to the state of knowledge which "positive" economics may make seems to shut off too large an area of discussion from his professional competence. Does there exist a role for the po-

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1. M. Friedman, *Essays in Positive Economics* (1953), 3–43.

litical economist as such? This essay will examine this question and suggest an approach.[2]

I. The New Welfare Economics

The "new" welfare economics was born in response to the challenge posed by the positivist revolution. The intellectual source of this subdiscipline is Pareto, whose earlier attempts to introduce scientific objectivity into the social studies led him to enunciate the now-famous definition of "optimality" or "efficiency." This definition states that any situation is "optimal" if all possible moves from it result in some individual being made worse off. The definition may be transformed into a rule which states that any social change is desirable which results in (1) everyone being better off or (2) someone being better off and no one being worse off than before the change. This Pareto rule is itself an ethical proposition, a value statement, but it is one which requires a minimum of premises and one which should command wide assent. The rule specifically eliminates the requirement that interpersonal comparisons of utility be made. As stated, however, a fundamental ambiguity remains in the rule. Some objective content must be given to the terms "better off" and "worse off." This is accomplished by equating "better off" with "in that position voluntarily chosen." Individual preferences are taken to indicate changes in individual well-being, and a man is said to be better off when he voluntarily changes his position from A to B when he could have remained in A.

The theoretical work completed during the last twenty years has consisted, first of all, in a refinement and development of the Paretian conditions for "optimality." Much attention has been given to a careful and precise definition of the necessary and sufficient attributes of a social situation to insure its qualification as a Paretian *P*-point, that is, a point on the "optimality surface." The application of this theoretical apparatus has taken two lines of development. The first, which is sometimes more specifically called

2. The approach which will be suggested here involves an extension of some of Wicksell's ideas on fiscal theory to modern welfare economics. For a recently published translation of Wicksell's fiscal theory, see "A New Principle of Just Taxation," in *Classics in the Theory of Public Finance*, ed. R. A. Musgrave and A. T. Peacock (1958), 72.

the "new welfare economics," is an attempt to devise tests which will allow changes in social situations to be evaluated. This work, which has been associated with Kaldor, Hicks, and Scitovsky, includes the discussion of the "compensation principle" and the distinction between actual and potential increases in "welfare." The second line of development has been, in one sense, a critique of the Kaldor-Hicks approach. The ethical purity of the compensation tests proposed has been questioned, and additional ethical norms have been deliberately reintroduced through the device of a "social welfare function," which, conceptually, orders all possible states of society. With this, the problem of genuine choice among alternatives disappears, and the single "best" state of the world may be selected. This function may take any form, but its users have normally conceived the Paretian conditions to be relevant in defining a preliminary subset of social configurations. This approach, which is associated with Bergson, Samuelson, and Graaff, now appears to have more widespread support than the alternative one. Its supporters, notably Samuelson, argue that the Kaldor-Hicks efforts were "misguided" and erroneous[3] and that only the "social welfare function" construction offers real promise of further development. In the latter, allegedly, "the foundation is laid for the 'economics of the good society.' "[4]

II. Omniscience and Efficiency

Welfare economists, new and old, have generally assumed omniscience in the observer, although the assumption is rarely made explicit, and even more rarely are its implications examined.[5] The observing economist is considered able to "read" individual preference functions. Thus, even though an "increase in welfare" for an individual is defined as "movement to a preferred position," the economist can unambiguously distinguish an increase in welfare independent of individual behavior because he can accurately predict

3. Samuelson, "Comment," in *A Survey of Contemporary Economics*, vol. 2, ed. Haley and Ellis (1952), 37.

4. Samuelson, "Social Indifference Curves," *Quarterly Journal of Economics* 70 (1956): 22.

5. J. de V. Graaff, in his book *Theoretical Welfare Economics* (1957), p. 13, makes the assumption explicitly, but after one short paragraph proceeds with his argument.

what the individual would, in fact, "choose" if confronted with the alternatives under consideration.

This omniscience assumption seems wholly unacceptable. Utility is measurable, ordinally or cardinally, only to the individual decision-maker. It is a *subjectively* quantifiable magnitude. While the economist may be able to make certain presumptions about "utility" on the basis of observed facts about behavior, he must remain fundamentally ignorant concerning the actual ranking of alternatives until and unless that ranking is revealed by the overt action of the individual in choosing.

If a presumption of ignorance replaces that of omniscience, the way in which "efficiency" as a norm enters into the economist's schemata must be drastically modified. No "social" value scale can be constructed from individual preference patterns, since the latter are revealed only through behavior. Hence "efficiency" cannot be defined independently; it cannot be instrumentally employed as a criterion for social action. Discussions of "ideal output" and "maximization of real income" become meaningless when it is recognized that the economizing process includes as data *given ends* as conceived by individuals. Ends are not *given* for the social group in any sense appropriate to the solution of problems in political economy, and the normally accepted definition of the economizing problem is seriously incomplete in not having made this clear.

"Efficiency" in the sense of maximizing a payoff or outcome from the use of limited resources is meaningless without some common denominator, some value scale, against which various possible results can be measured. To the individual decision-maker the concept of an "efficiency criterion" is a useful one, but to the independent observer the pitfalls of omniscience must be carefully avoided. The observer may introduce an efficiency criterion only through *his own estimate of his subjects' value scales.* Hence the maximization criterion which the economist may employ is wholly in terms of his own estimate of the value scales of individuals other than himself. *Presumptive efficiency* is, therefore, the appropriate conception for political economy.

The relationship of the *presumptive efficiency* criterion to the Paretian construction remains to be clarified. Given the assumption of ignorance, Paretian "efficiency" cannot be employed in aiding a group in choosing from among a set of possible social policy changes. A specific change may be judged to be Pareto-optimal or "efficient" only after it has, in fact, been proposed and the individual preferences for or against the change revealed. Nevertheless, in discussing proposals before individual preferences are revealed, the economist may utilize a *presumed efficiency* notion which retains the Paretian features. In diagnosing a specific proposal, the economist makes a judgment as to its "efficiency" on the basis of *his own* estimate of individual preferences. The Paretian elements are retained in the sense that the observer makes no attempt to do other than to "translate" what he considers to be individual preferences. He accepts these preferences, or tastes, as *he thinks they exist.* He does not evaluate social alternatives on the basis of individual preferences as he thinks they should be.

This characteristic behavior of the political economist is, or should be, ethically neutral; the indicated results are influenced by his own value scale only insofar as this reflects his membership in the larger group. Conceptually, the economist may present a social policy change as "presumed Pareto-optimal," the results of which are wholly indifferent to him as an individual member of society. The propositions which the economist is able to develop through the procedure outlined are operational in the modern sense of this term. The presentation of a policy shift is a hypothesis concerning the structure of individual values and is subject to conceptual contradiction. The failure of recent methodological discussion to recognize this operational aspect of political economy appears to be based on an attempt to place the practitioner in a false position in the decision-making complex. The political economist is often conceived as being able to *recommend* policy A over policy B. If, as we have argued above, no objective social criterion exists, the economist qua scientist is unable to recommend. Therefore, any policy discussion on his part appears to take on normative implications. But there does exist a positive role for the economist in the formation of policy. His task is that of diagnosing social situations and presenting to the choosing individuals a set of possible changes. He does not recommend policy A over policy B. He presents policy A as a hypothesis subject to testing. The hypothesis is that policy A will, in fact, prove to be Pareto-optimal. The conceptual test is *consensus* among members of the choosing group, not objective improvement in some measurable social aggregate.

Political economy is thus "positivistic" in a different sense from the more narrowly conceived positive economics. Both allow the expert to make certain predictions about the real world—predictions which are operationally meaningful. Propositions of positive economics find their empirical support or refutation in observable economic quantities or in observable market behavior of individuals. Propositions in political economy find empirical support or refutation in the observable behavior of individuals *in their capacities as collective decision-makers*—in other words, in politics.

Propositions advanced by political economists must always be considered as tentative hypotheses offered as solutions to social problems. The subjective bases for these propositions should emphasize the necessity for their being considered as alternatives which may or may not be accepted. But this is not to suggest that one proposition is equally good with all others. Just as is the case with positive economics, the skill of the observer and his capacity in drawing upon the experience which has been accumulated will determine the relative success of his predictions.

There are no fully appropriate analogies to this task of the political economist, but the role of the medical diagnostician perhaps comes closest. The patient is observed to be ill; a remedy is prescribed. This remedy is a hypothesis advanced by the diagnostician. If the illness persists, an alternative remedy is suggested and the first hypothesis discarded. The process continues until the patient is restored to health or the existence of no solution is accepted. While this analogy is helpful, it can also be misleading. In political economy the observer isolates an "illness" or rather what he believes to be an "illness" through his knowledge of the system. He presents a possible change. But this change is a "cure" only if *consensus* is attained in its support. The measure of "wellness" for the political economist is not improvement in an independently observable characteristic but rather agreement. If no agreement can be attained, the presumed "illness" persists, and the political economist must search for still other possible solutions. The political behavior of individuals, not market performance or results, provides the criteria for testing hypotheses of political economy.

III. Compensation and Externality

The "welfare economics" suggested here is simpler than that which assumes omniscience on the part of the observer. Much of the discussion in the subdiscipline has been devoted to two problems, both of which will be substantially eliminated in the approach suggested. First, the appropriateness or inappropriateness of compensation has been a central topic along with the discussion of the legitimacy or illegitimacy of certain tests. But, quite clearly, if the political economist is presumed to be ignorant of individual preference fields, his predictions (as embodied in suggested social policy changes) can only be supported or refuted if full compensation is, in fact, paid.[6] The potential compensation argument disappears, and the whole controversy over the appropriate tests becomes meaningless at this level of argument.

Many scholars have objected to the requirement that compensation be paid on the grounds that such requirement creates a serious bias toward the initial or status quo distribution of "welfare" among individuals of the group. This criticism seems misdirected and inapplicable if the purposes of compensation are conceived to be those outlined. Full compensation is essential, not in order to maintain any initial distribution on ethical grounds, but in order to decide which one from among the many possible social policy changes does, in fact, satisfy the genuine Pareto rule. Compensation is the only device available to the political economist for this purpose.

If the observing economist is assumed omniscient, the actual payment of compensation may seem unnecessary, and the requirement for payment may appear to introduce the bias mentioned. No additional information about individuals' preference fields is needed, and none can be revealed by behavior. A proposed change is no longer a hypothesis to be tested, and the relatively neutral ethics imposed by the Pareto rule may prove too restrictive. And, if the observer does not move in the direction of the Bergson-Samuelson welfare function, he may attempt to devise tests for potential compensation. In this way the whole debate about the Kaldor-Hicks-Scitovsky criteria for improvement has arisen. This approach constitutes a distortion of the Pareto rule. If ethical evaluations on the part of the observer are to be introduced, there is no place for the Pareto rule. This rule is designed for use in situations where individual values must count, not because they possess some inherent ethical superiority (which is quite a different point), but be-

6. There are two distinct meanings of the word "compensation." In ordinary discussion, compensation is conceived as an objectively measurable quantity; this conception has no relevance for welfare economics. Compensation must be defined in terms of the individual choice process, and it becomes measurable only through an observation of choices made. Full or adequate compensation is defined as that set of payments required to secure the agreement of all parties to the proposed change.

cause individual action provides the only guide toward acceptable collective action.

The full-compensation requirement need not imply—indeed, it will not normally imply—the maintenance of the status quo in the distribution of either income or welfare. Presumably, if a given social change is approved by all parties, each must be better off in absolute terms. Therefore, at the simplest level of discussion, there is more "welfare" to go around than before the change. To be sure, the relative distribution of "welfare" may be modified significantly by a fully compensated change. This is true because the order of presentation will determine the final point chosen from among a whole subset of acceptable points. The political economist cannot, however, say anything concerning the relative merits of the separate points in this subset. This amounts to saying that the political economist's task is completed when he has shown the parties concerned that there exist mutual gains "from trade." He has no function in suggesting specific contract terms within the bargaining range itself.

An additional simple, but often overlooked, point on compensation needs to be made. The requirement of full compensation as here interpreted need not imply that the measured incomes of individuals or groups may not be reduced by acceptable social policy changes. "Welfare" is defined as that which is expressed by individual preference as revealed in behavior. And individual behavior may be fully consistent with a reduction in measured personal income or wealth. For example, a policy which combines progressive income taxation and public expenditure on the social services may command unanimous support even though the process involves a reduction in the measured real incomes of the rich. The existence of voluntary charity indicates that individuals are, in fact, willing to reduce their own incomes in order to increase those of others. And the peculiar nature of collective choice makes support for collective or governmental action perhaps even more likely. Many individuals may find themselves saying: "I should be willing to support this proposal provided that other equally situated individuals do likewise." Thus collective action may command relatively widespread support, whereas no purely voluntary action might be taken in its absence.[7]

7. This point has been stressed by W. J. Baumol in *Welfare Economics and the Theory of the State* (1952).

A second major problem which has concerned theorists in welfare economics has been the possible existence of external effects in individual consumption and production decisions, sometimes called "spillover" or "neighborhood" effects. But this annoying complication also disappears in the approach to welfare economics suggested here. If, in fact, external effects are present, these will be fully reflected in the individual choices made for or against the collective action which may be proposed. External effects which are unaccounted for in the presumptive efficiency criterion of the economist and the proposal based upon this criterion will negate the prediction of consensus represented in the alternative suggested. The presence of such effects on a large scale will, of course, make the task of the political economist more difficult. His predictions must embody estimates of a wider range of individual preferences than would otherwise be the case. The compensations included in the suggested policy changes must be more carefully drawn and must be extended to include more individuals who might otherwise be neglected.[8]

Both the compensation and the externality problems may be illustrated by reference to the classical example of the smoking chimney. The economist observes what he considers to be smoke damage and discontent among families living adjacent to the smoke-creating plant. Using a presumptive efficiency criterion, he suggests a possible course of action which the group may take. This action must include, on the one hand, the payment of some tax by the previously damaged individuals who stand to gain by the change. On the other hand, the action must include some subsidization of the owners of the firm to compensate them for the capital loss which is to be imposed by the rule of law which states that henceforward the full "social" costs of the operation must be shouldered. Some such tax-compensation–smoke-abatement scheme will command unanimous consent from the group which includes both individuals living within the damaged area and the owners of the firm. The problem for the political economist is that of searching out and locating from among the whole set of possible combinations one which will prove acceptable to all parties. If the smoke nuisance is a real one, at least

8. The discussion of this paragraph assumes that the membership in the group making the collective choice is at least as large as the "neighborhood" defined by the presence of external effects.

one such alternative must exist. If no agreement of this sort is possible, the economist can only conclude that the presumptive efficiency criterion was wrongly conceived and the hypothesis based upon it falsified.[9]

IV. The Scope for Political Economy

To this point, the behavior of the political economist has been the primary topic of discussion. The argument has been that the political economist, as such, has no contribution to make to the discussion of uncompensated changes but that a "positive" political economy, involving fully compensated changes, can be defined. From this argument, the inference may be drawn that full compensation is desirable in all cases, and the requirement for compensation may appear to stultify much "desirable" social policy.

The appropriateness or inappropriateness of compensation must be explicitly discussed quite apart from the methodology of political economy. The main point to be made is that the principle of compensation, and, thus, the scope for political economy, is restricted to those social changes that may legitimately be classified as "changes in law," that is, changes in the structural rules under which individuals make choices. Compensation is desirable here because only through the compensation device can appropriate criteria for "improvement" be discovered. This is merely to put in somewhat different language the classical liberal conception of democracy itself.

Within the structure of existing law, no grounds for the payment of compensation exist. This point may be illustrated by reference to the theft example used by Stigler in his critique of the new welfare economics.[10] Could not the "real income" of society be increased by bribing potential thieves instead of hiring policemen? This question is irrelevant. Presumably, those individuals who are thieves at any moment have supported laws which are designed to prevent theft. Stealing is a recognized violation of existing law and, as such, deserves punishment without compensation. Quite clearly, no consensus could be expected on a proposed change in the law that would involve bribing all future thieves. The suggestion that such a change might increase "real income" implies some objective definition of real income which is independent of individuals' behavior.

A more practical example involves the government's prosecution of monopoly. The capital losses which are imposed upon firms successfully prosecuted should not, normally, be offset by compensation. This is because such action involves, in principle, no lawmaking. By contrast, the removal of a long-existing and specific exemption to the law should be accompanied by the appropriate compensating action.

There are, of course, difficult problems involved in distinguishing between changes in the law and the enforcement of existing law. But such problems are no different from those normally faced in the everyday definition of property rights, which are, of course, enormously difficult. The whole issue here may well be put in terms of property rights. The political economist in the specific role here discussed is concerned with social or collective action that modifies in some way the structure of legitimate property rights. Compensation is required for the reasons suggested above. On the other hand, law enforcement may modify the structure of actual property right, but, in principle, it does not disturb legitimate rights.

Political economy, therefore, applies to only one form of social change, namely, that which is deliberately chosen by the members of the social group acting in their collective capacities. Changes may occur for many reasons, and the set of possible changes that constitutes the domain for political economy is a relatively small subset of the total. Therefore, the requirement of compensation necessary to insure consensus or unanimity is not open to the

9. Objections will be raised to the procedure suggested here because its acceptance seems to leave the door open to exploitation of some parties to the contract by other unscrupulous parties. The owners of the smoke-creating firm may refuse to agree to any scheme except the one which grants them compensation equal to the full benefits of the proposed change. This possibility, or its converse, exists. But, in refusing to agree to any proffered compensation equal to or above the estimated value of the capital losses undergone, the owners must recognize that such opportunities might not recur.

As a second point, if the distributional results of a change are significantly important, this fact alone may reduce the extent of the bargaining range. Even though the objectively measured "income" of the previously damaged group were demonstrably increased by the adoption of the tax-compensation–smoke-abatement plan, this group might not agree if the owners secured the predominant share of the total benefits. They might veto the plan on distributional grounds, thereby preventing unanimity.

10. Stigler, "The New Welfare Economics," *American Economic Review* 33 (1943): 356.

commonly voiced objection that all progress involves social disturbance and that some individuals must be injured and some benefited by any significant social upheaval.

Changes may occur through shifts in tastes, introduction of new techniques, or growth in the supply of basic resources. These are normally considered to be the means through which an economy "progresses" or "grows." Changes of this nature are, however, different, philosophically, from those which are deliberately imposed through collective action. And this distinction is important. The free-market economic order is organized on the assumption that shifts may occur in the fundamentally exogenous variables. Imperfections of knowledge about the possible shifts in these underlying variables are incorporated with the appropriate offsetting entrepreneurial rewards and punishments. Any attempt to secure compensation for all losses would surely destroy the system. But changes imposed by collective action are different, and the uncertainty involved in attempts to predict such action cannot be discounted or offset in the ordinary market structure.[11]

V. The Social Welfare Function

The approach to political economy suggested in this essay may be compared with the Bergson-Samuelson approach which deliberately introduces ethical evaluations in the form of the "social welfare function." Both approaches aim at establishing a role for the economist qua scientist beyond positive economics narrowly defined. The differences between the two approaches lie in the treatment of individual values.

The "social welfare function" is an explicit expression of a value criterion. It incorporates fully the required information concerning the relative importance of conflicting aims, including the relative importance of separate individuals within the social group. The function orders all possible social situations and allows an external observer to select one as "best." Presumably, this "best" point will lie on a "welfare frontier" which contains a sub-infinity of possible points. But the precise meaning of this "welfare frontier" is not entirely clear. If social situations are to be ordered *externally*, the "individual welfare scales" embodied must be those akin to those which enter into the presumptive efficiency criterion discussed above. Individual preferences, insofar as they enter the construction (and they need not do so) must be those which *appear to the observer* rather than those revealed by the behavior of the individuals themselves. In other words, even if the value judgments expressed in the function say that individual preferences are to count, these preferences must be those presumed by the observer rather than those revealed in behavior.

Several questions may be raised. Unless the relevant choices are to be made by some entity other than individuals themselves, why is there any need to construct a "social" value scale? There would seem to be no reason for making interpersonal comparisons of "welfare" based on hypothetical individual preferences except for the purpose of assisting in the attainment of *given ends* for the group or some subgroup. This central feature of the approach seems, therefore, to be contrary to one of the presuppositions of the free society. The function may be useful as a device in assisting the decision-making of a despot, benevolent or otherwise, an organic state, or a single-minded ruling group. But, once this limitation is recognized, individual preferences, even as presumed by the observer, need not enter into the construction at all except insofar as it becomes necessary to consider predicted individual reaction to coercively imposed changes. The Pareto conception of "optimality" loses most of its significance.

The approach adopted here is based upon the idea that no "social" values exist apart from individual values. Therefore, the political economist, instead of choosing arbitrarily some limited set of ethical norms for incorporation into a "social welfare function," searches instead for "social compromises" on particular issues. His proposals are hypotheses about individual values, hypotheses which are subjected to testing in the collective choice processes. Actual values are revealed only through the political action of individuals, and consensus among individual members of the choosing group becomes the only possible affirmation of a "social" value. The order which is present

11. Some of the points made in this section may be clarified by the use of the game analogy, an approach to political economy that has been thoroughly developed by my colleague, Rutledge Vining. Political economy is concerned exclusively with the modifications of the rules of the game, and this branch of the discipline has no place in the discussion of strategic action taken by either side in the game itself. The compensation requirement suggests only that all players agree on the rules before continuing the game. Changes made within existing law are analogous to the enforcement of agreed-on rules, and changes arising from the strategic contest itself are fully analogous to the changes taking place by a shift of the exogenous variables of the economic order.

among "social" decisions, if indeed there is one, is revealed in the decision process itself, not external to it. Whereas the "social welfare function" approach searches for a criterion independent of the choice process itself, presumably with a view toward influencing the choice, the alternative approach evaluates results only in terms of the choice process itself.

VI. Consensus among Reasonable Men

In developing the argument of this essay, I have assumed that the social group is composed of reasonable men, capable of recognizing what they want, of acting on this recognition, and of being convinced of their own advantage after reasonable discussion. Governmental action, at the important margins of decision, is assumed to arise when such individuals agree that certain tasks should be collectively performed. To this extent, my argument rests on some implicit acceptance of a contract theory of the state. Since it is carried out only after general agreement, collective action is essentially voluntary action. State or governmental coercion enters only insofar as individuals, through collectively imposed rules prevent themselves from acting as they would act in the absence of such rules.

I am aware of the limitations of this conception of society, and I can appreciate the force of the objection that may be raised on these grounds. Societies in the real world are not made up exclusively of reasonable men, and this fact introduces disturbing complications in any attempt to discuss the formation of social policy.

In outlining the structure of a possible non-evaluative political economy, I am suggesting that we proceed on an *as if* assumption. Despite our knowledge that some men are wholly unreasonable, we assume this away just as we have done in the organization of our whole democratic decision-making processes. Insofar as "antisocial" or unreasonable individuals are members of the group, consensus, even where genuine "mutual gains" might be present, may be impossible. Here the absolute unanimity rule must be broken; the political economist must try, as best he can, to judge the extent of unanimity required to verify (not refute) his hypothesis. Some less definitive rule of relative unanimity must be substituted for full agreement, as Wicksell recognized and suggested.

This necessary modification does not materially reduce the strength of the argument presented. But it does place an additional responsibility upon the political economist. He is forced to discriminate between reasonable and unreasonable men in his search for consensus. This choice need not reflect the introduction of personal evaluation. Relatively objective standards may be adduced to aid in the discrimination process. Reflection from everyday experience with groups which use unanimity as the customary, but not essential, means of reaching decisions should reveal that the genuinely unreasonable individual can be readily identified. This reduction of the unanimity requirement to some relative unanimity does not suggest that "unreasonable" as a characteristic behavior pattern can be determined on the basis of one issue alone. And it should be emphasized that in no way whatsoever does continuing disagreement with majority opinion suggest unreasonableness.

VII. Majority Rule, Consensus, and Discussion

The hypotheses which the political economist presents are tested by the measure of agreement reached, qualified only by the relative unanimity requirement introduced in the preceding section. But there remain two major practical difficulties to be confronted at this testing stage. These make the empirical testing difficult and, in some cases, impossible. First, collective decisions in democratically organized societies may be, and normally are, made on the basis of some variant of majority rule rather than consensus or unanimity, even if the latter is qualified to rule out limited "antisocial" dissent.

The economist, employing his presumptive efficiency criterion, presents for consideration a policy change which embodies the hypothesis that the adoption of this change will constitute "improvement" in the "welfare" of the group in accordance with the Pareto rule. This proposal is then voted upon, either by all individuals in a referendum or by their representatives in a legislative body. If a majority rejects the proposal, the economist's hypothesis is clearly refuted, and alternatives must be sought. The hypothesis is equally refuted if a minority dissents, but the proposal may be carried on the basis of majority decision. This adoption tends to preclude the presentation of alternative hypotheses more acceptable to the minority. Majority rule, considered as a final means of making decisions, has the effect of closing off discussion and of thereby limiting severely the efforts of the political economist.

This result of majority rule places before the political economist a great temptation and also places upon him significant responsibility. Knowing that collective decisions are made by majority rule, he will be tempted to present social alternatives which may command majority support rather than consensus. Adequate compensations for damaged minorities may be omitted in the proposals suggested with a view toward making the majority more receptive. Deliberate attempts in this direction would violate the neutral position outlined for the political economist here, but, given the inherently subjective basis for the presumptive efficiency criterion at best, the proposals presented may tend to reflect majority-oriented biases quite unintentionally. The danger that this bias will occur places upon the practitioner the responsibility of insuring that suggested proposals do, in fact, include compensations to damaged minorities estimated to be adequate and, contrariwise, do not include overcompensations to damaged majorities.

The probability that decisions will be made without consensus being attained adds responsibility to the economist's task. Much greater care must be taken with the construction and application of the presumptive efficiency criterion. Again the analogy with the medical diagnostician may be helpful. Majority rule tends to place the political economist in the position of the diagnostician who may propose a fatal dosage if his diagnosis should prove incorrect. Hence he must be more careful than otherwise in proposing alternative remedies.

The practical difficulties introduced by majority rule may not be great if there exists consensus that all collective decisions reached in this way are temporary or provisional and are subject to reversal and modification. If majority rule is understood to be, not a means of making final decisions, but rather as one of making provisional choices while discussion continues, the possibility remains that alternative hypotheses can be presented subsequent to a favorable majority vote. No barrier to discussion need be introduced by majority rule conceived in this way.

But if majority rule is conceived as merely a step in the discussion process leading toward final agreement, a second major problem of practical importance arises. The whole process of discussion which characterizes the democratic idea implies that, insofar as their behavior in making collective decisions is concerned, individuals do not have explicitly defined ends of an instrumental sort. If they do, discussion is bound to be fruitless, and an initial disagreement will persist. The purpose of political discussion is precisely that of changing "tastes" among social alternatives. The political economist, therefore, in constructing and applying his presumptive efficiency criterion, must try to incorporate the predicted preferences of individuals, not as they exist at a given moment, but as they will be modified after responsible discussion. In other words, he must try to predict "what reasonable individuals will reasonably want" after discussion, not what they "do want in a given moment" before discussion or what they "ought to want" if they agreed in all respects with the observer.

This recognition that individuals do not have *given ends* which can, at any moment, be taken as data by the observer appears to blur the sharp dividing line between "positive" political economy as here outlined and "normative" political economy which allows the observer to introduce his own ethical evaluations. This makes it more important that the attempt be made to test propositions in terms of expressed individual values instead of first attempting to estimate such values as a basis for decision.

VIII. Conclusion

Positive science is concerned with the discovery of "what is"; normative science, with "what ought to be." Positive economics, narrowly conceived, overly restricts the "what is" category. Political economy has a non-normative role in discovering "what is the structure of individual values." The political economist, in accomplishing this task, can remain as free of personal value judgment as the positive economist. To be sure, the objectivity of the political economist is more difficult to preserve, and his behavior in departing from it more difficult for observers to detect. His hypotheses must take the form of policy propositions, and these may tend to appear as recommendations rather than hypotheses. And, since such hypotheses must be based on some presumptive efficiency criterion, an element of subjectivity is necessarily introduced. But the presence of subjective evaluation of the outside world (which includes the preference fields of other individuals) does not imply the infusion of an individual value judgment concerning the "goodness" of the proposal presented.

In a sense, the political economist is concerned with discovering "what people want." The content of his efforts may be reduced to very simple terms. This may be summed up in the familiar statement: *There exist mutual gains from trade.* His task is that of locating possible flaws in the existing social structure and in presenting possible "improvements." His specific hypothesis is that *mutual* gains do, in fact, exist as a result of possible changes (trades). This hypothesis is tested by the behavior of private people in response to the suggested alternatives. Since "social" values do not exist apart from individual values in a free society, consensus or unanimity (mutuality of gain) is the only test which can insure that a change is beneficial.

In his diagnosis and prescription, the economist must call upon all the skills and resources which he possesses. These include the traditional "efficiency" tools, but, in utilizing these, he must beware of slipping into the easy assumption of omniscience. The individual preference patterns which he incorporates into his models must be conceived as presumed or predicted, and the changes which are based on these must always be considered tentative hypotheses to be subjected to testing in the polling places. The economist can never say that one social situation is more "efficient" than another. This judgment is beyond his range of competence. He presents a hypothesis that one situation is "presumed Pareto-efficient," and he allows the unanimity test (appropriately modified) to decide whether his prediction is correct or incorrect. From this it follows that all his proposals must embody estimated full compensations.

The role of the political economist as outlined here may be quite limited. The applicability of political economy is inversely related to the rate at which majoritarian conceptions of the democratic process replace the classical liberal conceptions. Even in a world seemingly dominated by majoritarian views, however, the approach outlined here can be useful in establishing some norms for scientific objectivity. Beyond the area of "positive" political economy, there may be room for the individual to serve in a normative capacity as an especially well-informed citizen. Here his own ethical evaluations may be explicitly introduced, and he may choose to utilize certain welfare function constructions in this task. But this behavior must be sharply distinguished from his professional role, either as positive economist or as political economist.

Perhaps this essay may best be summarized by the consideration of a single example: the removal of a long-established tariff. The positive economist can predict that imports of the commodity will increase, that domestic prices

of the commodity will fall, that exports will increase, that resources will be shifted from the domestic to the export industries, etc. The "positive " political economist, building on the fundamental theorems of positive economics, attempts to devise a proposal or proposals which will remove or reduce the tariff and be approved by an overwhelming majority of the whole social group. He advances a proposal which embodies a tariff reduction, along with estimated full compensation to the damaged industries financed out of a tax imposed on benefited groups. This proposal is advanced as a hypothesis. If the proposal is accepted by the whole group, the hypothesis is not refuted. If it is rejected, or approved by only a majority, the political economist should search for alternative schemes. In all this, as an observer, he is ethically neutral. His own evaluations of the alternatives considered do not, and should not, influence his behavior in any way other than that necessarily arising out of his membership in the group.

If complexities of the collective decision-making process arise to prevent a genuine testing of the hypothesis, the economist may, if he desires, discard his "scientific" cloak. He may introduce his own ethical evaluations and state openly and frankly that he thinks tariff reductions would be "good" for the whole group.

It seems useful that these three types of behavior of individuals calling themselves economists be separated and classified, even if practical politics reduce the second type to relative insignificance.