



**Jeffrey Richardson**

## Is Conventional Cost Utility Analysis a Reliable Guide to Social Welfare? - Or: "How Do We Obtain Social from Individual Preferences?"

The term 'social welfare' denotes concerns for the community which transcend the individual's self interested preferences. However there is no coherent concept or construct corresponding with the words. Economists attempt to overcome the problem, in theory, using the Samuelson-Bergson Social Welfare Function and, following the Kaldor-Hicks tradition, through the notion of a potential Pareto improvement. Neither approach succeeds.

Arrow's Impossibility Theorem provides formal proof of the logical impossibility of the existence of social preferences which have the same properties as economic theory assigns to individual preferences. The theorem clearly does not however, demonstrate that social decision making cannot occur or take account of individual preferences, as we observe such decision making daily.

It is argued that progress in Social Decision making will be best achieved by abandoning the quasi rationalism of the conventional theoretical approaches (including Arrow's theorem) and adopting a paradigm more firmly founded upon empirical reality. In particular social decision making, with respect to National Health Schemes should be built upon a foundation of Empirical ethics i.e. information relating to the ethical preferences of the population. The challenge is to develop governance structures for responsible assessment of the information provided by social scientists including the results from empirical ethics; and institutions which may best judge the appropriate course of action with respect to the allocation of health resources.

The result is likely to be a role for economic evaluation which differs from the present model. In particular it is likely to commence with issues of fairness and sharing, and assign a smaller role to the notion of "disembodied" efficiency as incorporated in algorithms such as the minimisation of cost per QALY.