

# The Paradox between Interventionism and Liberalism in the Sharing of Public Goods

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**Abstract**—The central problem of the economy results from two observations: the productive resources are scarce and the needs are unlimited [1]. The economy is the alternative use of scarce resources to maximize the welfare of the whole community. So the budgetary controls is generally recognized as the main instrument for allocating resources to specific recurrent and development activities [2]. The allocation of resources is important for two reasons: (1) Any government activity has an influence on the allocation of resources and any production of a good or service involves a sacrifice: labor or equipment required: for example, public transport service provision imposes an opportunity cost which is measured by the quantity of other goods or services that could have been produced with the resources taken by the public authorities and which are no longer available for the private sector, that is why the State must be careful not to waste these productive resources by allocating them inefficiently. (2) The government don't have an obligation to negotiate or respect the norms of optimal allocation of resources in the production of its own services. It is therefore a question here of evaluating the different allocations of goods and services so as to be able to determine if some are better than others, and in particular, if it is possible, what is the best, which is the best of all: This is the subject of our discussion on this paper

**Keywords**— *welfare, sovereignty, utility, allocation, - free-rider, optimum, information, cardinal, ordinal*

## I. INTRODUCTION

Evaluate the different allocations of goods and services in order to be able to determine if some are "better" than others and, if possible, which is the best, which is the best of all is an approach related to the welfare economy's. A first quality that can naturally be required of an allocation is to be compatible with the available resources. These resources can be physical (the means in production factors) and intellectual (the state of technical knowledge). But, for a consumer economy [3], this second type of constraint is inapplicable. It is sufficient that the allocation is compatible with the total quantities of goods to be distributed among the individuals. The only allowances considered by the welfare economy are therefore those that are (physically) achievable in this sense.

## II. WHAT CHARACTERISTICS OF ALLOCATIONS SHOULD BE USED AS BASIS FOR EVALUATION?

The criterion of the welfare economy is unique [4]. The only thing that must be retained is the utility, or in a synonymous way, the satisfaction or well-being that individuals living in society can feel when consuming the quantities of goods in each allocation. This makes four fundamental value judgments whose content must now be better specified.

In the first place, among all the aspects under which allowances can be judged, the economy of welfare requires to consider, under the name of utility, only the "pleasant mental states" that these allowances produce in individuals.

The result is, in particular, that the economy of well-being does not attach any importance to the respect of the rights that individuals may consider to have on the property concerned. If we define as liberal the political philosophy which is founded on the principle: that some individuals right must be respected whatever the consequences, the economy of the well-being cannot be considered in principle as liberal.

In the second place, the utility which must be retained is that of individuals considered separately. This means that for the well-being economy, the only entity likely to feel "pleasurable mental states" is naturally the individual. There is no sense in talking about the well-being of any community (family, nation, etc.) regardless of the people who make it up.

In the third place, it is all of the human satisfaction felt that must be retained regardless of the individuals affected by these "mental states".

In fact, for the welfare economy, individuals are essentially "the foundation of our utility study" and we already know that, (according the welfare hypothesis), their other personal characteristics should not be retained in any way. This means that one person is identified to another if their satisfactions can be judged equal. This feature (sometimes referred to as "anonymity principle") gives the theory a universalist character that excludes any discrimination between individuals because of their identity.

In the fourth place, the only satisfactions must be retained are those that individuals themselves choose independently of the variable quality that an outside observer can attribute to them in the name of his own values.

The authors of the English language, often refer here, to a famous sentence of Bentham, which remains relevant for the whole economy of the current well-being: "Equal amount of pleasure felt, the pushpin (a game childish of the time) is worth as much as poetry". This principle of neutrality is sometimes called the principle of "consumer sovereignty" [5] or "non-paternalism" but these terms must to be used with carefulness because they have sometimes, different meanings. The principle of neutrality is important because, the reference to the economy of well-being can lead to condemn the frequent use made of the power of the State to finance expenses especially in the so-called "cultural" field - that the man on the street "often considers worthless because they correspond to the production of goods suitable only for a minority of which he does not belong." This anti-elitism (others would say this "philistinism") is one of the originalities of the economy of well-being compared to other great political philosophies. Another hypothesis is that the preference for an individual reveals exactly his satisfaction.

### III. WHAT INFORMATION IS AVAILABLE ON THIS UTILITY?

This question is divided into several parts:

First question: the utility is objectively measurable? The answer in principle is positive.

Second question: what precisely is this measurability? Two main answers can be given to this question while remaining within the general framework of the welfare economy. We can consider that utility is measurable either cardinally or ordinaly. Whatever the choice made in this aspect, it is important to emphasize that it corresponds to a judgment of fact although there is sometimes some ambiguity on this subject. It must be clear that these opinions about the information available are empirically weak, challengeable and likely to be inspired by ethical preferences or pragmatic considerations. These characteristics do not transform them, however, into value judgments.

To say that utility is cardinally measurable is to admit the existence of a measurement scale such that one can arbitrarily choose only the origin (with which a zero value

is associated) and the unit of measure. In other words, there is a utility function depending on the assortments of goods and which can be identified with an increasing affine transformation. This means that, if  $U$  is the utility function initially considered, we can replace it with a function  $V$  such that  $V = a + bU$  where  $a$  and  $b$  are constant, and to which we can assign any values under the only one reserve that  $b > 0$ .

To say that utility is measurable ordinarily amounts to admitting that we can have on utilities only limited information than that which is necessary to resort to a cardinal measure.

Third question: the information provided by the utility function of an individual is it comparable to that provided by the utility function of another individual? Two extreme answers are possible:

In the first question it is necessary to consider that comparability is complete. This means that the same type of information is available to judge an individual's usefulness in relation to several sets, it is also supposed to be available to judge the respective utility of several individuals.

In the case of cardinal utility, for example, complete comparability involved that one can know, in passing from one situation to another, not only whether the welfare of an individual has more (or less) varied, but also in what proportion the increase (or decrease) of the welfare of one is relative to that of the other.

In the case of ordinal utility, complete comparability only involved that the respective levels of usefulness achieved by different individuals in given situation can be classified. It is possible to know whether a given individual is more (or less) happy than another (or an identical happiness) in this situation, but nothing more, no one cannot, in particular, compare the utility variations of two individuals when one passes from one situation to another.

### IV. WHEN COULD WE SAY THAT AN ALLOCATION IS BETTER THAN ANOTHER (OR EQUIVALENT TO IT)?

The answer to this question depends, in particular, on the way in which the previous one has been answered. We must therefore distinguish between Benthamite tradition and Paretian well-being economy.

In the case of the Bentham's welfare economy [6], it results from the concern to take into account appropriately, exclusively and impartially the utility of all individuals and the fact that this utility is cardinally measurable and comparable from one individual to another, that an allocation can be said to be better than another if the sum of the individual utilities is greater in the first case than in the second. Any social change that increases the sum of

utilities is therefore good. Any change that decreases this amount is bad. This is called Bentham's criterion.

In the middle of the 19th century, Bentham developed a theory of justice based on the notion of utility, hence the term utilitarian. According to Bentham the income must be distributed in such a way as to produce maximum welfare for the greatest number of individuals, which in his view should be accepted by any reasonable person, so the total utility of the community  $W$  must be maximized. Maximizing the utility  $U$  of the  $n$  people who compose it [7].

Any theory of utilitarian justice can be synthesized as a function such that each value taken by the individual utilities corresponds to a value of an indicator that measures the justice of each of its distributions.

Let suppose  $W$  is the welfare of the community and  $u_1, u_2, u_i$  the utilities of individuals 1 2 3 i, so we have:

$$W = F(u_1, u_2, \dots, u_i, \dots, u_n)$$

Bentham's criterion [8] has the criterion of allowing to classify entirely all the feasible allowances. It is said that it defines a total order on these allocations. An important characteristic of the use of this criterion is that, to judge of the social interest of any change. Only the algebraic sum of utility variations is taken into account. In practice this can mean that the well-being of some can be sacrificed without harming others, as long as the increase in the well-being of others more than compensates for this loss. Only the total utility is important. This is where the welfare economy of others more than compensates for this loss. Only the total utility is important. It is by this that the economy of well-being appears as the theoretical foundation of the doctrine of the preponderance of general interest over personal interest. But this potentially "sacrificial" side of this philosophy is criticized by many authors in its most questionable aspect. No one having, not in principle as we have seen an absolute right to anything (including his physical integrity), no guarantee is offered to any individual that he will be personally beneficiary of the mode of operation of a society guided by this ideal.

In the case of the welfare Paretian theory, it result from the concern to take into account appropriately, exclusively and impartially, the utility of all individuals and the fact that this ordinal utility is not measurable and does not exist. It is not comparable from one individual to another that an allocation cannot be said indisputably better than another (it is often said "superior in the sense of Pareto" or "Pareto-superior") this why this condition of change according to the Pareto criterion is called "welfare Paretian theory".

Figure 1 illustrates these different possibilities in the case of a consumption economy with two goods and two individuals. In this Edgeworth box [9], given the total available quantities of the two goods  $X$  and  $Y$  respectively corresponding to the height of the rectangle, a certain

initial allocation is given initially. Any point belonging to this rectangle represents a feasible allocation. Let  $A$  be the point corresponding to this allocation. The indifference curve of the first individual and that of the second passing through this point are alone represented. They make it possible to delimit four subsets of allocations: the Pareto-superior allocations (zone a, including its border), the Pareto-inferior allocations (zone b and c, including their boundaries), the single allocation equivalent to the reference allocation (the other point of intersection between the two indifference curves passing through  $A$ ) and the allocations that cannot be said by applying the Pareto criteria (zones d and e).

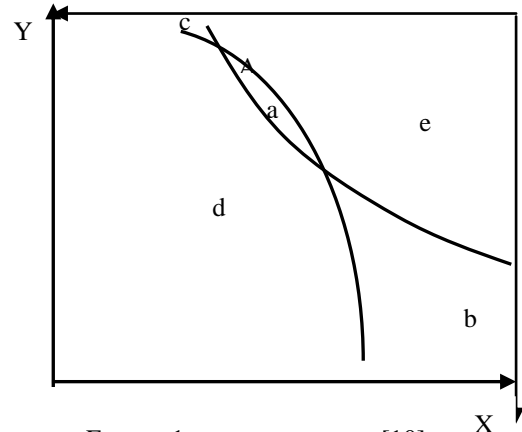


FIGURE 1 EDGEWORTH BOX [10]

The welfare of Paretian well-being blends well with classical utilitarianism. But, as it resumes all of which we must be content for want of better, in situation of imperfect information, it being understood that if it were possible to put it into practice, utilitarian Bentham would be preferable. To parody the vocabulary used on this subject, Paretian utilitarianism is only an optimal doctrine of second rank.

The economics of Paretian well-being therefore represents an effort to draw from practical philosophy the maximum of practical consequences in a situation where information is more limited than what was initially considered possible. The economics of well-being in general is therefore only a pure and simple expression or, in the Paretian case, the adaptation to different facts of an old but still important and influential philosophical current.

## V. WHEN CAN AN ALLOCATION BE IDEAL?

Once again, the case of the economy of bentham's well-being must be distinguished from that of the pareian welfare economy.

For the welfare economy of Bentham, an allocation is ideal if the sum of individual utilities. is higher (or, at least, as high) than any other feasible allocation. The basic recommendation, then, is to maximize the sum of individual utilities. This is pure and simple application of

Bentham's criterion: when all possible changes that meet this criterion have been achieved, the situation cannot be better than it is. It is therefore "ideal" in the field of what is achievable, that is to say given the constraints on available resources. Since the Bentham criterion makes it possible to define a total order on the achievable allocations, this ideal allocation is normally unique (although one can exclude the particular case where the same maximum utility would be reached by several allocations). Such an allocation can be said to be optimal "in the sense of Bentham".

According to Economy of paretian welfare Pareto 1927, let's consider an economy composed of two individuals, 1 and 2. Consider then a graph on which we take the level of satisfaction of the individual 1  $u_1$  on the abscissa and that of the individual 2  $u_2$  on the ordinate.

The technology is known and the available economic resources are limited (situation of rarity): the field of the possibilities of satisfaction is thus a set bounded by a curve  $PP'$ . On the diagram, the points located outside, of the set delimited by the curve ( $PP'$ ) correspond then to the unachievable combinations. The points within the area bounded by the axes and the curve  $PP'$  represent the set of achievable but non-optimal allocations from the point of view of resource allocation.

To show it, suppose that the initial situation before reallocation of resources corresponds to point A. This combination is non-optimal, because it is possible to reallocate the resources so as to increase the satisfaction of at least one of the two agents without diminishing that of the other. This corresponds to a displacement in the north-east direction with respect to A, from A to any point within the area defined by ABC. The combinations of utilities belonging to ABC (including the boundary) correspond to Pareto allocations above the allocation corresponding to point A. The Pareto-optimal allocations are those that correspond to the combinations of utilities located on the curve that delimits the domain. opportunities for satisfaction ( $PP'$ border). This curve is called the Pareto border or the social efficiency frontier or the borders of utility possibilities.

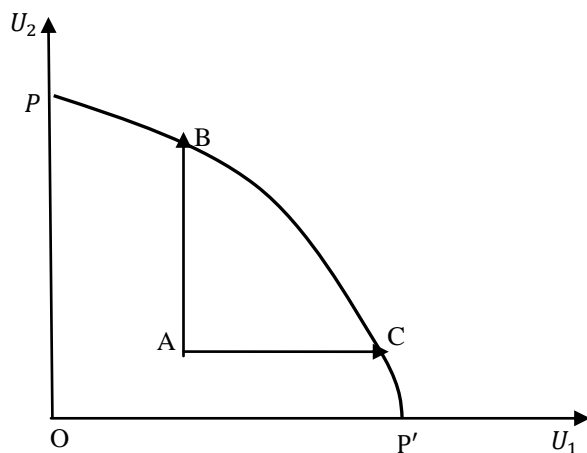


Figure 2 the borders of utility possibilities [10 1],

Regarding the shape of this efficiency frontier, there are two things. On the one hand, its slope is negative if the individual utility functions are independent (assumption used here). On the other hand, the curvature of the boundary is a priori indeterminate if we consider the ordinality hypothesis of the utility functions (hypothesis retained here).

Nevertheless, in a given economy, economic resources are generally not readily available, but they require the use of specific goods: the factors of production. It will therefore be necessary to determine the general optimum in an economy of exchange and production.

For the economy of Pareto well-being, the application of the Pareto criterion makes it possible to define as ideal an allocation such that there is no other which is superior to it in the sense of Pareto. Such an allocation is said to be "Pareto efficiency or Pareto optimality". It is an allowance that is such that it is not possible to increase the well-being of an individual without reducing that of at least one other. Here we have two parts of the formulation:

- we know that we are at the optimum when we cannot move a situation without hurting an agent: an allocation is optimal if it is no longer possible to improve the well-being of one or more persons without simultaneously diminishing that of an individual or several others.

- how to go towards the optimum, i.e. how to improve the total well-being of society: the well-being of the community is increased when a change in the allocation of resources improves the utility of a individual at least without anyone suffering.

Since the Pareto criterion does not allow to define a total order on the realizable allocations, it follows that there are large number of optimal allocations (an infinity even if one supposes that the goods are infinitely divisible and the utility functions are continuous) between which the economy of well-being does not make it possible to make a classification. There is therefore no ideal allocation in the singular. All optimal allocations are ideal. This does not mean that they are equivalent from a normative point of view, but only that it is impossible to pronounce on their respective quality while remaining strictly faithful to the basic principles of the theory. In principle, we find that the Paretian normative theory is essentially incomplete.

In this circumstance it is desirable to supplement it with another theory which will provide the value judgment making it possible to designate among the "optima" that which will be the best, the optimum optimum, as it is sometimes said.

But this expression may run the risk of misleading insofar as it seems to imply that one continues to reason in terms of Pareto optimum for choosing between optima.

In fact, the welfare Paretian economy should be designated as the theory of "optima" rather than that of the optimum,

in the singular. To the extent that we only need to add fairness values to determine the optimum, we leave the pure paretian theory.

## VI. THE GOVERNMENT INTERVENTION THE TWO FUNDAMENTAL THEOREMS OF WELFARE ECONOMICS

We have seen how, according to the normative theory of reference for economists, it consisted of the "common good" to be sought in society and how one could characterize the states of the economy corresponding to it. The purpose of this paragraph is to define the mode of organization of the economy that best suits this objective. As before, we will place ourselves essentially within the framework of the pareian welfare economy associated with a utilitarian conception of justice that is not otherwise specified at the outset. We are wondering here what it is the institutional system that will ensure both efficiency and equity (as defined by the function of social justice retained) and in particular what place should occupy the state. The Pareto optimality criterion in public economics may seem important, because it corresponds to the equivalence of this optimal allocation of resources - as could be conceived by an omniscient centralized planner - with a general equilibrium situation in the sense of the French economist Walras (decentralized implementation of the optimum by the market); The relation between the optimum of P and equilibrium Walras is at the center of welfare theorems of well-being.

### The method

The analysis method conventionally used comprises four steps.

*First step*, we we consider a simplified general representation of an economic system consisting only of markets and in which a set of rights is well defined for all individuals. The state is not explicitly present. It is therefore assumed that rights and agreements relating to the exchange of rights are spontaneously respected. More precisely, the model of a competitive market economy is used for reasons related to the high degree of elaboration of the theory (the so-called general equilibrium theory) in this field and the particularly interesting normative properties, of the general equilibrium that this model reveals.

In a *second time*, it is verified that the equilibrium allocation satisfies the conditions of the optimum. This particular model shows that if each market operates competitively and if there is a market for all goods, a balance is always an optimum. This is called the first fundamental theorem of the welfare economy.

*Third step*. Until then the reasoning has been purely theoretical and abstract in the sense that we have not yet been interested in the correspondence between this model and reality. One wonders about the capacity of concrete economic systems to generate balances guaranteeing efficiency. One wonders for this if the hypotheses ensuring

equivalence between equilibrium and optimum according to the first fundamental theorem of the economy of well-being. can be considered "realistic". As we see. by reference to current observation data. that this is not the case we deduce that the market economy has what are called "defaults" or "shortcomings" or "failures" or "failures" of the market; that is to say, obstacles to the realization of an effective state of the economy from the fact that one or other of the hypotheses is not verified in reality.

It is an approach of "market failures" whose list is different according to the authors.

- Free-rider behaviour [11].
- Decreasing production costs, increasing returns. The solution approach leads to the elimination of small producers and the emergence of a monopoly.
- Uncertainty and asymmetry of information.
- Externalities [12].

In the *fourth and final stage* of the reasoning, it is intended to show that the market failures listed in the previous step are correctable and that an allocation that would be satisfactory from the point of view of efficiency and justice is practically achievable. It is shown that the source of the evil lies in a kind of excess of freedom: for individuals (although the corresponding behaviours are perfectly legitimate in terms of rights), and therefore that the institution which, as opposed to the market, has the characteristic of having a power of constraint is precisely, thanks to this, able to "fill the gaps" of the market. As the state not only has this power but is even. by definition, the only institution that can legitimately use it. it follows that its duty is to support the achievement of efficiency and equity by taking the place of the market (or by imposing appropriate operating rules) in all situations where it is not unable to achieve this goal on its own. A certain place for the state in the economy is thus justified, which makes it possible to define the contours of the ideal mixed economy.

## VII.CONCLUSION

First of all, the problem of interventionism should not be confused with that of socialism. Measures taken with the aim of preserving and guaranteeing respect for the order based on private property are not interventions in the sense that we give to the term. Regulations seeking to guarantee competition are not at all part of the measures guaranteeing the preservation of order based on private property [13]. Several important remarks must be made about this theory of the state.

*First remark*: It is important to remember that this theory is exclusively normative. It makes it possible to define what, from a certain philosophical point of view, the State must do and not what it does in the reality of contemporary societies. A certain ambiguity has long characterized the theory of economics on this subject. We must, therefore,

clearly distinguish the question of the nature of the ideal mixed economy from that of its conditions of possibility.

*Second remark:* In the assessment of market functioning, reference is often made to the transaction costs that characterize it. Those that can be described as institutions in the sense that they do not depend on the fundamentals of the economy, but on the fact that the relationships that are established between the agents in this economy are commercial in nature. To this extent, when the state takes the place of the market, they disappear. But they are replaced by others, those which are specific to the functioning of this system and that we can call administration costs. It should not be forgotten that most reasoning is simplified but may mislead the true capacity of the state to reach an optimum.

*Third remark:* The role of the government is only defined once the possibilities of the (competitive) market economy have been examined and only consists in "filling the gaps" of the latter. Everything therefore happens as if we recognized this type of economy as a priority in principle in the search for the "common good".

*Third remark:* The role of the State is only defined once the possibilities of a (competitive) market economy have been examined and consists solely in "filling in the gaps" in it. Everything therefore happens as if we recognized this type of economy as a priority in principle in the search for the "common good". It should be emphasized that this effect of the adopted method of analysis has no normative basis within the framework of general reference theory.

This is not, in particular, the consequence of a sort of principle of subsidiarity ("no higher authority in a society should arrogate to itself a competence that could equally well be exercised by individuals or by a lower authority") or the result of the implicit recognition of a greater efficiency of the market, where it can work, compared to the State. It would be rather the opposite.

According to the theory, especially under the assumption of perfect information, there is nothing better than the market which could define the equilibrium. At least as well, be made by the State taking into account its power of constraint.

In other words, integral planning is, in principle, at least as good as a market system and, after examining the shortcomings, of the latter, even better than it. However, in the usual presentation of the theory, the government seems to have only a complementary role compared to the market.

This role is, moreover, indispensable. This is what Sudgen (1986) called the "model of the American cavalry": like this mythical body of the army in westerns, the ideal state intervenes only as a last resort but always with the greatest success. Yet no element of analysis, at the level of

generality that we are at the moment, prohibits the state completely replacing the market.

In so far as it is a matter of defining what the State must do without taking into account how it operates in practice, the welfare economy applied to the justification of the role of the State does not provide no argument against a fully state-based economy.

Although there is therefore no internal justification in theory to support this particular mode of division of responsibilities, it turns out that the ideal mixed economy is defined as that which does not involve the State only when the market economy of competition, according to the hypotheses of the first fundamental theorem of the economy of well-being, having reached the maximum of its possibilities, cannot reach an optimal situation by itself.

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