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ECONOMIC APPROACH TO PUBLIC POLICY

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Among the social sciences economics has tended to be viewed (particularly by economists themselves) as the most scientific of the social fields of endeavor. Based as it is upon a fairly well-developed body of hypothetico-deductive theory, economics does display a somewhat closer affinity to the "true" sciences than do many other areas in the social field. However, unlike the physical sciences, economics does not devote the bulk of its focus to phenomena outside the realm of social concern. The study of economic processes and the pursuit of economic knowledge is inextricably bound up with social processes, the nature of which frequently tend to be controversial and emotionally charged.

Many of the conclusions or implications of economic analyses serve to relate directly to issues of potential or actual public concern. Indeed, economists often like to comment upon the nature of such issues in a recommendatory fashion. The form of comment may range from direct "policy conclusions", a true recommendatory analysis, to more subtly expressed "suggestions" in what we might term a quasi-recommendatory analysis. In both cases the status and validity of the advice proffered is directly dependent upon the character of the analytical assumptions employed. As a paradigm for the interpretation of socio-economic processes economic theory is crucially dependent upon the nature of such assumptions.

The importance of this fact has been emphasized by a variety of authors. However, in spite of their strictures the problems which they have intimated continue to receive practical demonstration if not daily, at least periodically in the pages of learned journals. It is therefore the intent of this paper to add one more voice to those that have "cried in the wilderness" of methodology by critically examining the status of economics in the analysis of issues of public relevance. In particular it will attempt to emphasize the centrality of values and the fundamental value-relativity of recommendatory or quasi-recommendatory analytics. Its aim is to stress the need for a more effective and explicit approach to the value problem in the analysis of policy-related issues.

The Question of "Positive" Economic Analysis

An important distinction which is generally made in economics is between so-called "positive" and "normative" analysis. It originated in the writings of N. Senior and J. S. Mill in the second quarter of the nineteenth century.<sup>1/</sup> These writers maintained that a distinction could, and should, be made between the analysis of "what is" and "what ought to be" in economic affairs. A later exponent of this view was J. N. Keynes who observed

"It is not .... the function of science to pass ethical judgments; and political economy, regarded as a positive science, may, therefore, be said to be independent of ethics."<sup>2/</sup>

Acceptance of this viewpoint by many economists has led to the formalization of a particular approach to issues of public relevance. As Robbins (1935), for example, has argued

"(Economics) is incapable of deciding as between the desirability of different ends (objectives). It is fundamentally distinct from ethics." (page 152).

hence,

"If we disagree about ends it is a case of thy blood or mine--or live and let live, according to the importance of the difference, or the relative strength of our opponents. But if we disagree about means, then scientific analysis can often help us to resolve our differences." (page 150).

since,

"(Economics) can make it clear to us the implications of the different ends we may choose. It makes it possible for us to will with knowledge of what it is we are willing. It makes it possible for us to select a system of ends which are mutually consistent with each other." (page 154).

Robbins therefore considers that the value judgments which underlie policy objectives are not capable of being discussed on the basis of economic analysis. As economists, we may only examine whether objectives are mutually consistent and whether the instruments selected by policymakers to implement these objectives are functionally appropriate. Such analysis is made possible through the existence of a body of theory which is objective or "positive" and hence free from value judgments.

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<sup>1/</sup> Hutchinson (1964) page 23.

<sup>2/</sup> J. N. Keynes quoted in Hutchinson (1964) pages 36-7.

This viewpoint has also been adopted by Friedman (1953, 1967) who states

"In principle, economics as a special discipline is concerned with the consequences of changes in circumstances on the course of events, with prediction and analysis, not with evaluation. It has something to say about whether specified objectives can be achieved and if so, how, but not, strictly speaking, with whether they are good or bad objectives .... Its aim is to see what the implications of our value judgements are, whether they are internally consistent."<sup>3/</sup>

Friedman would therefore also seem to adopt the view that it is possible to pursue an objective analysis of policy based on the existing body of economic theory. Through the "positive" approach we may trace the implications of value judgments and determine their consistency. However, we cannot say anything about the validity or otherwise of the value judgments themselves.<sup>4/</sup> This viewpoint would seem to possess many attractions since it permits the economist to adopt a well-defined role as a technical advisor or commentator with respect to public policy whilst largely avoiding the difficult question of the validity or otherwise of the values which underlie policy objectives. However, there are significant problems in the construction and use of economic theory which render such "value-free" analysis extremely difficult.

A fundamental requirement of the positive approach is the existence of "value-free" economic theory, a requirement which Friedman believes is fully satisfied. To quote him again

"There are no value judgments in economics .... the appearance to the contrary arises partly from the tendency to use alleged differences in value judgments as an evasion in explaining differences in policy conclusions."

Furthermore,

"Positive economics is in principle independent of any particular ethical position or normative judgments .... Its task is to provide a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances. Its performance is to be judged by the precision, scope, and conformity with experience of the predictions it yields. In short, positive economics is, or can be, an 'objective' science in precisely the same sense as any of the physical sciences."<sup>5/</sup>

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<sup>3/</sup> Friedman (1967) page 86.

<sup>4/</sup> For counter-arguments on this point see Sen (1967, 1970) and Alexander (1967).

<sup>5/</sup> Friedman (1953) page 4.

It is therefore important to analyze the proposition that "positive" economics is capable of providing an "objective" evaluation of public policy.

Economic theory, whose existence is basic to the positivist viewpoint, may be viewed as being composed of three elements: (1) assumptions; (2) a logic of relations; and (3) predictions. Friedman, for example, attaches only limited importance to the nature of assumptions.<sup>6/</sup> In his view the primary test of acceptability is the predictive ability of the theory and hence, in principle at least, any set of assumptions may be employed as long as the theory predicts "correctly". Many economists, who are broadly sympathetic to the positivist viewpoint, would tend to attach greater significance to the nature of assumptions. Theories are generally understood to do more than simply predict but rather to "explain" the workings of a particular process. Explanation and prediction are not structurally equivalent and we are not only interested in providing generalizations which enable us to conclude when certain events will occur but also why they occur. In this case the assumptions employed are of some relevance and it is generally acknowledged that they should possess attributes of "reasonableness". In the process of selecting and assessing the relevance of assumptions we may expect value judgments to play a major role.

The second component of a theory, a logic of relations, is essentially an operator which permits us to progress from assumptions to predictions. On the basis of universal acceptability of the nature of the operator (for example mathematical calculus) then the logical structure of the theory may be examined on a broadly objective basis.

On the other hand, the predictions of the theory may be open to close scrutiny. In the first place they may suffer from syntactic restriction. As Coddington (1972) observes

"The language of economic theory, like any language, provides a framework for thought; but at the same time, it constrains thought to remain within that framework. It focuses our attention; determines the way we conceive of things; and even determines what sort of things can be said." (page 14).

From the point of view of policy analysis this may not be unduly serious since the economist qua economist is generally expected to comment on the "economic" aspects of a policy problem rather than, for example, the political or sociological. However, the greater predictive ability made possible through the employment of economic theory may have to be weighed against the somewhat partial nature of such predictions.

A far more serious problem is, however, presented by the semantic restrictions which tend to affect economic predictions. Many of the terms and concepts embodied in a theory may have value connotations, whether intended or unintended. For example, "equilibrium" may not only be interpreted as a characteristic of a certain set of mathematic relations but may convey an impression of desirability, whereas "disequilibrium" may convey the opposite. Other terms such as "optimum", "welfare", "distortion" and "cost" can acquire value connotations which are quite distinct from any objective definition. This problem may not be unduly

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<sup>6/</sup> Friedman opus cit.

serious if the status of such definitions is made clear, but in many cases this is not done and predictions tend to be expressed in the form of persuasive statements. For example, the statement "this policy produces a trade distortion which entails a cost of X units" may be intended as a purely objective pronouncement involving particular technical definitions of "distortion" and "cost". However, it may also seem to suggest that the policy concerned is harmful since it leads to a distorted situation with undesirable side-effects.

These difficulties which may be identified in the application of economic theory to policy problems are not the only ones of relevance to the discussion. There are the additional complexities of the role of values in the selection of subjects to be analyzed and in deciding what exactly is to count as "evidence" in the validation of predictions. The value-question looms large, for example, in the use of many of the techniques of statistical "validation" which have become the standard empirical tools of the applied economist. However, for the sake of brevity we do no more than note the existence of such problems.<sup>7/</sup>

An important problem of "positive" analysis is that its character is, of necessity, strongly influenced by the philosophical nature of the model it employs. Evolving as it did from the writings of the political pamphleteer the "science" of economics has never achieved a successful separation of analysis from the politics of public policy. Indeed the fundamental economic dictum of the rationality of decentralized individualistic decision-making which was originally expounded by Adam Smith was a product of a quasi-political attempt to rebut the state-oriented mercantilist philosophy of his day. Founded as it is upon Smith's principle the character, if not the content, of modern-day positivist theory stems from a particular strongly individualistic socio-political philosophy of eighteenth century Britain in the throes of a capitalist industrial revolution. With such a foundation it is perhaps not surprising that whilst economists have sought to cultivate and proclaim a scientific status the actual meeting point of economic theory and public policy has generally proved an uneasy encounter.

This argument is pointedly illustrated by the fact that the very body of theory which is assumed to be value-free forms the basis of a particular type of political ideology--free-market liberalism. The predictions of neo-classical production and distribution theory and the central concept of a general equilibrium involving "maximum satisfaction" at "minimum cost" achieved under competitive individualistic behavior provides a plank for those who seek to minimize the role of public policy in economic affairs. As a modern-day proponent of the liberalist ideology states

"When the society is free and there is no intervention everyone will always act in the way that he believes will maximize his utility i.e. will raise him to the highest possible position on his value scale. In short everyone's utility ex ante will be "maximized" .... Any exchange on the free market, indeed any action in the free society, occurs because it is expected to

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<sup>7/</sup> The interested reader may find a thought-provoking discussion in Coddington (1972).

benefit each party concerned .... the free market maximizes social utility, since everyone gains in utility from his free actions."<sup>8/</sup>

Similarly, Friedman (1962) argues for the market and against government intervention. His reasoning is that government policy is generally coercive whilst the market prevents such coercion. Thus he writes

"By removing the organization of economic activity from the control of political authority, the market eliminates this source (the government) of coercive power. It enables economic strength to be a check to political power rather than a reinforcement." (page 15).

Hence, to quote Rothbard (1962) again

"(The free market) is optimal .... from the standpoint of the free voluntary actions of all participants and in satisfying the freely expressed needs of consumers. Government interference, will necessarily and always move away from such an optimum." (page 887).

This is clearly not the place to enter into the debate on the highly value-loaded area of the validity of liberalist sentiments. However, it should be noted that the supposedly value-free, objective theory of neo-classical economics provides the essential underpinning for a rather extreme view of public policy and the role of the State in economic affairs. This apparent contradiction is symptomatic of the degree of confusion which exists as to the exact status of economics and the economist in the analysis of public policy.

### Welfare Economics and the Analysis of Public Policy

The "positive" approach is widely used in the analysis of public policy issues. It is frequently argued that such an approach is not intended to pronounce on the desirability of particular public policy objectives, although in practice many such analyses prove to be implicitly critical of objectives. However, there exists the alternative of welfare economics which attempts to take a direct approach to the "desirability" question by seeking to identify potential or actual changes in the well-being of society. It is therefore important that we review the contribution of the approach taken by welfare economics to issues of public policy and its success in coping with the question of values.

Economists have typically tended to take an individualistic view of welfare. For example in the Bergson-Samuelson formulation of the social welfare function (SWF) societal welfare is viewed to be a function of individual perceptions of personal welfare.<sup>9/</sup> These, in turn, are viewed

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<sup>8/</sup> Rothbard (1962).

<sup>9/</sup> Bergson (1938), Samuelson (1947).

to be a function of the commodities consumed by individuals and the factor services they supply. Thus we might consider individual welfare to be a function of the "utility" derived from the consumption of goods (including leisure) and the "disutility" of supplying factors (for example work).

Among the criticism that has been levelled at this concept of the SWF is the acceptability of the assumption that the individual is to be considered the best judge of his own welfare. For example Nath (1969) argues that the welfare of the individual is not necessarily revealed by his behavior in the market place and furthermore

"If it is granted that sometimes an individual may not be fully informed or rational, then it is possible that somebody else's decision may increase the individual's welfare more, even according to himself ... than it would have done if the individual had made his own decision." (page 9).

This may be particularly relevant where interdependencies exist in the decisions of individuals. In this case the welfare of a particular individual may impose "diswelfare" on other individuals. The acceptance of this viewpoint is sufficient to define the existence of a concept of "social" welfare that may differ from individuals' perceptions of their own welfare.

Although the Bergson-Samuelson SWF may be expressed purely in terms of an individualistic conception of welfare it may, as Bergson emphasized, embody any set of value judgments relating to individual welfare that is deemed to be, in some sense, appropriate. One might not be willing to accept a purely individualistic view of social welfare and agree, for example, with Vickrey (1953) that

"Even the most individualistic economist is compelled to go beyond the mere preferences of each individual in society if he is to make any but the most restricted recommendations to policy, either individual or social." (page 43).

However, within a social fabric strongly influenced by democratic mores there would seem to be a strong attraction in the adoption as a basis or reference point for policy evaluation individuals' own perception of their welfare.

The acceptance of the possibility of a non-individualistic view of social welfare is not without its problems. In particular, it implies that we may have to consider the relative "social" valuation of differential effects of policy upon the welfare of individuals. In other words, we will be faced with the problem of making interpersonal welfare comparisons. Utilitarian economics, deriving its philosophy from Bentham and reaching its highest development with Pigou (1932), accepted the possibility and the necessity of making such interpersonal comparisons based on the concept of "utility". However, following Robbins (1932) attack on Pigou's work economists became unwilling to confront the



problems involved in making such comparisons. As Nath (1973) observes

"This attack was famous and momentous; quite unnecessarily it became the cause of a fruitless (and illogical) search for 'more-or-less ethics-free' welfare propositions--a search which some economists continue to join to this day"

Robbins' major criticism of Pigou was that he implicitly assumed a particular set of values in order to effect interpersonal comparisons of utility and that these could not be justified on any "scientific" grounds. Robbins did not, however, argue that value judgments might not be made but that they should be made explicit. Many economists seem to have interpreted this as implying that the economist qua economist cannot make such value judgments in the analysis of policy and have sought to derive "ethically neutral" criteria for policy evaluation. As we shall argue below the possible existence of such criteria is an illusion.

One criterion which has been strongly advocated is the Pareto criterion. This implies that: (a) if everyone in society is indifferent between two alternative social situations  $x$  and  $y$ , then society should be indifferent too; and (b) if at least one individual strictly prefers  $x$  to  $y$  and every individual regards  $x$  to be at least as good as  $y$ , then society should prefer  $x$  to  $y$ . In other words, if it can be demonstrated that a particular policy will make at least one person better-off without making anyone else worse-off then that policy should be recommended. This criterion is far from being ethically neutral, although it is perhaps easy to see why confusion arose on this point.<sup>10/</sup>

The Pareto criterion does not permit the self-perceived welfare of any individual to decrease as the result of a policy; in this sense, it precludes interpersonal comparison of gains and losses. However, it will support a policy which implies that no one will lose and at least one individual will gain. Exactly who gains is irrelevant and where more than one person gains then these are valued on an equal basis. The criterion therefore implicitly involves the placing of equal weights upon positive changes in the welfare of individuals. Hence, the criterion is not ethically neutral since it implies that changes in individual perceptions of welfare should be evaluated on an equal basis. The assumption of ethical neutrality is therefore based on the misunderstanding that equal weighting is somehow different from unequal weighting. Clearly it is not, since both rely on a particular set of values.

The Pareto criterion provides a relatively weak value judgment upon which to base policy decisions since any policy which has redistributive implications is excluded.<sup>11/</sup> For this reason economists have sought to develop stronger criteria. Of particular note in this connection is the principle of potential Pareto improvement and the use of compensation. For example, the Kaldor-Hicks criterion states that if as the result of a policy

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<sup>10/</sup> It should be stressed that we are not implying that all economists who subscribe to the Pareto criterion are victims of this confusion, although some would clearly seem to be so. See for example Tollinson in Buchanan and Tollinson (1972) and Farrell and Pearce in Nath (1969) page 152 ff.

<sup>11/</sup> Kaldor (1939), Hicks (1939).

which benefits some and results in losses for others, the gainers are potentially able to compensate the losers and still be better off than that policy is desirable. After Scitovsky (1941) had pointed out the possibility of contradiction the criterion was modified by including a dual application of the criterion to check for the irreversibility of the original conclusion. The revised criterion became known as the Kaldor-Hicks-Scitovsky (K-H-S) criterion.

Kaldor (1939) argued that whether or not compensation should actually be paid was an ethical decision and independent of the criterion. It was sufficient to establish the potential superiority of a policy. Samuelson (1950), however, disputed the criterion's ethical neutrality and suggested that true neutrality could be ensured if it could be demonstrated that no feasible redistribution could ever make the pre-policy situation superior to that proposed. Little (1957), on the other hand, reasoned that distribution should be specifically admitted as an ethical variable. Hence he advocated the combination of an "appropriate" (to the user) distributional value judgment with the K-H-S criterion. This would enable a decision to be made on the basis of the actual rather than the potential superiority of the policy.

Although Little's approach evoked considerable criticism its major importance was its emphasis of the necessity for some value judgment about the distributional implications of a policy. This point has been penetratingly illustrated by Mishan (1973) with respect to the K-H-S criterion. His analysis demonstrates that regardless of whether a policy is evaluated on the basis of actual or potential redistributive implications its acceptance or rejection must be based on the ranking of alternative distributions. In other words policy recommendation and choice must inevitably involve interpersonal comparisons.

This may at first sight seem a somewhat esoteric point given the seeming practical irrelevance of measures which rely upon the identification of "utility possibility frontiers" or "community indifference curves". However it relates with equal force to quantifiable welfare indicators. For example, at the whole economy level the concept of the "real national income" has been identified, the derivation of which involves the aggregation of bundles of commodities using price weights. As Samuelson's (1947) exposition of the Bergsonian SWF illustrates prices (exchange ratios) are endogenous to the welfare maximization problem and are crucially dependent upon the interpersonal weightings which are incorporated in the SWF.

The use of the "real income" concept has generally involved a valuation based upon market prices. These may or may not represent "socially optimal" exchange ratios (however defined) but are clearly dependent upon a particular set of weightings characterizing an implicit SWF. The use of the "real income" concept is therefore conditioned by its fundamental value-relativity.

A similar problem arises in the use of "partial" welfare indicators based upon the concept of economic surplus.<sup>12/</sup> Assuming that we can legitimately identify appropriate measures of compensating or equivalent variation

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<sup>12/</sup> Currie et. al. (1971) contains a comprehensive review of the concept of economic surplus.

in consumers' or producers' surplus then we are still faced with the problem of effecting interpersonal comparisons. Even if the existing exchange ratio truly represents the groups' marginal valuation on the commodity concerned we still have to weight "surpluses" such that they are evaluated consistently with respect to the "appropriate" SWF. For example, we might adopt equal weights and hence identify the competitive equilibrium as a welfare optimum.<sup>13/</sup> This may or may not be consistent with the "true" SWF however defined.

### Coping with the Problem of Values

If the reader is prepared to accept the view that has been presented in this paper that values play a central part in both neo-classical positivism and welfare economics then he may be entitled to ask what sort of problem this constitutes. The answer is, in essence, that maximum objectivity would seem to be a prime requirement of any truly scientific endeavor.<sup>14/</sup> If a significant part of the work that the economist does is seen to fall considerably short of this goal then his position as impartial analyst or advisor becomes virtually untenable.<sup>15/</sup>

Recognition of the importance of the value problem necessitates some decision on what to do about it. There would seem to be three basic options: (1) ignore the problem; (2) avoid it; or (3) attempt to come to terms with it.

By ignoring the problem we would essentially continue to adopt the sort of approach which has been prevalent in the past. However this would perpetuate the problem of weak scientific status and would leave us open to the sort of criticism which has been voiced above. On the basis of our own value-judgments, therefore, we may well view a continued state of pseudo-objectivity in the analysis of policy to be undesirable.

In order to avoid the problem we might seek to retreat from the analysis of policy-related issues and concentrate upon the more abstract endeavors in the realm of pure theory which some economists appear to favor. Many of us who believe that economics does have something relevant to contribute to practical policy problems would surely regret the transformation of the subject to the realm of the academic curiosum.

If, on the other hand, we are to attempt to come to terms with the problem then we must find a way of achieving increased value-specificity. Particular care and effort must be taken to indicate the existence and nature of the values upon which our analyses are based. Harberger (1971) has argued, for example, for "traditional" values to be applied in this way. Hence we would

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<sup>13/</sup> This need not follow since competitive equilibrium may not represent a "first-best" optimum.

<sup>14/</sup> It is this characteristic which has been greatly praised by a number of economists. See, for example, Breimyer (1967).

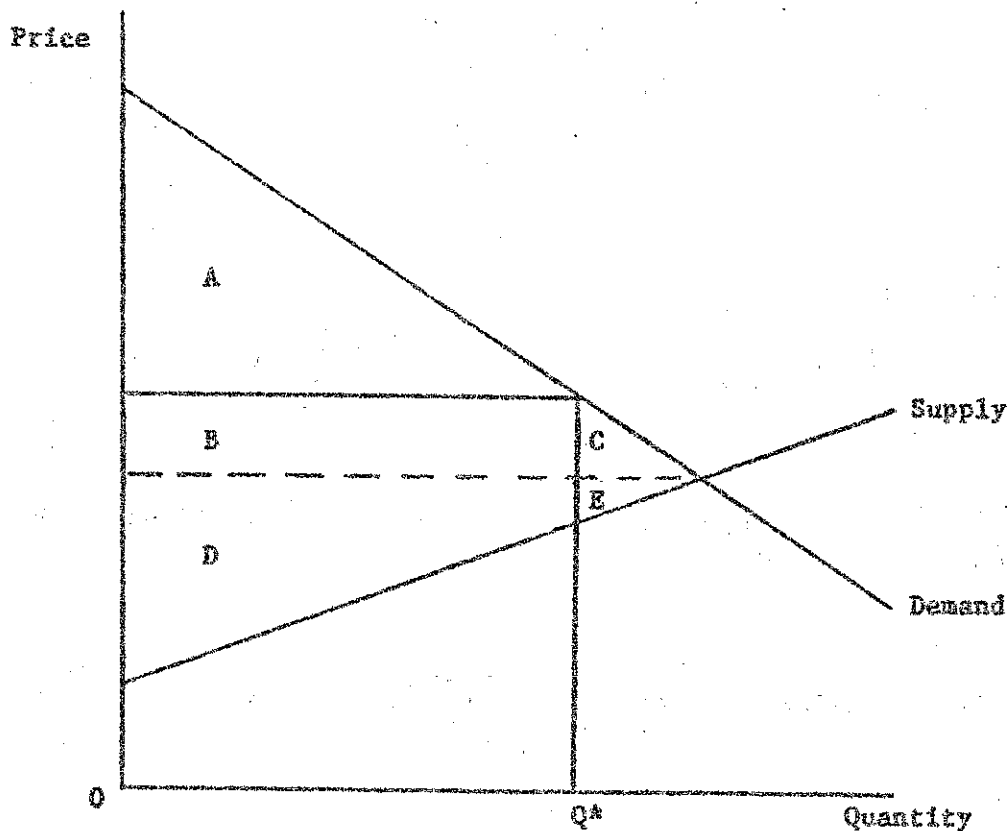
<sup>15/</sup> Perhaps it is also one of the reasons why so much of what economists say in the area of public policy is ignored by those who take policy decisions.

explicitly agree to employ the "widely acceptable" assumption of equal weighting upon the welfare indicators relating to different groups and in addition to assume a general correspondence between private and social valuation.

Harberger's plea for value-specificity would certainly seem to represent a step in the right direction since it helps to place policy analysis on a less ambiguous footing. Policies are to be compared and evaluated on the basis of a specified set of hypothetical values rather than an implicit pseudo-objective value set. However, the adoption of a single hypothetical value set may be unduly restrictive and wider relevance may be achievable through the use of others.

One possibility which suggests itself is to attempt to infer the sorts of values which may be held by policymakers themselves. More specifically, those which are revealed to be consistent with the policy decisions they take.<sup>16/</sup> Consider, for example, the situation depicted by figure 1.

Figure 1. A Simple Example of "Conventional Value" and "Revealed Preference" Approaches to Public Policy Analysis.



<sup>16/</sup> We are limited in the extent to which an inferential approach can be viewed to reflect fundamental values. The type of "revealed preference" methodology suggested will only provide an "as if" behavioral statement. This cannot be directly interpreted in terms of underlying motivation or intent.

In this case a policymaker is attempting to benefit producers by imposing an acreage allotment which results in a level of production of  $Q^*$ .<sup>17/</sup> On the basis of a "traditional value" approach we might proceed to identify and compare with respect to the competitive position the changes in equally-weighted group surpluses which result from the policy. An indication of the welfare effect of the policy upon producers could be provided by the area (B-E) and that relating to consumers by (B+C). The triangular area (C+E) which has sometimes been identified in the past as a "social cost" is clearly only interpretable as such with respect to a social welfare function which values units of consumers' and producers' surplus equally. Expressed in a less persuasive form it is the equal-weighted surplus foregone as the result of the policy.

As an alternative or, possibly more appropriately, supplementary approach we might suggest that the choice of the allotment reflects the fact that the policymaker does not evaluate the surpluses of consumers and producers equally. Assuming that we may denote his perception of welfare in this market by the simple inter-group preference function

$$B^* = W_c B_c + W_p B_p \quad (1)$$

where the subscripts c and p refer to consumers and producers respectively

W is the policymaker's weighting upon the market-related benefit accruing to a particular group

B is an indicator of the benefit accruing to a group

and  $B^*$  is an indicator of the policymaker's conception of the contribution of the market to social welfare.

then at the chosen policy position we might assume that the policymaker views the contribution of the market to global social welfare to be optimal. That is, no change in the distribution of benefit can increase the value of  $B^*$

$$dB^* = W_c dB_c + W_p dB_p = 0 \quad (2)$$

Transforming (2) into a numerically approximable expression by using changes in benefit indicators we have

$$W_c \Delta B_c + W_p \Delta B_p = 0 \quad (3)$$

By arbitrarily assigning a weighting of -1 to consumers we can identify the relative weighting on producers which is implied by the policy as

$$W_p = \frac{\Delta B_c}{\Delta B_p} \quad (4)$$

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<sup>17/</sup> The short-run nature of this analysis must be stressed.

where the changes in benefit are computed with respect to the competitive solution which from figure 1 is

$$W_p = \frac{(B+C)}{(B-E)} \quad (5)$$

Through this type of approach it would appear possible (at least with respect to small changes in welfare indicators) to identify the inter-group evaluation reflected by policy choice. However, as a moment's reflection will demonstrate the introduction of further groups into the analysis, for example "taxpayers", presents us with an identification problem.

From the point of view of the employment of conventional two-dimensional comparative static policy analysis this is clearly a grave disadvantage. However, the principle of attempting to estimate implicit inter-group values which is suggested by the above example may have important practical (empirical) applications. There may be a fairly large number of cases where the identification of weights in a hypothesized inter-group preference function might be achieved through the employment of sets of observations on policy choices affecting the same groups. Weisbrod (1968) has illustrated the employment of such a technique with respect to the selection of water-resource development projects in the United States. He argues that the employment of such a function might form an integral part of the benefit/cost approach to the analysis of such projects. Blandford (1976) has examined the employment of a similar method with respect to the distribution of export earnings by a group of export monopoly marketing boards in West Africa. Although such approaches seem promising in demonstrating that value-specificity is more than a mere academic curiosum we would not wish to minimize the importance of the problems which may be encountered.

The descriptive application of an inter-group preference function is not the only role which such an approach may perform. As Chenery (1974) has argued this type of function may provide a basis for development planning and Blandford (1976) demonstrates its potential application to the pricing problem faced by marketing boards. Hence this type of value-specific approach may possess functional utility in the area of decision-making.

#### Concluding Observations

The question of values is clearly central to public policy analysis. The move to greater value-specificity which has been suggested in this paper is an attempt to come to terms with the principle problem. However, the explicit recognition of the value-relativity of economic analysis is not without its consequences. In particular it necessitates a subtle but major change in the philosophy and approach of some economists. The opportunity for popularist authoritative pronouncements on issues of social concern is considerably diminished by the value-relative approach. Such seemingly basic tenets of faith as the ultimate social superiority of "free markets", "free trade" and the like now become far more conditional

in nature. In addition, the admission of the potential relevance of policy-makers' own implicit values raises important and controversial issues as to the nature of public decision-making processes. In the light of such issues, whether economists can truly come to terms with the sort of objective advisory role which they have long extolled but seldom practised is perhaps open to question. However, if the economist is to pursue the course of the scientist then the process of analyzing must be kept unambiguously distinct from that of politicizing.

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