

It is not uncommon for economics to be accused of having no ethical basis. This accusation, however, is unfounded: the ethical roots of economics can be traced back to utilitarianism. The aim of this short essay is to show that neoclassical economics is intrinsically utilitarian, and to point out some problems related to the use of this moral doctrine in economics.

Utilitarianism describes human behavior as a continuous search for the maximization of one's own utility (or "happiness") under the constraints imposed by the circumstances. This is the descriptive component of utilitarianism, which aims to explain human behavior. The second component, which we can call ethical or normative, while also based on the concept of utility, aims instead to explain which choices are *right* and which are *wrong*. Utilitarianism is therefore (also) a moral doctrine.

Utilitarianism can be traced back to the English philosopher and jurist Jeremy Bentham (1748-1832): "*Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do. On the one hand the standard of right and wrong, on the other the chain of causes and effects, are fastened to their throne*" (1780). Even more explicitly, in another passage, Bentham states: "*it is the greatest happiness of the greatest number that is the measure of right and wrong*" (1776).¹ Therefore, for Bentham, an action is *right* if it generates the greatest benefit for the greatest number of people; if an action does not satisfy this condition, it is *wrong*. In the subsequent utilitarian tradition, which has continued uninterruptedly from Bentham up until today,² the notion of utility as well as the way in which it enters the concept of *right* have undergone many variations. However, utilitarianism remains anchored in the following principle: the evaluation of the righteousness of an action is linked exclusively to the utility generated by that action.

Utilitarianism plays a central role in economics. It entered economics with the

Utilitarianism and Economics

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so-called Neoclassical Revolution (end of the 19th century), when economics ceased to be a speculative science and aspired to become a scientific discipline. Economics started using mathematical tools and formal models: in that context, the descriptive simplicity of utilitarianism turned out to be very useful for neoclassical economists.³

However, in this early phase of development of neoclassical economics, it is only the descriptive component of utilitarianism that plays an important role. The first neoclassical economists, in fact, aspired to make economics a neutral science with no ethical implications. For instance, León Walras (1834-1910), perhaps the most influential of all neoclassical economists, stated: "*Si l'économie politique pure, ou la théorie de la valeur d'échange et de l'échange, c'est à dire la théorie de la richesse sociale considérée en elle-même, est, comme la mécanique, comme l'hydraulique, une science physico-mathématiques, elle ne doit pas craindre d'employer la méthode et le langage mathématique*" (1874).

Economics absorbed the normative aspect of utilitarianism only later, around the twenties of the twentieth century, when discussing the *goals* of economic policies. For example, is it *right* to lower

taxes? Here the question is no longer to explain what happens in the event of a tax reduction (descriptive component of the analysis), but whether what happens is *right* or *wrong* (normative component of the analysis). A moral problem therefore emerges.

The question was mainly raised by the so-called School of Cambridge, first with Arthur Cecil Pigou (1877-1959) and then with Lionel Robbins (1898-1984). For Pigou, "*the goal sought is to make more easy practical measures to promote welfare—practical measures which statesmen may build upon the work of the economist*" (1920). Therefore, the aim of any economic policy should be to increase *welfare*. Robbins takes up Pigou's idea (the goal is to increase welfare), but without defining welfare as an objective and measurable quantity, but only as the result of individual choices aimed to maximize individual utility according to subjective orders of preference that constitute the *datum* of the economic problem. This approach marks, in economics, the birth of *welfarism*.

To what extent does *welfarism* differ from *utilitarianism*? According to Amartya Sen (1933-...), *welfarism* is one of the three components of utilitarianism, the other two being

consequentialism (to which we will return later), and utility summations (i.e. the fact that what matters is the *total* sum of utility, and not the way in which it is distributed). It is precisely the possibility or not of carrying out a sort of "algebra of happiness" (i.e. the sum of individual utilities) that constitutes the major difference between welfarism and utilitarianism. The summability of individual utilities is in fact one of the characteristics of Bentham's approach, but it is later abandoned by welfarism (and also by more mature forms of utilitarianism). The summation of individual utilities requires that utility is measurable. In this case, utility can also be used for interpersonal comparisons. Starting from the work of Vilfredo Pareto (1848-1923), however, the concept of utility becomes purely ordinal: i.e., utility cannot be used to calculate the sum of individual utilities (no summability), and it is usable only for intrapersonal but not interpersonal comparisons. The abandonment of the cardinalist claim of Benthamian utilitarianism gives rise to the famous Pareto criterion: situation A is said to be Pareto-superior to situation B if no one prefers situation B to situation A and at least one subject prefers situation A to situation B. From the notion of Pareto-superiority derives in turn that of Pareto-optimality: a situation is Pareto-optimal if there is no other situation that is Pareto-superior to it. The following moral criterion, widely used in economics, descends from the Pareto principle: an action that leads to a situation that is Pareto-superior than the existing one is *right*; an action that leads to a situation that is Pareto-inferior than the existing one is *wrong*.⁴ Furthermore, welfarism (in the Pareto sense) differs from utilitarianism as it does not necessarily refer to *utility*, but only to *preferences*: in fact, in order to apply the Pareto criterion it is only necessary to ask *what* each subject prefers (and not *why* he prefers it).

Nevertheless, welfarism constitutes an evolution of the utilitarian principle rather than a refusal of it. This is for at least three reasons. First, welfarism, like utilitarianism, assumes that each individual behaves in order to maximize his utility.⁵ Welfarism maintains at the individual level the idea that an individual seeks the greatest possible degree of utility, while at the social level it rejects



that an aggregation of individual utilities can ever be achieved: only preferences, i.e. choices, are observed, not the degree of utility generated by each choice. Secondly, for welfarism, a situation is *good* as it is *preferred* by everyone. Therefore, as for utilitarians, individual preferences constitute the ultimate reference for distinguishing what is *right* from what is *wrong*. For welfarists as well as for utilitarians, there is no notion of *right* that transcends the individuality of subjects. In fact, if subject X prefers situation A but subject Y prefers situation B, the Pareto criterion does not provide a moral evaluation about the two situations. Thirdly, welfarism shares with utilitarianism the same consequentialist approach: the righteousness of an action is evaluated only on the basis of the consequences it generates, and not on the basis of the characteristics of the action itself (in this case we would in fact refer to “deontological” ethics): in other words, if an action increases the welfare of all (i.e. if the consequence of the action is the passage from a situation A to a situation B that is Pareto-superior to A), then this action is *right*.

It is not possible to address here all the implications of welfarism/utilitarianism for economics. I will only briefly focus on consequentialism. For economists who adhere to this ethical paradigm, the evaluation of right and wrong is linked to the consequences generated by the action. This requires a calculation of the possible consequences of the action: such a calculation must necessarily be carried out *ex ante*, that is, before the action is taken. This has two implications that are worth emphasizing here. First, an action that is morally just *ex ante* can prove to be unjust *ex post*. Hence, the concepts of right and wrong depend on the instant in which the evaluation takes place. To clarify this point, consider the following example. An economist is called upon to answer this question: is it right or wrong to lower taxes? In compliance with the Pareto criterion, his answer might be: “since I believe that lowering taxes will increase everyone's welfare, then lowering taxes is *right*”. Now let's assume that taxes are actually lowered, but, contrary to the economist's expectations, everyone's welfare worsens: hence, lowering taxes *proves to be wrong*. Therefore, the same action (lowering taxes) is *right ex ante*

and *wrong ex post* for the same subject who expresses the moral judgment (in this example, the evaluating economist). Second: the *ex ante* evaluation of what is right and what is wrong is based on the evaluator's expectations. This raises another question: on what are the evaluator's expectations based? They can be based on personal experience, widespread opinion, other people's judgments, etc., but in any case, they are probabilistic in nature, since no subject can perfectly predict the consequences of an action. Therefore, not only can an action be *right ex ante* and *wrong ex post*, but also any *ex ante* righteousness is uncertain (even at the moment in which it is formulated), because it is based on expectations. Alessandro Manzoni (1785-1873), one of the most acute critics of utilitarianism, stigmatizes this limitation as follows: “*Moral science alone would have probability as its universal and perpetual condition! That is to say, it would be condemned to doubt on all points and forever! But if it were, to call it science would be nothing but a contradiction. Partial and accidental doubt limits science: universal and necessary doubt negates it*” (1855, p.365).

In conclusion, the utilitarian ethical component of economics must be the subject of careful reflection. In this short essay, we have pointed out two aspects of the utilitarian doctrine that are particularly relevant from a Christian perspective, namely, that for utilitarians, the concept of *just* is:

- i) contingent to the instant of evaluation, and
- ii) probabilistic in nature (and therefore intrinsically uncertain).

NOTES

1. A similar statement can be found also in “*Dei Delitti e delle Pene*” by Cesare Beccaria (1738-1794). For Beccaria, the goal of an action must be the realization of “*maximum happiness divided by the greatest number*” (1764). Although Bentham does not explicitly recognize the similarity of his normative principle with that of Beccaria, nevertheless he recognizes his debt to Beccaria's philosophy.
2. Just to name a few of the most influential utilitarian philosophers: John Stuart Mill (1806-1873), Henry Sidgwick (1838-1900), George

Edward Moore (1873-1958), John Harsanyi (1920-2000), and Peter Singer (1946-...).

3. One of the fathers of the neoclassical revolution in economics, Stanley Jevons (1835-1882), sums up the acceptance of utilitarianism by economic theory by stating: “[Economic] *theory...is entirely based on a calculus of pleasure and pain*” (1871).
4. It is interesting to observe, however, that the summability of individual utilities has not disappeared at all from economics textbooks: the notion of *consumer surplus*, which all economics students learn in the first year, is indeed based on the assumption that it is possible to measure the monetary equivalent of any benefit and cost, and then to add individual utilities to give rise to the overall consumer surplus. Alfred Marshall (1842-1924), that popularized the notion of consumer surplus, was indeed aware that the abandonment of the cardinalist principle would have made it very difficult to establish the “rightness” of any economic action.
5. As Portinaro argues: “*only by moving from the utilitarian paradigm can one try to pose the problem of the “Pareto optimum” or allocative efficiency*” (p.38).

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