The Standard of Living

AMARTYA SEN

THE TANNER LECTURES ON HUMAN VALUES

Delivered at
Clare Hall, Cambridge University

March 11 and 12, 1985

AMARTYA SEN is Drummond Professor of Political Economy at Oxford University and a Fellow of All Souls College. Professor Sen was born in India and studied at Calcutta and at Cambridge. He has taught at Calcutta, Cambridge, Delhi, and London, and also at Berkeley, Harvard, M.I.T., and Stanford. He is a Fellow of the British Academy, a Foreign Honorary Member of the American Academy of Arts and Sciences, and a Past President of the Econometric Society. His books include *Choice of Techniques*; *Collective Choice and Social Welfare*; *On Economic Inequality*; *Employment, Technology and Development*; *Poverty and Famines*; *Choice, Welfare and Measurement*; *Resources, Values and Development*; and *Commodities and Capabilities*. He has published articles in economics, philosophy, political science, decision theory, and history. A selection of Professor Sen's philosophical papers, including his Dewey Lectures (1985), will be shortly published by Columbia University Press and Basil Blackwell under the title *Well-being, Agency and Freedom*.

I. CONCEPTS AND CRITIQUES

It is hard to think of an idea more immediate than that of the living standard. It figures a good deal in everyday thought. It is, in fact, one of the few economic concepts that is not commonly greeted with the uncommon scepticism reserved for the other concepts of economics, such as "perfect competition," or "general equilibrium," or "consumer's surplus," or "social cost," or the almost supernatural "M3." While people are not prone to ask each other, "How is your standard of living these days?" (at least, not yet), we don't believe we are indulging in technicalities when we talk about the living standard of the pensioners, or of the nurses, or of the miners, or — for that matter — of the Chairman of the Coal Board. The standard of living communicates, and does so with apparent ease.

And yet the idea is full of contrasts, conflicts, and even contradictions. Within the general notion of the living standard, divergent and rival views of the goodness of life co-exist in an unsorted bundle. There are many fundamentally different ways of seeing the quality of living, and quite a few of them have some immediate plausibility. You could be *well off*, without being *well*. You could be *well*, without being able to lead the life you *wanted*. You could have got the life you *wanted*, without being *happy*. You could be *happy*, without having much *freedom*. You could have a good deal of *freedom*, without *achieving* much. We can go on.

NOTE: In preparing these lectures, delivered in March 1985, I had the benefit of past discussions with Kenneth Arrow, Eva Colorni, Ronald Dworkin, John Hicks, John Muellbauer, John Rawls, T. M. Scanlon, Ian White, and Bernard Williams. In revising them for publication, I have been much aided by the remarks of the discussants of these Tanner Lectures (Keith Hart, Ravi Kanbur, John Muellbauer, and Bernard Williams), and of Geoffrey Hawthorn, who directed that seminar, and by the later comments of Martha Nussbaum.

Diversity is indeed part of the traditional picture of the living standard. Our job is not so much to evade it, but to face the diversity squarely and to find our way through it by drawing on the motivation underlying the interest in, and the use of, the concept of the standard of living. The living standard cannot be defined completely afresh by us "professionals," and we must not sacrifice all the richness of the idea of the living standard to get something nicely neat and agreeably simple. There are too many associations and uses of the idea of the living standard for it to be treated as putty that can be refashioned as we like it. We do, of course, have room for choice — indeed it is a *necessity* — given the contradictions among the different extant interpretations of the concept. But we must also relate our assessment and choice to the pre-existing motivations and needs, while keeping the door open to meeting new demands and responding to untraditional problems.

Competitive and constitutive plurality

There are two rather different types of diversity in an idea like the standard of living, and it is useful to distinguish them clearly. One type of diversity may be called "competitive plurality." Here different views stand as *alternatives* to each other. We can choose one of the rival views but not all of them (indeed not more than one). The other type is, in a sense, an *internal* diversity *within* a view which may have different aspects that supplement but do not supplant each other. This may be called "constitutive plurality."

For example, if one view of the living standard sees it as *pleasure* and another as *opulence*, then this is an example of "competitive plurality." Of course, pleasure is not independent of opulence, but in their pure forms pleasure and opulence are *alternative* ways of seeing the living standard — even though there are associations, correlations, and causal connections. In contrast, if one takes a general view of the living standard as, say, pleasure, then the noncommensurability of different *types* of pleasures — discussed by such authors as Plato, Aristotle, and John Stuart Mill — suggests a "constitutive plurality" within this general view.[1] Constitutive plurality involves seeing the living standard primarily as a basket of multiple attributes, even though secondarily that basket may quite possibly be given a numerical representation in the form of an index. Competitive plurality, on the other hand, is concerned with reflecting a choice over *alternative* baskets (each basket may have only one item *or* many). In facing diversities of outlook towards the standard of living, it is necessary to sort out the issues of competitive plurality from those of constitutive plurality.

In this first lecture I am concerned primarily with *competitive* plurality, and in particular with disputing the claims of certain traditional approaches to the standard of living. By the end of the lecture I would hope to have arrived at a moderate justification for an alternative approach. While these critical — and often negative — discussions will be concerned mainly with problems of "choice" implicit in *competitive* plurality, issues of *constitutive* plurality will also be frequently involved, since some of the alternative approaches include pluralistic constructions of the concept of the living standard. In the second lecture I shall try to be more positive in exploring an alternative approach, which I have elsewhere called, in a related context, "the capability approach."[2] The exploration and use of the capability approach will demand coming to grips with extensive constitutive plurality in seeing the living standard in the form of being able to achieve vari-

[1] This is discussed in my "Plural Utility," *Proceedings of the Aristotelian Society* 80 (1980–81). See also J. C. B. Gosling and C. C. W. Taylor, *The Greeks on Pleasure* (Oxford: Clarendon Press, 1982), and M. C. Nussbaum, "Plato on Commensurability and Desire," *Proceedings of the Aristotelian Society* 83 (1983–84).

[2] *Choice, Welfare and Measurement* (Oxford: Blackwell, and Cambridge, Mass.: MIT Press, 1982), pp. 29–31; *Resources, Values and Development* (Oxford: Blackwell, and Cambridge, Mass.: Harvard University Press, 1984), essays 13, 14, 19, 20; *Commodities and Capabilities* (Amsterdam: North-Holland, 1985).

ous personal things — to be able to do this or be that. It will also call for empirical illustrations to make sure that the approach can be sensibly and plausibly used in practical problems of living standard assessment.

Objects and standards

There are at least two basic questions in any evaluative exercise: (1) *What* are the objects of value? (2) *How* valuable are they? Strictly speaking, the first — what objects? — is an elementary aspect of the second — how valuable? The objects of value are those that will be positively valued when the valuational exercise is fully performed.[3] This may not, however, be the most helpful way of seeing the "what" question. The more immediate sense of the question lies in the direct and intrinsic relevance of these objects in the assessment of the standard of living, and this relevance has to be distinguished from irrelevance on the one hand, and indirect or derivative relevance on the other.

To clarify the contrast, consider for the sake of illustration the general view of the standard of living as pleasure. This would indicate that pleasures of different types are the objects of value and the standard of living consists of pleasures. Having a high

[3] A few clarificatory points are called for here. First, an object may be one of value in a "weak" sense, if it is potentially valuable, and actually valued in some cases but possibly not in all cases. When this weak formulation is used, the condition of "dominance" (discussed later) would have to be correspondingly adapted. Second, an object that yields negative value can be made into an object of value through "inversion," i.e., through treating it as an object of "disvalue," and counting reduction rather than increase as an improvement. Third, if there is an object that is sometimes positively and sometimes negatively valued, there will arise a real difficulty in pursuing the "dominance" reasoning. In fact, the viability and usefulness of the distinction between identifying objects of value and the rest of the valuation exercise would be seriously compromised if such "mixed" objects exist. This type of problem — and some others — are discussed in my paper "The Concept of Efficiency," in M. Parkin and A. R. Nobay, eds., *Contemporary Issues in Economics* (Manchester: Manchester University Press, 1975). But most "mixed" cases tend to be *instrumentally* so (and not *intrinsically* valued positively in some cases and negatively in others). The problem may be, thus, to a great extent avoidable by going deeper. It is likely to be a more serious problem in the evaluation of "opulence" than in evaluation of "functionings" and "capabilities."

income is not, then, an object of value in itself; nor is good health; nor the existence of a friendly bank manager who is ready to lend one money. These things may (indeed typically, will) influence one's standard of living, but that influence must work through some object of value — in this case, some type of pleasure. At the risk of oversimplification, it may be said that if an enhancement of some variable increases the standard of living, when everything else remains the same, then that variable is clearly an object of value in the evaluation of the standard of living.

Answering the "what" question does take us some distance. We are able to say, for example, that if life style x has more of each of the objects of value than y has, then x involves a higher standard of living than y. The identification of objects of value yields a "partial ordering," which can be characterised in different ways. Perhaps the simplest form is the following: if x has more of some object of value and no less of any than y, then x has a higher standard of living. I shall call this the "dominance partial ordering."

The dominance partial ordering is, of course, very familiar to economists in many contexts. In welfare economics it is employed to make *social* comparisons in terms of individual preferences or utilities, and it stands in that case for the so-called Pareto principle: if someone has more utility in state x than in state y, and everyone has no less in x than in y, then x is socially better than y. That use of dominance reasoning is often thought to be uncontroversial, and indeed it would be so if the objects of value in deriving social rankings were exactly the set of individual utilities — no more and no less. Those of us who have disputed the uncontroversial nature of the Pareto principle have done so on the basis of questioning its identification of value objects for social ranking (arguing that *non*-utility features may have intrinsic and direct relevance).[4] But the legitimacy of the "dominance" rea-

[4] See my *Collective Choice and Social Welfare* (San Francisco: Holden-Day, 1970; rpt. ed., Amsterdam: North-Holland, 1979), and "Personal Utilities and

soning itself has not been thus questioned. That particular controversy relates, of course, to the assessment of what is "socially" appropriate, and not to the problem of the evaluation of the standard of living of a person or even of a group.

While the dominance partial ordering does take us some considerable distance, it is very unlikely that it would be adequate for making all the comparisons that we would want to make. When x has more of one object of value and y of another, then the dominance partial ordering will leave x and y unranked. To rank them, the issue of the relative importance of the different objects has to be faced. What we need, then, are standards of comparison giving us the relative forces exerted by the different objects of value in the valuational exercise. Dominance reasoning will need supplementation by reasoning regarding relative importance.

Utility, objects, and valuation methods

The utilitarian tradition provides a particular way of assessing the relative importance of different objects. Given the influence of this tradition in normative economics (through the works of such writers as Bentham, Mill, Jevons, Sidgwick, Edgeworth, Marshall and Pigou), it is not surprising that it is very often taken for granted that any evaluative concept in economics must be ultimately based on some notion or other of utility.[5] The standard of living is not taken to be an exception to this rule.

There are, however, two quite different ways of seeing the standard of living in terms of utility, and they do seem to get a bit

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Public Judgements: Or What's Wrong with Welfare Economics?" *Economic Journal* 89 (1979), reprinted in *Choice, Welfare and Measurement* (Oxford: Blackwell, and Cambridge, Mass.: MIT Press, 1982). Also "Utilitarianism and Welfarism," *Journal of Philosophy* 76 (1979).

[5] For a powerful critique of this position, coming from one of the major figures in utility theory, see J. R. Hicks, "A Manifesto," in his *Wealth and Welfare: Collected Essays in Economic Theory*, vol. I (Oxford: Blackwell, 1981), essay 6, which consists of two extracts, from *Essays in World Economics* (Oxford: Clarendon Press, 1959) and a paper read at Grenoble in 1961, respectively.

confounded in the welfare economics literature. One is based on seeing utility as an object of value itself. As A. C. Pigou put it, "the elements of welfare are states of consciousness and, perhaps, their relations." [6] In this view, utility in the form of certain mental states is what is valuable, and indeed it is the only thing that is intrinsically valuable. The second view is to see utility as a valuational device, which is used to evaluate *other* objects of value, e.g., goods possessed. As Pigou himself put it elsewhere, "considering a single individual whose tastes are taken as fixed, we say that his dividend in period II is greater than in period I if the items that are added to it in period II are items he *wants more* than the items that are taken away from it in period II" (p. 51). Paul Samuelson puts the approach more succinctly: "[T]he real income of any person is said to be higher for batch of goods II than for I if II is higher up on his indifference or preference map." [7]

It might be thought that if the indifference maps are based on utility totals, then the two approaches must give the same rankings, and the valuation of goods by utility must coincide with the valuation of utility per se. But this is not so. Consider a person who ranks all commodity bundles in exactly the same way in periods I and II, in terms of utility, but gets more utility in period I from each bundle than in period II. In this case, it is quite possible for it to be the case that the utility value of bundle II is higher than that of bundle I in each period, and nevertheless the utility yield of bundle I actually enjoyed in period I is higher than the utility yield of bundle II actually enjoyed in period II. The respective utilities in descending order then may be the following, when $U_I(.)$ and $U_{II}(.)$ are the utility functions

[6] *The Economics of Welfare* (London: Macmillan, 1920; 4th ed. with eight new appendices, 1952), p. 10.

[7] "Evaluation of Real Income," *Oxford Economic Papers* 2 (1950), p. 21.

in the two periods, and x_I and x_{II} the respective commodity bundles:

$$U_I(x_{II})$$
$$U_I(x_I)$$
$$U_{II}(x_{II})$$
$$U_{II}(x_I).$$

If utility is used to evaluate commodities, then x_{II} must be ranked higher than x_I. Given the fulfilment of Pigou's condition of "fixed tastes" (in the form of an unchanged "indifference or preference map"), the living standard (in the form of real income) has to be seen as higher in the second period than in the first. If, on the other hand, living standard in the form of economic welfare is seen as utility itself ("states of consciousness," as Pigou puts it), then clearly it is higher in the first period than in the second, since $U_I(x_I) > U_{II}(x_{II})$. Valuation of commodity bundles *by* the index of utility is not the same exercise as the comparison of utility totals themselves. It does make a difference as to whether utility is the object of value itself or only used to evaluate other objects of value.

In assessing the claims of utilities in the evaluation of the standard of living, both the possible uses (as objects of value and as valuational methods) have to be considered. And this makes the task particularly exacting, since there are also at least three quite different ways of defining utility, viz., pleasure, desire-fulfilment, and choice. So there are really at least six different boxes to examine.

Utility as pleasure and happiness

I start with the view of utility as pleasure. That term is used in many different senses. Some uses characterize pleasure rather narrowly, like John Selden's cheerless diagnosis: "Pleasure is nothing but the intermission of pain"; or Dr. Samuel Johnson's identification of the horns of an alleged dilemma: "Marriage has