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Value Judgement Under Welfare Economics

According to Pareto criterion of optimality or efficiency, any change that makes at least one individual better off without making any other worse off is an improvement in social welfare. Of course, when a certain change makes everyone in the society better off, social welfare will undoubtedly increase.

On the other hand, social welfare will decrease if a certain change makes no individual better off while it makes at least one individual worse off. With the aid of this criterion we can define the state of maximum social welfare or what is known as Pareto optimality or economic efficiency.

Economic state or situation is said to be Pareto-optimal or efficient in which allocation of resources is such that by any rearrangement of them it is impossible to make any individual better off without making any other worse off.

This concept of Pareto-optimality or economic efficiency is the basis of welfare economics and has a large number of applications in applied economics.

Pareto criterion and the concept of Pareto optimality do not embrace those changes in economic state which make some better off and others worse off. This involves interpersonal comparisons of utility which were ruled out by Pareto and his followers. Kaldor and Hicks propounded a welfare criterion, which is known as compensation principle, to judge those changes in situation which make some better off and others worse off. They have claimed that their welfare criterion does not involve interpersonal comparison of utility and value judgements.

It is asserted that Kaldor and Hicks rehabilitated welfare economics from the damaging criticism of Lord Robbins and founded a "New Welfare Economics" free from value judgments or interpersonal comparison of utility. In the development of new welfare economics, Scitovsky and Little have also made significant contributions..