10 The Welfare State, Economics and Morality

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1. HUMAN BETTERMENT, ECONOMIC WELFARE AND MORAL DEVELOPMENT

Human betterment is a grand theme, rather too grand for mere economists who are most likely to have encountered the word 'betterment' in tomes on the improvement of property or land. By direct analogy human betterment has to do with 'human capital', with improvements in health, skill and education. Economists will also have come upon the semi-technical term 'Pareto-better' to describe arrangements whereby all parties gain. The primary dictionary definition does indeed refer to the state or condition of being better (Shorter Oxford English Dictionary, New English). Yet it gives priority to the process of making or becoming better. The crucial concern of this paper is the welfare state as a link between economic and moral development.

The discussion which follows is organised roughly along the lines of Figure 10.1, though it eventually becomes clear that relationships are much more complex than those indicated there. Once we have defined economic welfare and moral development we shall want to be able to
refer to positive changes in each of them. It will not be necessary to talk much about human betterment as a whole, but it would be useful to be able to say that positive changes in economic welfare and in moral development represent an unambiguous improvement. Beyond that, one has to resort to intuitionism.

The remainder of this first section gives working definitions of economic welfare and moral development and also presents two slightly extravagant scenarios to emphasise the sorts of point that need to be made. Of the relationships indicated in Figure 10.1, $C$ is by far the most written about, but it is, of course, only one element in the picture.

Economic welfare may be said to have increased when there has been an increase in real income, appropriately adjusted for changes in the income distribution. The easiest case to take is the 'Pareto-better' one, where everyone has become better-off. For other, more usual, cases economists have devised compensation tests to show whether or not real income has increased. The more hard-headed economists are content to take increases in real income as themselves indicating increases in economic welfare. The standard modern treatment, however, is to have some inequality index (e.g. the Gini coefficient) and real income as arguments in a social welfare function. An important thing to note about this modern definition is that increases in real income are only certain to increase economic (social) welfare, if not accompanied by a worsening income distribution. (It is unfortunate that we have got into the habit of calling what is very obviously an economic welfare function a social welfare function.)

Associated with this is an ethical (as opposed to a descriptive) approach to inequality which has caused some writers considerable anxiety. Thus, Sen (1978) has condemned it as fundamentally flawed. The ethical element is potentially embarrassing here, as it has already been introduced before any discussion of morality. A suggested resolution is that the welfare function implied by the state of moral development is the appropriate one when society is making its own judgements about its own inequality but not otherwise. In this case there would be an equality, as it were, between those ethical judgements employed in policy-making and those used in measurement. But already there is a breakdown in the tidy boxes of Figure 10.1.

In spite of what I said earlier there is, of course, no necessary link between increases in real income and increases in happiness, let alone human betterment. The weakness of the relationship, both in cross-section and over time is a commonplace. The link between real income