

Challenges To Efficiency as a Criterion For Social Welfare

Market Imperfections

Imperfect competition: One or a few suppliers or buyers dominate the market and can control prices.

Imperfect Information: Sellers may conceal information; information may be too technical or too costly for buyers to acquire.

Externalities: An exchange between two parties has bad side effects on third parties who have no say in the exchange.

Polis Realities

Nature of welfare: People derive welfare from doing, participating, and experiencing, apart from the output to exchanges; output is too narrow a measure of welfare.

Personal welfare is not separable from collective welfare, nor is societal welfare simply the aggregate of individual welfare.

Nature of exchanges: Purely voluntary exchange is a fiction; line between coercion and voluntarism is blurry.

Nature of information: Information is incomplete, interpretive, and deliberately controlled.