

From Median Well-Being to Mean Well-Being: Classical and Neo-Classical Compensation

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The professed object of Dr Adam Smith's inquiry is the nature and causes of the wealth of nations. There is another inquiry, however, perhaps still more interesting, which he occasionally mixes with it, I mean an inquiry into the causes which affect the happiness of nations or the happiness and comforts of the lower orders of society, which is the most numerous class in every nation. T. R. Malthus (1970, p. 189).

Introduction

In the space of a material good, and so more is preferred to less, and when transfers are judged to be possible, only the mean is an admissible parameter to summarize well-being across individuals. Adding reciprocity as a good allows other parameters, such as the median, to be admissible summaries of well-being even when transfers are not possible. This in condensed form is the case we wish to make. We shall review the familiar use of mean income in new welfare economics and compare it to the obscured use of median income in the classical period of economics as norm. We shall explore how we went from one state of affairs to another.

It needs to be asked at the outset how is it that important classical economists evidently used the condition of the *median* as the norm for well-being?¹ The formula of utilitarianism, “The greatest happiness of the greatest number,” might have encouraged economists in that tradition to think of maximizing the well-being of the greatest number. This consideration would suggest that F. Y. Edgeworth’s *Mathematical Psychics* played a decisive role when he pointed out the incoherence of the traditional slogan.

¹On Smith, Levy 1995, Levy-Peart 2002; on Malthus, Hollander (1997, pp. 830-31); on Paley, Levy 2002. Harriet Martineau continues the Smith-Paley-Malthus tradition, e.g., “It is interesting to observe by what regulations all are temperately fed with wholesome food, instead of some being pampered above-stairs while others are starving below; how all are clad as becoming their several stations, instead of some being brilliant in jewels and purple and fine linen, while others are shivering in nakedness; how all have something, be it much or little, in purses ... Such extremes as these are seldom or never to be met with under the same roof in the present day, when domestic economy is so much better understood than in the times when such sights were actually seen in rich men’s castles: but in the larger family, –the nation, –every one of these abuses still exists, and many more.” Martineau (1834, 1:v-vi)

The principle of the greatest happiness may have gained its popularity, but it lost its meaning, by the addition ‘of the greatest number.’” (1881, p. 118)

We would prefer to phrase Edgeworth’s point as the claim that the theory of utilitarianism has a multiplicity of models.² One utilitarian model proposes the mean income be maximized; another which proposes that the median be maximized. As illustration of a median utilitarianism, here is perhaps Adam Smith’s most straightforward statement of this majoritarian position when he asks about the evaluation of growth:

Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. *But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole.* No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged. [emphasis added]³

²“The mathematical world was forced to observe that a theory may have more than one model in the 19th century, when Bolyai and Lobachevsky developed non-Euclidean geometry, and Reimann constructed a model in which the parallel postulate was false but all the other axioms were true.” (Chang-Keisler 1978, p. 3).

³Mill 1865, p. 755: “On the other hand, we may suppose this better distribution of property attained, by the joint effect of the prudence and frugality of individuals, and of a system of legislation favouring equality of fortunes, so far as is consistent with the just claim of the individual to the fruits, whether great or small, of his or her own industry. We may suppose, for instance (according to the suggestion thrown out in a former chapter²⁶), a limitation of the sum which any one person may acquire by gift or inheritance to the amount sufficient to constitute a moderate independence. Under this twofold influence society would exhibit these leading features: a well-paid and affluent body of labourers; no enormous fortunes, except what were earned and accumulated during a single lifetime; but a much larger body of persons than at present, not only exempt from the coarser toils, but with sufficient leisure, both physical and mental, from mechanical details, to cultivate freely the graces of life, and afford examples of them to the classes less favourably circumstanced for their growth. This condition of society, so greatly preferable to the present, is not only perfectly compatible with the stationary state, but, it would seem,

What motivates our research is that modern economists, *without reflection*, use the mean for utilitarian welfare evaluation. For empirical work per capita income is the standard for international comparisons; indeed, “economic growth” is defined using average income. For theoretical consumer’s surplus analysis which establishes the relative efficiency of industrial organizations, we total the gains of producers and consumers. With a fixed population of size N , the mean is simply the total divided by N .⁴ How did we go from one to the other without a discussion?

Interest in the median seems to be restricted to workers in public choice for whom it has been long apparent (Galton 1907a&b, Black, 1953; Downs 1957; Plott 1967) that the median is the natural centering principle for a majority-rule democracy.⁵ How does one move from a mean-based norm to a median-based positive theory without the mirth-inducing assumption of symmetry? Historically there are many “problems” associated with the idea of a majority rule democracy which are immediate implications of the median.

more naturally allied with that state than with any other”

⁴Using the median individual as norm in conjunction with the claim that there are more consumers than producers would break the familiar efficiency property of perfectly discriminating monopoly. Indeed, as the consumer is supposed to be bereft of surplus in such a context, the standard single-price monopoly would be social preferred to it.

⁵There are *two* versions of median-voter theorems: one group which considers the *population* median; another group which considers the *sample* median. Galton’s contributions (1907a&b) to the latter is discussed in Levy-Peart 2002. The possibility of multiple equilibria in a single-dimensioned population median context (Arrow 1951; Black 1953) corresponds to the possibility of non-robustness of a sample median when the underlying distribution is bimodal. Violations of single-peaked preferences and unimodal distributions are violations of convexity conditions and with non-convexity comes multiple equilibria.

Even in a single dimensional context there is no attention paid to intensity of preference since the median counts but does not add. In a multiple dimension context there is no ability to trade which different intensities of preference would motivate (Buchanan-Tullock 1962, Plott 1967).

It is easy to document that the well-nigh universal use of mean income in neo-classical analysis is intimately connected with the intensity-blindness of the median. Maximizing the mean allows for a policy of compensation – the winners can redistribute their gains to make the losers no worse off – whereas maximizing the median does not allow such compensation.⁶ Nonetheless, the later classics, J S Mill in particular, considered compensation as a necessary condition for reform.

We propose that the classics employed a richer principle which justifies compensation in which the payments need not be restricted to the material gain from the reform. This principle depends upon the fact that in classical political economy the subjects of the theory of political economy are also theorists. One postulate in the theory of ordinary people, in some reflective equilibrium, is that others have a standing in exchange comparable to ours. Adam Smith expressed this most memorably when he claimed that people trade but dogs do not because we have and they lack a concept of

⁶Indeed, one of the puzzles with which associates of Gordon Tullock have long been pestered is just how one “justifies” democracy.

“fair” which for him depends upon the distinction between “mine” and “yours.”⁷ But what if there is only “mine” because you are only an instrument of my will? Does this state of affairs pass the reciprocity norm which the classics presupposed? (Levy 2001, Levy-Perart 2001/2002)?

Compensation, Modern and Classical

What became known as “new welfare economics” started with the argument by Nicholas Kaldor that for the economist, worrying about how to aggregate well-being across different individuals, questions involving physical gains are uniquely tractable:⁸

In all cases, therefore, where a certain policy leads to an increase in physical productivity, and thus of aggregate real income, the economist’s case for the policy is quite unaffected by the question of the comparability of individual satisfactions; since in all such cases it is *possible* to make everyone better off than before, or at any rate to make some people better off without making anybody worse off. (1938, p. 550). [emphasis in the original]

This position, immediately seconded by J. R. Hicks (1939), attained text-book form with de Scitovszky:

It will be convenient to express this by saying that we make sure whether the people who would benefit by the change could profitably bribe those harmed into accepting it. (1942, p. 91)

⁷“Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine, that yours; I am willing to give this for that.” Smith (1976, p. 26).

⁸Arrow (1963, pp. 39-40): “But a deeper objection is that, in a world of more than one commodity, there is no unequivocal meaning to comparing total production in *any* two social states save in terms of some standard of values which makes the different commodities commensurable; and usually such a standard of value must depend upon the distribution of income. In other words, there is no meaning to total output independent of distribution.”

Thus, unproblematic policy in the new-welfare economics formulation was self-financing in the hypothetical sense which Kaldor-Hicks made clear. A policy which maximized mean income guaranteed this self-financing “possibility.”

We pause to note that the modal term “possible” in conjunction redistribution of physical product presupposes that i) the distribution of income is rather more plastic than the production possibilities themselves and ii) that mutually-beneficial bargaining in a political setting is feasible. Evidently the former condition points to the role of Mill’s doctrine concerning production and distribution.⁹ Can we find Mill’s hand in expounding the latter condition too?

Self-financing is certainly a *sufficient* condition for the justification for reform. Is it *necessary*? What if there is a consensus on ends? Here is the objection from George Stigler, then much influenced by Frank Knight:

⁹ “Unlike the laws of Production, those of Distribution are partly of human institution: since the manner in which wealth is distributed in any given society, depends on the statutes or usages therein obtaining. But though governments or nations have the power of deciding what institutions shall exist, they cannot arbitrarily determine how those institutions shall work. The conditions on which the power they possess over the distribution of wealth is dependent, and the manner in which the distribution is effected by the various modes of conduct which society may think fit to adopt, are as much a subject for scientific enquiry as any of the physical laws of nature.” Mill (1965, p. 21) George Stigler, in a justly famous article in which he nearly single-handedly rescued Mill’s reputation for originality (Stigler 1965, p. 7) is unhappy with Mill’s distinction, perhaps believing that Mill thought a change in distribution to be bereft of consequence. This is, however, not Mill’s opinion: “We have here to consider, not the causes, but the consequences, of the rules according to which wealth may be distributed. Those, at least, are as little arbitrary, and have as much the character of physical laws, as the laws of production. Human beings can control their own acts, but not the consequences of their acts either to themselves or to others. Society can subject the distribution of wealth to whatever rules it thinks best: but what practical results will flow from the operation of those rules, must be discovered, like any other physical or mental truths, by observation and reasoning.” Mill (1965, p. 200).

Consider theft; our present policy toward this means of livelihood probably has adverse effects on the national income. Prevention of theft and punishment of thieves involve substantial expenditure for policemen, courts, jails, locks, insurance salesmen, and the like. By compensating successful thieves for the amount they would otherwise steal, we save these resources and hence secure a net gain. (If this policy leads to an undue increase in the declarations of intent to steal, the retired successful thieves—who, after all, have special talents in this direction—maybe be persuaded to assume the police functions.) (1943, p. 356)

This objection to new welfare economics drew the withering challenge to explain upon what is the purported consensus founded.¹⁰ The response supposed that the neo-classical preference axioms were sufficient for all the work which economists were prepared to undertake. And, famously, Stigler would employ his enormous talents to make this case.

But now we know that the neo-classical preference axioms are insufficient to explain trade. Rats been shown to satisfy the neo-classical preference axioms as well as people do, but they not trade (Levy 1992, Rubinstein 2000). Put two rats in an Edgeworth box, the big one grabs. Smith explains the difference between people and dogs in terms of a reciprocity principle which when embodied in property prevents grabbing and allows trade. We propose that the reciprocity principle to which we appeal is the same one which Smith uses to explain trade (Levy 1992, Levy-Peart 2001/2002). And it is the point at issue in Stigler's old objection to new welfare economics.

The later classics employed a compensation principle in which the compensation was really paid. In *Principles of Political Economy*, when Mill lists the important functions of

¹⁰The response in Samuelson 1943 seconded by Arrow 1963, pp. 83-84. Neither Samuelson nor Arrow see the importance of reciprocity in Stigler's objection. Perhaps, neither did Stigler.

government, he uses the Act of Emancipation as paradigm for political reform. We quote an extensive paragraph.

But while much of the revenue is wasted under the mere pretence of public service, so much of the most important business of government is left undone, that whatever can be rescued from useless expenditure is urgently required for useful. Whether the object be education; a more efficient and accessible administration of justice; *reforms of any kind which, like the Slave Emancipation, require compensation to individual interests*; or what is as important as any of these, the entertainment of a sufficient staff of able and educated public servants, to conduct in a better than the present awkward manner the business of legislation and administration; every one of these things implies considerable expense, and many of them have again and again been prevented by the reluctance which existed to apply to Parliament for an increased grant of public money, though (besides that the existing means would probably be sufficient if applied to the proper purposes) the cost would be repaid, often a hundredfold, in mere pecuniary advantage to the community generally. If so great an addition were made to the public dislike of taxation as might be the consequence of confining it to the direct form, the classes who profit by the misapplication of public money might probably succeed in saving that by which they profit, at the expense of that which would only be useful to the public.

It is apparent in this paragraph that Mill employs the same self-financing argument of the new-welfare economists to follow – “the cost would be repaid, often a hundredfold, in mere pecuniary advantage to the community generally” – for some government activities. What concerns us though is that there are also reforms which are not self-financing.

Mill’s paradigm of reform, the Act of Emancipation, was a complicated political trade (Drescher 2002). The final bargain is well-known. The West Indian planters received a grant of £20 million and a protective tariff on sugar. The slaves were freed after a seven-year transition, what was called an “apprenticeship.” This was not the initial offer.

The £20 million was to be a loan and the period of “apprenticeship” would stretch over twelve years. Classical accounts (Trevelyan 1978) emphasized the role which a speech by Macaulay played in moving twelve to seven years without detailing the *quid pro quo*. Had nothing being given in exchange, surely Macaulay ought to have given another speech.

The question is whether emancipation is self-financing. Mill considered the possibility that it would not be self-financing because with freedom, the former slaves might choose happiness in leisure:¹¹

To civilize a savage, he must be inspired with new wants and desires, even if not of a very elevated kind, provided that their gratification can be a motive to steady and regular bodily and mental exertion. If the negroes of Jamaica and Demerara, after their emancipation, had contented themselves, as it was predicted they would do, with the necessaries of life, and abandoned all labour beyond the little which in a tropical climate, with a thin population and abundance of the richest land, is sufficient to support existence, they would have sunk into a condition more barbarous, though less unhappy, than their previous state of slavery. (1965, p. 104).

There is another issue which Mill considered akin to slavery¹², the inability of women to control their own bodies against the wishes of their husband and to own physical property independently of their husband. For these he proposed the abolition of

¹¹Materialism – and the self-financing of emancipation – is central to the exchange between Thomas Carlyle and Mill over the “Negro question.” Levy 2001; Levy-Pearl 2001/2002.

¹²“But this dependence, as it exists at present, is not an original institution, taking a fresh start from considerations of justice and expediency – it is the primitive state of slavery lasting on, through successive mitigations and modifications occasioned by the same causes which have softened the general manners, and brought all human relations more under the control of justice and the influence of humanity. It has not lost the taint of its brutal origin.” Mill 1869, p. 7.

marital rape and the Married Women's Property Act.¹³ We propose to consider how non-compensatory reform might be justified. We use emancipation as paradigm and an example which proves the possibility of compensation.¹⁴

“Men do not want solely the obedience of women, they want their sentiments.”

We use a fictional situation which was much discussed in debates over hierarchy (Levy-Pearl 2001/2002), the choices of Charles Dickens' character, “Mrs Jellyby.” Here is how she is introduced by Dickens in *Bleak House*:

... a lady of very remarkable strength of character, who devotes herself entirely to the public. She has devoted herself to an extensive variety of public subjects, at various times, and is at present (until something new attracts her) devoted to the subject of Africa; with a view to the general cultivation of the coffee berry—and the natives ... (1977, p. 35)

Mr. Jellyby has, in some sense, lost personality, inverting the usual hierarchy:

“And Mr. Jellyby, sir?” suggested Richard.

“Ah! Mr. Jellyby,” said Mr. Kenge, “is—a—I don't know that I can describe him to you better than by saying that he is the husband of Mrs. Jellyby.”

“A nonentity, sir?” said Richard, with a droll look.

¹³Since the losers in such a reform would be so numerous – the entire male population – and held so much power over women, Mill predicted that current arrangements were “certain to outlast all other forms of unjust authority.” “I am showing how vastly more permanent it could not but be, even if not justifiable, than these other dominations which have nevertheless lasted down to our own time.

Whatever gratification of pride there is in the possession of power, and whatever personal interest in its exercise, is in this case not confined to a limited class, but common to the whole male sex.”; “In struggles for political emancipation, everybody knows how often its champions are bought off by bribes, or daunted by terrors. In the case of women, each individual of the subject-class is in a chronic state of bribery and intimidation combined.” (Mill 1869, pp. 13, 12).

¹⁴“The above restriction we shall lay down as a (General) Principle of Possibility: *If a proposition is true, then it is also possible.*” Von Wright (1951, p. 21). “[Aristotle] also in this chapter formulates two other modal principles, that what is of necessary is in actuality and that what is in actuality is also capable of being, which we may represent $\Box A \rightarrow A, A \rightarrow \Diamond A$.” Lemmon (1977, p. 1)

“I don’t say that,” returned Mr. Kenge gravely, “I can’t say that, indeed, for I know nothing whatever of Mr. Jellyby. ... he is, so to speak, merged–Merged–in the more shining qualities of his wife.” (1977, p. 35)

Even readers unfamiliar with this classic of progressive thinking will find it easy to believe that Mrs J’s house is less tidy and her daughters less demur than those houses and those daughters around the corner. Consider two feasible states of the world which are distinguished by the consequences of Mrs J’s time use. One state is c in which Mrs J’s house is tidy and slavery exists and one is d in which the house is a mess but the slaves are free. Evidently Mrs J’s preferences are such that $dP_{MrsJ}c$ and we are led to believe that Mr J’s preference is for Mrs J’s time use be reversed.

Notice that Mr J does not want to clean the house and raise his daughters; rather, he wants Mrs J to clean the house and raise the daughters. Mr J might regard the anti-slavery movement as “preference pollution.”¹⁵ He has preferences over her preferences

¹⁵The phrase is the title of David George (2001) book on metapreferences. He restricts his analysis to the preferences we have for our own preferences. The problem of the transition from hierarchy to markets may well be how we go from the one type of metapreference to the other.

In Levy-Peart (2002b) we quote an unpublished manuscript by the otherwise unknown W. S. in the Fraser Collection of the University of Liverpool of Cope’s material with the evocative title – *The Dickens Gallery of Tobacco Patrons*. In it we read the following tribute to *Bleak House*: “I thank the book for teaching me to despise such [324] unctuous hypocrites as Chadhand and women like Mrs. Jellyby & Mrs. Pardiffle who neglect their duty to their homes and children in order that they might interest themselves in the Lockahoopo Indians & the natives of Borrio-boola Gha. Merry & other things besides charity ought to begin at home. I pass from this however & I shall refrain my notice of the tobacco-users ... (323-24)” The Fraser Collection, in our opinion, offers a unique window the late 19th debates on hierarchy. The co-founder of eugenics, W. R. Greg, Mill’s perennial opponent on racial matters (Levy-Peart 2001/2002), discusses the over-abundance of single women in charitable pursuits: “... only employment can fill the dreary void of an unshared existence;–beautiful lay nuns, involuntary takers of the veil,–who pine for work, who beg for occupation, who pant for interest in life, as the hart panteth after the water-brooks, and dig for it more earnestly than for hid treasures. With most women, probably, this phase comes at some epoch in their course; with numbers, alas, it never passes into any other. Some

such that $(cP_{MrsJ}d)P_{MrJ}(dP_{MrsJ}c)$.

We can define a hierarchical state of affairs where, regardless of Mrs J's preferences in the matter, Mr J's preferences over Mrs J's preferences are decisive in determining how Mrs J spends "her" time, and how she wishes to spend her time.¹⁶ Mrs J is as a consequence purely an instrument to Mr J: her "sentiments" mirror his "sentiments." A non-hierarchical state of affairs is one in which, by contrast, Mrs J's own preferences are decisive in how she spends her time.¹⁷

We have discovered a visualization of the equivalence between the status of

rush to charity, and do partial good or much mischief ..." (1869, p. 6).

¹⁶"Men do not want solely the obedience of women, they want their sentiments. All men, except the most brutish, desire to have, in the woman most nearly connected with them, not a forced slave but a willing one, not a slave merely, but a favourite. They have therefore put everything in practice to enslave their minds. The masters of all other slaves rely, for maintaining obedience, on fear; either fear of themselves, or religious fears. The masters of women wanted more than simple obedience, and they turned the whole force of education to effect their purpose. All women are brought up from the very earliest years in the belief that their ideal of character is the very opposite to that of men; not self-will, and government by self-control, but submission, and yielding to the control of others. All the moralities tell them that it is the duty of women, and all the current sentimentalities that it is their nature, to live for others; to make complete abnegation of themselves, and to have no life but in their affections. And by their affections are meant the only ones they are allowed to have – those to the men with whom they are connected, or to the children who constitute an additional and indefeasible tie between them and a man." (Mill 1869, p. 16).

¹⁷"One thing we may be certain of – that what is contrary to women's nature to do, they never will be made to do by simply giving their nature free play. The anxiety of mankind to interfere in behalf of nature, for fear lest nature should not succeed in effecting its purpose, is altogether unnecessary solicitude. What women by nature cannot do, it is quite superfluous to forbid them from doing. What they can do, but not so well as the men who are their competitors, competitions suffices to exclude them from; since nobody asks for protective duties and bounties in favour women; it is only asked that the present bounties and protective duties in favour of men should be recalled." (Mill 1869, p. 27).

women and racial slavery in Charles Bennett's startling 1860 image "Slavey."¹⁸

¹⁸"It will be noticed that the eidographic development of Miss Hipswidge is strikingly suggestive of the enslaved African type of humanity. The banjo, castanets, 'abundant pumpkin,' and other conventional solaces of that persecuted race are, however, wanting to make the resemblance perfect." Bennett and Brough (1860, p. 33). The "abundant pumpkin" is a phrase from Carlyle's "Negro question" discussed in Levy 2001 and Levy-Pearl 2001/200. This makes it clear that Bennett is on Carlyle's side of the debate with Mill.



"SLAVEY."

Milton Friedman pointed out long ago (Friedman 1962a, pp. 102-104) that presumably mutually-beneficial contracts which resemble voluntary slavery are not enforced even when they are legal.¹⁹ In a seemingly distant context from Friedman's concern with the under-investment in human capital which flows from restrictions on contracts, Amartya Sen (1970) pointed out that the liberal position that people ought to be able to do *something* without anyone else's consent in the context of "meddlesome preferences," runs afoul of the Paretian principle. Both Friedman's and Sen's examples are instances of voluntary trades that reproduce a hierarchical system.

There is something troubling about such hierarchical systems for moral equals because they fail the test of reciprocity.²⁰ Just how they fail will depend upon which version of reciprocity one employs.²¹ Here is Adam Smith's expression that everyone *ought* to own something be it as humble as his time, as long as he subjects himself to the constraint of reciprocity:

¹⁹The exception, legally-binding labor contracts which one might make with the various armed services, raises public choice considerations too obvious to belabor.

²⁰Here Mill's condition of competent judges is critical. Competency in judging pleasures was a matter of the "general suffrage" – a majority – of those who have obtained experience with the pleasure, as well as the requisite habits of introspection: "On the question which is the best worth having of two pleasures, or which of two modes of existence is the most grateful to the feelings, apart from its moral attributes and from its consequences, the judgment of those who are qualified by knowledge of both, or, if they differ, that of the majority among them, must be admitted as final." (Mill 1861, p. 213).

²¹An agreement that there was a *formal* equivalence of the greatest happiness principle of utilitarianism and the Golden Rule of Christianity seems necessarily for the coalition of the "dismal science" of political economy and the Biblical evangelicals of Exeter Hall to function. Levy 2001. Levy-Pearl 2002b considers in more detail the economics-evangelical coalition.

The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper *without injury to his neighbour*, is a plain violation of this most sacred property. It is a manifest encroachment upon the just liberty both of the workman, and of those who might be disposed to employ him. As it hinders the one from working at what he thinks proper, so it hinders the others from employing whom they think proper. To judge whether he is fit to be employed, may surely be trusted to the discretion of the employers whose interest it so much concerns. The affected anxiety of the law-giver lest they should employ an improper person, is evidently as impertinent as it is oppressive. (1976, p. 138) [emphasis added]

Without *something* to be bring to the bargaining table, there is nothing to trade.

The superior just takes and reciprocity fails. We can see this in Smith's account of the attitudes of the masters of mankind:

The lords despised the burghers, whom they considered not only as of a different order, but as a parcel of emancipated slaves, almost of a different species from themselves.²²

Suppose that Smith is correct that hierarchy amongst moral and intellectual equals is a matter of common disapprobation; that is to say, the majority is willing to contribute some amount to making it go away.²³ Reform is not necessarily a profit center à la

²²Smith (1976, B.III, Ch.3, III.3.8). Levy-Pearl (2001) consider Hume's problem of "another rational species."

²³To the capacity for sympathy, "of apprehending a community of interest between himself and the human society of which he forms a part" (Mill 1861, p. 248), Mill attributes the tendency to reform: "The entire history of social improvement has been a series of transitions, by which one custom or institution after another, from being a supposed primary necessity of social existence, has passed into the rank of an universally stigmatized injustice and tyranny. So it has been with the distinctions of slaves and freemen, nobles an serfs, patricians and plebeians; and so it will be, and in part already is, with the aristocracies of colour, race, and sex." (Mill 1861, p. 259).

Scitovszky.²⁴

The compensation for the British emancipation, the cost to the British taxpayer, was a relatively small amount. The cost of the American emancipation was truly staggering. Here is Mill's judgment of what the willingness to pay this amount revealed about American civilization. Just as savages become civilized through immersion in materiality so civilization can be judged by the willingness to pay for one's sympathy:

I confess I am not charmed with the ideal of life held out by those who think that the normal state of human beings is that of struggling to get on; that the trampling, crushing, elbowing, and treading on each other's heels, which form the existing type of social life, are the most desirable lot of human kind, or anything but the disagreeable symptoms of one of the phases of industrial progress. It may be a necessary stage in the progress of civilization, and those European nations which have hitherto been so fortunate as to be preserved from it, may have it yet to undergo. It is an incident of growth, not a mark of decline, for it is not necessarily destructive of the higher aspirations and the heroic virtues; as America, in her great civil war, has proved to the world, both by her conduct as a people and by numerous splendid individual examples, and as England, it is to be hoped, would also prove, on an equally trying and exciting occasion.

²⁴“Every step in political improvement renders it more so, by removing the sources of opposition of interest, and levelling those inequalities of legal privilege between individuals or classes, owing to which there are large portions of mankind whose happiness it is still practicable to disregard. In an improving state of the human mind, the influences are constantly on the increase, which tend to generate in each individual a feeling of unity with all the rest; which feeling, if perfect, would make him never think of, or desire, any beneficial condition for himself, in the benefits of which they are not included.” (Mill 1861, p. 232); “In the comparatively early state of human advancement in which we now live, a person cannot indeed feel that entireness of sympathy with all others, which would make any real discordance in the general direction of their conduct in life impossible; but already a person in whom the social feeling is at all developed, cannot bring himself to think of the rest of his fellow creatures as struggling rivals with him for the means of happiness, whom he must desire to see defeated in their object in order that he may succeed in his.” (p. 233). In the case of individual liberty – as it pertained especially to women – Mill maintained that individuals presently undervalued the freedom of others (women): “He who would rightly appreciate the worth of personal independence as an element of happiness, should consider the value he himself puts upon it as an ingredient of his own. There is no subject on which there is a greater habitual difference of judgment between a man judging for himself, and the same man judging for other people.” (Mill 1869, p. 96).

Since, for Mill, “improvement” is to be measured not only in a material but also in a dimension of sympathy, the stationary state was one in which much improvement might still occur:

It is scarcely necessary to remark that a stationary condition of capital and population implies no stationary state of human improvement. There would be as much scope as ever for all kinds of mental culture, and moral and social progress; as much room for improving the Art of Living, and much more likelihood of its being improved, when minds ceased to be engrossed by the art of getting on. Even the industrial arts might be as earnestly and as successfully cultivated, with this sole difference, that instead of serving no purpose but the increase of wealth, industrial improvements would produce their legitimate effect, that of abridging labour. Hitherto [1848] it is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make fortunes. They have increased the comforts of the middle classes. But they have not yet begun to effect those great changes in human destiny, which it is in their nature and in their futurity to accomplish. Only when, in addition to just institutions, the increase of mankind shall be under the deliberate guidance of judicious foresight, can the conquests made from the powers of nature by the intellect and energy of scientific discoverers become the common property of the species, and the means of improving and elevating the universal lot. (Mill 1865, pp. 756-7).

The compensation principle – either classical or neo-classical – makes assumptions about the possibility of transactions via the political process to which we now turn.

Monopoly and Government

For Smith monopoly has an interesting property: the consumer does not gain from the exchange.²⁵

The price of monopoly is upon every occasion the highest which can be got. The

²⁵Is the “consent” of the buyer only “supposed”?

natural price, or the price of free competition, on the contrary, is the lowest which can be taken, not upon every occasion indeed, but for any considerable time altogether. The one is upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give: The other is the lowest which the sellers can commonly afford to take, and at the same time continue their business.

We forebear quarreling with Smith's analysis, supposing that like his later admirers, Joan Robinson 1933 and Milton Friedman 1962b, he finds the perfectly discriminating monopoly a sounder basis for analysis than a model in which there is additional consumer surplus to extract.

Smith's forecast of the possibility of economic reform is perhaps the most pessimistic aspect of classical economics. It is a political monopoly supported by a venial ideology which blocks the reform.²⁶

To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it.

²⁶“That it was the spirit of monopoly which originally both invented and propagated this doctrine cannot be doubted; and they who first taught it were by no means such fools as they who believed it. In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people. As it is the interest of the freemen of a corporation to hinder the rest of the inhabitants from employing any workmen but themselves, so it is the interest of the merchants and manufacturers of every country to secure to themselves the monopoly of the home market. Hence in Great Britain, and in most other European countries, the extraordinary duties upon almost all goods imported by alien merchants. Hence the high duties and prohibitions upon all those foreign manufactures which can come into competition with our own. Hence, too, the extraordinary restraints upon the importation of almost all sorts of goods from those countries with which the balance of trade is supposed to be disadvantageous; that is, from those against whom national animosity happens to be most violently inflamed.”

Were the officers of the army to oppose with the same zeal and unanimity any reduction in the numbers of forces with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home-market; were the former to animate their soldiers in the same manner as the latter enflame their workmen to attack with violence and outrage the proposers of any such regulation, to attempt to reduce the army would be as dangerous as it has now become to attempt to diminish in any respect the monopoly which our manufacturers have obtained against us. This monopoly has so much increased the number of some particular tribes of them that, like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature. The Member of Parliament who supports every proposal for strengthening this monopoly is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.

From such episodes as the fall of feudalism Smith induces an account of government:

All for ourselves and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind. As soon, therefore, as they could find a method of consuming the whole value of their rents themselves, they had no disposition to share them with any other persons. For a pair of diamond buckles, perhaps, or for something as frivolous and useless, they exchanged the maintenance, or what is the same thing, the price of the maintenance of a thousand men for a year, and with it the whole weight and authority which it could give them. The buckles, however, were to be all their own, and no other human creature was to have any share of them; whereas in the more ancient method of expence they must have shared with at least a thousand people. With the judges that were to determine the preference this difference was perfectly decisive; and thus, for the gratification of the most childish, the meanest, and the most sordid of all vanities, they gradually bartered their whole power and authority. [emphasis added]

Government as monopoly was not unique to Smith; fifty years later in James Mill's

Government, we find the government as slave-driver account of monopoly government. Although Mill's arguments were sharply criticized by T. B. Macaulay (Levy 2001; Farrant 2002), we find the explicit recognition that government is part of the process of exchange only when Whately adds a footnote to the 2nd edition of his *Introductory Lecturers* clarifying his proposal to rename "political economy" as the science of exchange, katallactics.

I had not thought it necessary to observe that, in speaking of exchanges, I did not mean to limit myself to *voluntary* exchanges;—those in which the whole transaction takes place with the full consent of both parties to all the terms of it. Most exchanges, indeed, are of this character; but the case of taxation,—the revenue levied from the subject in return for the protection afforded by the sovereign, constitutes a remarkable exception; the payment being compulsory, and not adjusted by agreement with the payer. Still, whether in any case it be *fairly* and reasonably adjusted, or the contrary, it is not the less an exchange. And it is worth remarking, that it is just so far forth as it is an exchange,—so far forth as protection, whether adequate or not, is afforded in exchange for this payment,—that the payment itself comes under the cognizance of this science. There is nothing else that distinguishes *taxation* from *avowed robbery*.

Whately's 1833 *Money Matters* devotes a chapter to the theme of taxation as an exchange for protection. Exchange – not consent – is the paradigm by which we might judge government.

Specialists tell us that the act of British Emancipation was the first of the mass political movements. All of what we associate with democratic movements, petitions, campaigns, political imagery can all be found in the British anti-slavery movement. Indeed; images employed in the late 18th century in opposition to African slavery have

not lost their power today (Levy-Pearl 2001/2002).

The role of competition in the political process is explicated in great length in Mill's essay on the second volume of Alexis de Tocqueville's *Democracy in America*:

Activity, enterprise, and a respectable amount of information, are not the qualities of a few of among the American citizens, nor even of many, but of all. There is no class of persons who are the slaves of habit and routine. Every American will carry on his manufacture, or cultivate his farm, by the newest and best methods applicable to the circumstances of the case. The poorest American understands and can explain the most intricate part of his country's institutions; can discuss her interests, internal and foreign. Much of this may justly be attributed to the universality of easy circumstances, and to the education and habits which the first settlers in America brought with them; but our author is certainly not wrong in ascribing a certain portion of it to the perpetual exercise of the faculties of every man among the people, through the universal practice of submitting all public to his judgment.

“It is incontestable that the people frequently conduct public business very ill; but it is impossible that the people should take part in public business without extending the circle of their ideas, and without quitting the ordinary routine of their mental acquirements. The humblest individual who is called upon to co-operate in the government of society acquires a certain degree of self-respect; and, as he possesses power, minds more enlightened than his own offer him their services. He is canvassed by a multitude of claimants who need his support; and who, seeking to deceive him in a thousand different ways, instruct him their deceit. He takes a part in political undertakings which did not originate in his own conception, but which give him a taste for other undertakings.” (1961, pp. xxi-xxii)

A competitive economy and a competitive political process are Mill's explanation for why there is unlikely to be a tyranny of the majority in America:

It is not easy to surmise any inducements of interest, by which, in a country like America, the greater number could be led to oppress the smaller. When the majority and the minority are spoke of as conflicting interests, the rich and the poor are generally meant; but where the rich are content with being rich, and do not claim as such any political privileges, their interest and that of the poor are the

same;—complete protection to property, and freedom in the disposal of it, are alike important to both. When, indeed, the poor are so poor that they can scarcely be worse off, respect on their part for rights of property, either in enjoyment or in reasonable hope, and an appreciate chance of acquiring a large fortune ... the importance of inviolability of property is not likely to be lost sight of. ... If the labouring class, less happily circumstances could prematurely force themselves into influence over our own legislature, there might then be danger—not so much of violations of property, as of undue influence with contracts; unenlightened legislature for the supposed interest of the many; laws founded on mistakes in political economy. ... as silly an inefficacious attempts might be made to keep up wages by law, as were so long made by the British legislature to keep them down by the same means. We have no wish to see the experiment tried, but we are fully convinced that experience would correct the only error as it has corrected the other, and in the same way; namely, by the completest practical failure. (1961, pp. xxvii-xxviii)

With competition in both the economy and in the political process where the failure of an experiment will result in its abandonment so because transfers to the majority will not be in the interest of the majority, we need not worry overly much about such transfers. There will be no important difference between maximizing the well-being of the majority and maximizing the total well-being. The ideal of a democracy for Mill, as he explains in *Representative Government*, is where the majority is concerned with more than its interest:

in which the interests, the opinions, the grades of intellect which are outnumbered would be nevertheless heard, and would have a chance of obtaining by weight of character and strength of argument, an influence which would not belong to their numerical force – this democracy, which is alone equal, alone impartial, alone the government of all by all, the only true type of democracy – would be free from the greatest evils of the falsely-called democracies which now prevail ... (1861a, p. 467)

Conjectures for the Transition

Two steps of our median to mean puzzle – plastic distribution and competitive politics – seem to be filled by Mill. First, he presents a coherent account in which concern physical production possibilities is contrasted with a plastic distribution. Second, he presents a view of politics which emphasizes the role of competition in extending sympathy.

We have previously noted Edgeworth’s role in dismissing considerations of “the greatest number” in the utilitarian calculus. All normative questions for Edgeworth can be reduced to average happiness. More than this, Edgeworth lent his immense authority to the view that important previous utilitarians worked with a model of average happiness.²⁷

The transition to a use of a mean as an indication of economic well-being might very likely also have something to do with the enormous influence of Adolphe Quetelet on the development of social science (Klein 1997, pp. 122-131, Stigler 1999). For Quetelet, the mean is much more than an empirical average, and average man – “l’homme moyen” – constitutes instead a measure of aggregate well-being. L’homme moyen is the “target” of a divine shooter; no one individual possessed its characteristics, but the average was a center of gravity for society (Klein 1997, 123). Aggregate data on characteristics were then to be used to explain relative civilization, and as a guide to policy. Quetelet sees work of political economy as theory rather than science; his task is to make it scientific. To complete that

²⁷“Quantity of labour, quantity of pleasure, equality of sacrifice and enjoyment, greatest average happiness, these are no dreams of German metaphysics, but the leading thoughts of leading Englishmen and corner-stone conceptions, upon which rest whole systems of Adam Smith, of Jeremy Bentham, of John Mill, and of Henry Sidgwick.” (Edgeworth 1881, pp. 97-98).

task, comprehensive data on Quetelet's l'homme moyen, were required.

“Mr. Malthus has analysed, with great sagacity, the principal obstacles to its increase which population has met with; he has determined, with no less credit, the limit which it cannot pass without being exposed to the greatest danger. However, it may be necessary to remark, notwithstanding the researches of the English philosopher, and the economists who have followed in his track, that the modus operandi of the obstacles has not been clearly made out. The law has not been established by virtue of which they operate: in a word, they have not afforded the means of carrying the theory of population into the domains of the mathematical science, to which it seems to particularly belong.” (Adolphe Quetelet, *A Treatise on Man and the Development of His Faculties* 1967, pp. 48, 49, quoted by Cooper, 1994).

If the average man were completely determined, we might... consider him as the type of perfection; and everything differing from his proportions or condition, would constitute deformity and disease; everything found dissimilar, not only as regarded proportion and form, but as exceeding the observed limits, would constitute a monstrosity ... I have said before, that the average man of any one period represents the type of development of human nature for that period; I have also said that the average man was always such as was conformable to and necessitated by time and place; that his qualities were developed in true proportion, in perfect harmony, alike removed from excess or defect of every kind, so that, in the circumstances in which he is found, he should be considered as the type of all which is beautiful – of all which is good.” (Quetelet, 1967, 99, 100, quoted by Cooper, 1994).

Needless to say, more attention to the transition is needed.

Conclusion

The confidence in the use of the mean as the “new welfare economics” measure of well-being depends upon the claim that reforms which are self-financing are uniquely justifiable by the economist qua theorist. In the classical period reforms which rid the world of violations of reciprocity are also justified by the economist qua theorist. In the classical period of political economy the theory includes a reciprocity requirement which is lacking in

new welfare economics.

Reciprocity, in the version explained by Adam Smith, also requires that even the poorest own their own time. This consideration adds a “distributional” consideration to welfare which is not captured by per capita measures. When we suspect that the conditions of political competition and reciprocity fail then the robustness of median-based welfare measures has considerable appeal.

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