Redistribution, Poor Relief, and the Welfare State
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The redistributive programs that constitute the welfare state have become objects of growing controversy. This controversy involves contrasting claims about both the impact of a market economy on poverty and the contribution, positive or negative, of government programs to poverty. Those who support an extensive welfare state typically claim that however strongly a market economy might promote economic progress, it also leaves behind a good number of people in its progressive wake. In sharp contrast, there is a good deal of argument and evidence in support of claims that governments do much to impede progress and promote poverty. To the extent these contrary claims are correct, an effective program of poor relief would seem to require a less energetic welfare state than we now see.

The programs of the welfare state are often described as forming a type of safety net. It is hard to object to a safety net. Among people who are trying to climb high to the best of their talents, some may fall through no fault of their own. If they do, the safety net breaks their fall and sends them on their way again. This is a vision of the welfare state as offering people a helping hand if needed to support their own responsible conduct, as distinct from giving a handout that substitutes for responsible conduct. Much of the growing controversy over the welfare state arises over whether the hand or the handout is the more accurate vision. Various general examinations of this controversy are presented in Atkinson (1999), Barr (1993), Beito (2000), Ebeling (1995), Mead (1986), Murray

(1984), Offe (1984), Olasky (1992), Rector and Lauber (1995), Schmidtz and Goodin (1998), Tanner (1996), Tullock (1983), Wagner (1989), and Weicher (1984).

There is no doubt that people try in many ways to protect themselves against disruptive or calamitous events. The development of insurance is good testimony to the energy and creativity that people have brought to the search for such protection. Through insurance people cover themselves against a variety of catastrophes ranging from accident or illness through the destruction of property. People can also create safety nets through saving, which can support them against unemployment and provide annuities for retirement. To be sure, a safety net is not created through individual effort alone. Everyone is born into a family, and families are valuable sources of support and instruction. So too are churches and a variety of associations and organizations that people create to deal with their needs for mutual support. In any case, people will craft safety nets on their own without government.

The claims on behalf of the welfare state are that the state can supplement and support the other efforts of people in society. The welfare state thus fills in gaps in the safety nets that people create for themselves. A considerable body of analysis and evidence, however, tells a different story. This alternative story is one where the welfare state does not seem so much to complement or support individual effort and initiative as it seems to undermine it. We might assert that dependency or poverty is a function of the size of welfare programs, as illustrated by $D = f(W)$. One possibility is that $f'<0$, indicating that dependency or poverty varies inversely with welfare spending. Most supporters of an expansive welfare state would advance some form of this claim. Another possibility is that $f'>0$, which would indicate that dependency varies directly with welfare spending. Most of those who support some contraction of the welfare state advance some form of this claim.

Furthermore, dependency is not the same thing as poverty. Welfare spending might reduce poverty while increasing dependency. Indeed, one of the primary lines of argument against an expansive welfare state is that its programs induce people to rely less on their own efforts and more on the state. John Maynard Keynes (1951), in his biographical essay on William Stanley Jevons, notes that Jevons thought that the natural course of the development of civilization would be to eliminate poverty and poor relief as a source of concern. In particular, Keynes cited an 1869 address that Jevons made to the Manchester Statistical Society. In that address, Jevons lamented how medical charities “nourish in the poorest classes a contented sense of dependence on the richer classes for those ordinary requirements of life which they ought to be led to provide for themselves (p. 301).” Furthermore, Jevons continued “We cannot be supposed yet to have reached a point at which the public or private charity of one class towards another can be dispensed with, but I do think we ought to look towards such a state of things. True progress will tend to render every class self-reliant and independent. (p. 301).”

In Jevons’ judgment, progress in the organization of economic life would eliminate poverty and dependence. Much of the contemporary criticism of the welfare state holds, similarly with Jevons, an ultimate desideratum of self-reliance within the framework of a market economy, and claims that the welfare state often operates antagonistically to this aim. Many of the supporters of an expansive welfare state seem to reject self-reliance as a desirable end. They seem to aim their gaze instead on a regime where much wealth will be socialized and available to everyone as basic guarantees simply as rewards for being alive, through some form of guaranteed income.

The welfare state is, of course, simply an abstract noun that we use to designate some subset of state programs and activities. James Buchanan (1975) advances the conceptual distinction between the protective and the productive states. The protective state refers to those activities where the state provides and maintains a framework of good civil order within which people can conduct their economic activities. The protective state is a referee that enforces the rules of property and contract which frame and govern economic relationships among people. The productive state refers to the state not as a referee but as a player within the economic process. With respect to Buchanan's dichotomy, the welfare state would seem to involve both roles, at least judging by the supporting rationalizations. One set of justifications claims that the welfare state represents some of the background framework for a market economy. Another set claims that the welfare state represents forms of state production in response to gaps or failures of ordinary market processes and arrangements.

Regardless of whether the welfare state can be represented as subsets of the protective and productive states or treated as a third conceptual category, there is a good deal of vagueness in defining the boundaries of the welfare state. The scope of the welfare state can be defined in quite narrow fashion to include only programs whose clientele is drawn predominately from the poor. This narrow definition of the welfare state would include only a small fraction of the activities that would be covered under a broad definition of the welfare state. A broad definition would include all state programs where some claim about poor relief enters at all into the justifications that people advance for such programs. These days, a broad definition would probably include the predominant share of state activities. Public education, for instance, is not directly a program of poor relief, but considerations of poverty figure prominently in justifications for public education. It is the same for social security and health care, among numerous other state-supplied services. The same can be said for state regulation, as arguments about poor relief enter into justifications for numerous types of regulations that have little to do directly with poor relief.

This essay starts by reviewing the kinds of justifications that have been given toward using the instruments of public finance as instruments of poor relief. These justifications treat both the tax and the expenditure sides of state budgets, and their point of departure is that the welfare state can “improve” upon the distributive outcomes of a market economy. One approach to justification proceeds on utilitarian grounds by claiming that some degree of redistribution can increase some aggregate measure of utility, and would locate the welfare state as one component of the protective state. Another approach reasons in terms of contracts and claims about market failure, and would locate the welfare state as one component of the productive state. Regardless of the justification that is advanced in support of the welfare state, the state might lack the competence effectively to accomplish what those justifications envision it as accomplishing. There are two broad sets of reasons why this might be so. One is an absence of knowledge about how truly to accomplish what the rationalizations envision it as accomplishing. The other is a lack of interest in actually doing so, perhaps because the force of political interest pulls the state toward other accomplishments. These considerations of competence lead into an exploration of how chasms might arise between the justifications given for addressing poor relief through fiscal measures and the actual consequences of those fiscal measures. Justifications for welfare state redistribution may be the province of fiscal philosophers, but the actual programs of the welfare state are forged in a crucible dominated by fiscal practitioners, political realists all.

Utilitarian Justifications for Welfare State Redistribution

The dominant strand of argument that fiscal philosophers have advanced for using the state to equalize income is grounded in claims about the utility that people derive from their income. In this regard, primacy of articulation belongs to F. Y. Edgeworth (1897). Suppose a monarch wanted to collect some stipulated amount of revenue from his subjects, and wanted to do so in a manner that imposed the least aggregate sacrifice of utility on his subjects. Revenues are collected in money, but burden is measured in terms of the lost utility that taxes impose on people. If the marginal utility of income is constant, monetary and utility measures are identical. All distributions of a given tax liability among subjects would involve the same aggregate sacrifice of utility. Most fiscal philosophers, however, have assumed that the marginal utility of income declines with income. This situation is represented by Figure 1, where everyone has the same income-utility schedule but differ in their incomes, and, hence, in the marginal utilities they receive from their incomes. Those incomes are I_1, I_2, and I_3, and the associated marginal utilities are u_1, u_2, and u_3 respectively. A starkly simple conclusion emerges if production or income is independent of the rate of tax. A king who wanted to raise some particular amount of revenue would do so in a manner that pares incomes down from the top. So long as the amount of revenue the king wanted to raise is less than $I_3 - I_2$, he would collect the entire amount from person 3. The amount of equalization that would result would depend on the amount of revenue the king wanted to collect. Full equalization would result once the king's desired revenue reached $[(I_3 – I_1) + (I_2 – I_1)]$.

Rather than minimizing the sacrifices that his revenue demands place upon his subjects, the king's problem could be stated alternatively as one of maximizing the aggregate utility of his subjects. Starting from the position described by Figure 1, a tax on person 3 that was in turn transferred to person 1 would raise aggregate utility by $I_3 – I_1$. So long as the amount of production is invariant to the rate of tax, full equalization would be required for maximization of aggregate utility. Taxes would be imposed on people with above-average incomes, at 100 percent marginal rates, with the revenues transferred to those with below-average incomes. The result would maximize aggregate utility, under the stipulated condition that effort supplied and income generated was independent of the rate of tax and subsidy.

The first-draft conclusion of this utilitarian approach is a full equality of income as an unconstrained optimum. Inequality becomes permissible only through a second-best recognition of constraints that arise because 100 percent marginal rates of tax would destroy incentives to produce. Once this negative effect of taxation on incentive is taken into account, there will be a point beyond which increased redistribution through taxation will depress aggregate utility. For instance, Stern (1976) presents estimates based on various assumptions and simulations where marginal tax rates range from 13 to 93 percent. The analogy in this case is how equally to slice a pie when the size of the pie varies inversely with some measure of equality in the distribution of sizes of the slices.

It might be granted that the marginal utility of income declines, only it could also be asserted that people have different income-utility functions. If so, it is conceivable that a person with low income will nonetheless have a lower marginal utility than someone with high income, because the person with the high income has a higher income-utility schedule. This situation might seem to complicate mightily the king's effort to minimize the sacrifices required by his revenue demands. Yet the king's problem might not be so difficult after all, as Abba Lerner (1944) argued. Suppose the king has no way to match utility schedules with people. The king can minimize his errors by assuming that the same income-utility schedule pertains to everyone. This line of argument allows the conventional analysis of the utilitarian tradeoff to proceed, despite the apparent recognition given to the possibility that people differ in their income-utility functions. This line of argument is grounded in randomnization. It fails in the face of some systematic relation between income and income-utility functions, whereby people with high incomes tend to be those with high income-utility functions.

To be sure, not all tax philosophers have supported the principle of progressive taxation, as illustrated by Walter Blum and Harry Kalven (1953). Nonetheless, the recent literature on optimal taxation, surveyed by Mirrlees (1994), takes off from the earlier sacrifice literature in its use of the income-utility construction. The recent literature on optimal taxation carries forward the utilitarian framework of the sacrifice theorizing, and conceives the government budget as a vehicle for maximizing social utility or welfare. This literature seeks to incorporate into its models a recognition that taxes reduce the amount of effort that people will supply. This reduction of effort puts a limit on the amount of redistribution that the utilitarian calculus would call for, as compared with the full equalization that would be supported if taxation had no effect on the amount of effort people supply. What causes many of those efforts to support only mild progression, is the negative effect upon recipients of transfers of higher marginal tax rates.   Indeed, one feature of these models is a zero rate of tax applied at the margin to the highest earner in society.

A presumption that the marginal utility of income declines, and that one more dollar gives less utility to a rich person than to a poor person seems intuitively obvious to many people, so obvious that reservations about the measurability and comparability of utility are readily cast aside. Many have sought to buttress this intuition by resort to arguments about the St. Petersburg Paradox. This paradox is the observation that most people will reject actuarially fair gambles. To be sure, not everyone will do so, and some will accept actuarially unfair gambles, as illustrated by their participation in lotteries. Nonetheless, the St. Petersburg Paradox is widely used to buttress claims about a diminishing marginal utility of income. A person who would be unwilling to bet his entire fortune, double or nothing, on a single coin flip would be characterized as having diminishing marginal utility of income. His expected wealth is the same whether he accepts or rejects the gamble. His failure to gamble, along with a finding that to induce him to gamble the expected value of the gamble must be positive is attributed to a diminishing marginal utility of income. This can be illustrated by Figure 1, where I_2 represents the initial position. A person has a 50:50 chance of moving to I_1 or I_3, the average of which is I_2. In expected value terms, I_2 is equal to a 50:50 gamble between I_1 and I_3. One explanation for why someone might prefer I_2 is diminishing marginal utility of income: the amount of utility lost by moving to I_1 exceeds the gain from moving to I_3.

The St. Petersburg formulation is set in a casino. The explanation as to why someone would reject a fair gamble is that the marginal utility derived from the money won would be less than the marginal utility deducted from the money lost. A casino, however, is not the only setting for choice, and may not be the most suitable one for exploring and illuminating commercial conduct. The income-utility formulation would have us universalize from the particular setting the casino represents. There might be good reason for doing this if the casino were thought to capture some universal quality, as against speaking to some particular setting for choice. The universality of St. Petersburg, however, is dubious. Among other things, it would imply that people would prefer that games end in ties, because the added utility from winning would be less than the decreased utility from losing. With respect to Figure 1, we can denote the income axis as the "psychic" income from playing a game. A tie would yield I_2, a win I_3, and a loss I_1.

People embrace games and surely do not avoid them. And they clearly prefer decisive outcomes to ties. There would seem to be an implicit fiscal sociology built into the utilitarian formulation and its presumption of ubiquitous risk aversion. The most desirable state of affairs is a passive equality in consumption, and what prevents the realization of that equality is the pragmatic recognition that equalization imposes a toll through reduced output. Inequality is a second-best outcome, countenanced only because of its productive consequences (as noted particularly clearly in John Rawls (1971). An alternative fiscal sociology would be rooted in activity and not consumption. Games must have winners as well as losers, and all participants will prefer a shot at I_3 even though this implies the possibility of I_1, as against settling for I_2, a tie. Success in any activity is meaningful only when failure is also an option, in commercial life as well as in athletic contests.

The utilitarian focus on consumption, in contrast to an alternative focus on activity, leads perhaps almost naturally to a placement of sympathy on those who have little. It is hard to feel sympathy for people whose pantries are full in the presence of those whose pantries are empty. But why are some pantries fuller than others? The utilitarian formulation ignores this question, and in so doing it distorts the central character of the economic process—the application of effort to provide opportunities for consumption.

There is no doubt that there are differences among people in their generalized productive capacities. People differ naturally in their abilities to fill their pantries, as a form of act of God, as it were. There is also no doubt that much of the difference in the condition of various pantries is a matter of choice concerning exertion and foresight. To a considerable extent, those who have fuller pantries are those who have exerted themselves to this end. They have undergone a greater disutility of labor and have postponed consumption more fully than those with emptier pantries.

Where should the sympathy lie? Take that old childhood story of the three pigs. The pig who built the brick house had a larger opportunity set than the pig who built the straw house. Should the sympathy lie with the pig with the straw house, which might call for a program of taxing pigs who build brick houses to subsidize pigs who build straw houses? This would be a strange and destructive pattern of sympathy. The pig who built the brick house exerted much effort in building that house, he underwent great deprivation. The pig who built the straw house underwent little deprivation. The case for sympathy would seem to lie on the side of the pig who bore the deprivation and built the brick house.

This matter of sympathy is reinforced by considerations of prudence. A progressive tax policy would tax the builders of brick houses to subsidize the builders of straw houses. That would reduce the stock of brick houses in society and increase the supply of straw houses. Consumption opportunities would be more equal, and the average level of well being would be lower, assuming the utility of wolves is not entered into the evaluation calculus.

Normative principles surely should not be socially destructive. The utilitarian principle that derives from a focus on relative consumption opportunities would seem to induce a pattern of sympathy that is destructive. Sympathy, after all, properly construed, is not at all synonymous with "feeling sorry for." Rather, it is synonymous with "wishing to see emulated." It may be fine to feel sorry for, but only if that sympathy is joined with a desire not to see that condition emulated. The utilitarian principle of progressive taxation says that it is morally superior to be a pig who builds a house of straw than to be one who builds a house of bricks.

The utilitarian analysis of progressive taxation construes the central tradeoff in the economic process as one between different items of consumption. Indeed, the Lagrangian multipliers that are found in the problem of maximizing utility subject to a budget constraint are commonly interpreted as a marginal utility of income, in that they show the change in utility deriving from a shift in the budget constraint. In this formulation, some people simply have higher incomes than others. These differences in incomes are the analytical points of departure.

The focus is thus on the larger opportunity sets that some people face relative to others, and on the utility associated with different opportunity sets.

Where do endowments come from? In the analysis of consumer choice, from which the utilitarian analysis derives, they are simply there by assumption. This, of course, is impossible. Opportunity sets do not fall from heaven like manna. Opportunity sets must be created through exertion. The fundamental tradeoff in the economic process is not between different, valued items of consumption. Prior to the ability to choose among such items must lie a choice of how much exertion to make and along what directions, so as to make consumption possible.

Crusoe and Friday do not choose between fruit and fish, with one simply facing a larger opportunity set than the other. By doing nothing, they consume nothing, save for dead fish that might wash up on the beach or rotten fruit that might fall to the ground. To advance beyond that rude state of life, exertion is necessary, both directly as in the supply of labor services and indirectly as in the creation of capital goods. The opportunity set starts at the origin. The fundamental economic choice is not between two goods, but between a good and a bad. What is common to both fruit and fish is the exertion that must be undertaken to make consumption possible.

Crusoe and Friday can differ in their consumption possibilities for two types of reasons. One is a natural dominance along all relevant dimensions. Friday might be naturally quicker than Friday at both catching fish and picking fruit. The other is a choice of exertion and providence. Crusoe might devote more time to catching fish and to picking fruit than Friday. He might also devote more effort to creating capital goods than does Friday.

An alternative fiscal sociology would place sympathy on the side of exertion and providence. To be sure, some might question whether success stems from exertion and providence. Among equally situated people, this might be granted. Such people might be thought to have faced similar opportunities for economic success, only some made better choices than others. But surely people differ in their initial opportunities. This gets back to the matter of endowments. Some people are born with superior opportunities relative to others. Actual income is a mixture of exertions and opportunities. The utilitarian argument treats opportunity as all that matters. The other pole would treat exertion and providence as all that matters. Reality undoubtedly lies somewhere in between.

Contractual Arguments for Welfare State Redistribution

The fiscal literature contains a number of arguments in support of redistribution through state expenditure that use a contractual rather than a utilitarian analytical framework. These arguments are grounded in claims of market failure, in one form or another. Harold Hochman and James Rodgers (1969) articulated a model that was grounded in the assertion that poor relief had characteristics of a public good. In their framework, poor relief would be under-supplied through private charity and related market arrangements. Some state supply would be necessary to secure a Pareto-efficient amount of redistribution, hence they titled their article "Pareto Optimal Redistribution."

Hochman and Rodgers postulated a unidirectional form of utility interdependence. Suppose people can be classified as either poor or rich. Hochman and Rodgers postulated that the utility of the poor person depended on his consumption alone, while the utility of the rich person depended both on his consumption and the consumption of the poor person. For the rich person, his utility increased with increases both in his own consumption and in the consumption of the poor person. There would be some utility maximizing choice whereby the rich person would make transfers to the poor person until the marginal utility he derives from an increase in the consumption of the poor person equals the marginal utility he derives from his own consumption. Stated in this manner, what exists is simply a choice-theoretic expression of private charity.

An argument for state provision of poor relief enters through the particular presumption advanced about the particular way in which the rich person derives utility from poor relief. If the rich person's utility derives simply from the fact of making a transfer, no argument for collective provision emerges. Charity would be a purely private good. To convert charity to some form of collective good, it is necessary to postulate that the utility that donors derive from charity depends on the aggregate amount of donations made, or, equivalently, on the aggregate extent to which destitution is reduced. With this alternative formulation in place, poor relief takes on the characteristics of a collective good, and possibilities for free riding emerge. In this formulation, potential individual donors face a form of prisoners' dilemma. Each donor would prefer to make some contribution to poor relief in conjunction with all other potential donors doing the same. It is individually rational, however, for each donor to withhold his own contribution because it has an imperceptible impact on the aggregate volume of donations. What results is a claim that poor relief is a collective good that will be under-supplied through private charity.

It is a relatively simple matter to advance a claim that the state should act to reduce destitution. There are an indefinitely large number of models that could be constructed to support such a claim (see, for instance, Kliemt (1993) and Wessels (1993), as well as Pasour (1994) to the contrary). To construct such a model does not, of course, make the model correct. The model may have the state acting optimally or efficiently to alleviate destitution, but the state may lack the competence actually to do this. This possible lack of competence has two dimensions: knowledge and incentive.

With respect to knowledge, state officials may not be able truly to determine the efficient amount by which to relieve destitution, or to determine the efficient method or approach. One possible argument against private charity, for instance, is not that it leads to an under-supply of assistance, but that it generates an over-supply of destitution. According to this classical model of poor relief, the nationalization of poor relief reduces destitution, but does so in an entirely different matter from that envisioned in the Paretian approaches to redistribution. The differences in these approaches reflect sharply different claims about the nature of reality as it relates to poverty and poor relief (Himmelfarb 1983, 1992).

With respect to incentive, state officials may be poorly motivated to alleviate poverty, even if they were secure in their knowledge. It is surely a reasonable presumption that societal processes are dominated by an organized intensity of interest and effort. What gets produced, in the policy arena as elsewhere in society, is dominated by passion and energy, and not by indifference and lassitude. The collectivization of poor relief may fare less well once these considerations of political interest are introduced.

Knowledge and State Competence. Much of the controversy over poverty and public policy stems from different beliefs about the sources of poverty. Poverty can arise involuntarily, as a matter of *chance*, as representing the luck of the draw or as being an accident of birth. "There but for the grace of God go I" is an expression of this sense. It is surely unreasonable to hold people responsible for their poverty when it arises through one of Nature's involuntary lotteries. Policy prescriptions in such cases would seem almost naturally to run in terms of programs of income redistribution. Indeed, such programs could be construed as a form of social insurance against poor luck, through which the differential bestowal of God's grace is rearranged, as it were.

Alternatively, poverty may result through personal choice (Friedman 1953). People can choose directly to be poor, as it were, as through foregoing a full-time job to have more time for fishing, or in refusing to attend evening classes three nights a week for six months to qualify for a steady job. But they can also do so indirectly as a by-product of other choices, as in getting pregnant and dropping out of school at 16.

Consider Henry Fawcett's (1871, p. 33) tale of Robinson and Smith, both of whom worked for the same wages and had the same number of dependents. "Robinson is extremely prudent, and does everything in his power to set aside some provision for his old age. By dint of constant thrift he is able . . . to secure for himself an annuity of 5s. a week. Smith never makes the slightest effort to save, but spends every shilling he can spare at the public-house. When the time comes that he is too old to work he . . . applies to the parish for maintenance." In Fawcett's continuation of the story, Smith is granted 5s. per week. Robinson points out the manifest unfairness of this grant, and asks for a 2s. supplement, which is denied.

To be sure, the distinction between involuntary poverty by chance and voluntary poverty through choice is simpler to make conceptually than it is to implement empirically. Poverty is generally a mixture of choice and chance, and with that mixture varying from case to case. Chance is ubiquitous in all of our lives, starting with the family situations into which we are born. Those born into loving, nurturing homes will get a better start in life than those born into indifferent or malevolent homes.

What would constitute a successful public policy toward poverty? It is often claimed that measures of poverty based on the money earnings of people exaggerate the amount of poverty because those people also have available a large number of programs that award them in-kind benefits that have monetary value. By some measures the incidence of poverty falls roughly in half, once the implicit income offered by such programs is taken into account. It would seem to follow that the only thing preventing the complete eradication of poverty is sufficient government spending. Yet the permanent existence of people living on government support would hardly seem to indicate the elimination of poverty.

More reasonably, poverty would be defined in terms of the ability of people to be self-supporting. And it is here that problems of poverty policy become especially difficult. It might seem reasonable that policy should seek to aid cases were poverty arises out of pure chance, while refraining from aiding cases where poverty arises through choice. The trouble with this prescription is that it cannot be implemented without knowledge of souls and minds. Nature does not generate birthmarks or other signals that allows such categorization. Mistakes will infect any assistance program, even in a world governed by the best of intentions. The receipt of aid by those who are poor through choice will encourage more such choices. But to withhold aid to prevent such outcomes will imperil those who are poor through chance.

This tragic dimension is present in Fawcett's tale of Robinson and Smith. When Smith reaches retirement age, it seems cruel to deny him some support. After all, Robinson has an annuity and Smith has none. Some redistribution might seem only fair. Yet Smith's poverty was voluntary, the outcome of earlier choices he made. Is it heartless to refuse aid because Smith's poverty is voluntary? Smith might claim, poignantly and truthfully, that he would not have allowed this to have happened to him had he realized the consequences. Should a second chance, so to speak, be given in this case? What would be the point of refusing to aid? It might punish Smith, but what has been done cannot be undone. Might not some show of compassion toward Smith be in order?

A problem in giving an affirmative answer to this question lies in the lessons that are thereby communicated throughout the society when the aid to Smith becomes generalized as a policy principle, as an illustration of what James Buchanan (1977) calls the Samaritan's Dilemma. For the primary lesson then becomes that a failure to provide for the future will not be a burden to be borne by those who so fail, but will partly be shifted onto those who do not. Failure becomes rewarded, success penalized. Giving aid to those who make impoverishing choices will encourage others to do the same, thereby worsening the problem. Yet there is no unmistakable way of separating choice from chance.

The odds of successful separation can perhaps be improved, however, by replacing public with private forms of assistance. Public assistance must be impersonal and bureaucratic, for requirements of fair treatment must be expressible through objectified rules and procedures. Such an approach is not suitable for making discriminating judgments about who genuinely would use a helping hand profitably and who is simply looking for a handout. Privately organized assistance, where those who supply the assistance not only have greater knowledge of local circumstances and the people with whom they are dealing, but also are free to use the tacit knowledge they have but which cannot be reduced to a table in a memo, perhaps offers a better though still far from utopian option.

Incentive and State Competence. A welfare state creates a specific pattern or network of advantages and disadvantages that get translated into supporting interest groups. One obvious point is that there is a welfare bureaucracy, along with supporting private organizations, for which larger budgets are generally preferable to smaller budgets. To be sure, this general setting characterizes the private sector as well. Dentists want people to be more concerned about their teeth and gums, which in turn translates into more business for them. However, dentists have to attract business in a setting where customers can choose freely to spend their money elsewhere.

Unlike dentists, or anyone else in the private sector, public sector agencies do not have customers in the traditional sense. To the extent you can speak of customers for such agencies, it would be with reference to the legislative committees that oversee those agencies and make recommendations concerning their budgets. In the private sector there are a variety of employment agencies and mental health councellors who provide services that are similar to some of those that are provided within the poverty subset of the public sector. In the private sector, however, the individuals who pay are the customers, and the suppliers of those services must convince, and repeatedly, the customers that their services are more valuable than alternative uses of their money. A health councellor who provided no remedy but sought simply to corral the largest clientele possible might manage to do so, because perfection exists nowhere.

There are, however, systematic reasons why such conduct would have stronger survival value within the framework of a welfare state. In place of the direct competition for consumer dollars, where every consumer is potentially a marginally relevant consumer, there is a political process of budgetary appropriation. Within a private property setting, what is not spent is returned to owners. But in the institutional setting of a welfare state, such residual claimacy is absent. The public sector counterpart of the councellor faces a legislative committee whose members are generally relatively high demanders of the services being provided. The lack of residual claimacy will lead to less effectiveness in the delivery of services, which implies lower rates of remedy than would result within a regime of private property and market competition.

A welfare state creates at least two sets of interest groups that have interests that support the maintenance of poverty and dependence. One set is the provider of services, only with those providers receiving their funds not directly from customers who are free to use their funds elsewhere, but from legislative committees whose members generally are self-selected for a particularly strong interest in the activities they oversee. The other set is the recipients of the services, as noted particularly crisply by Gordon Tullock (1981), who when faced with an option of continued support or elimination of that support will choose continuation and will support the politicians who promise that continuation.

Interest Groups and Horizontal Redistribution

The economic literature on income redistribution, whether written from a positive or a normative orientation, largely reflects a presumption that income transfers are uniformly distributed among the members of any particular income class. Normative literature asks how much income should be transferred from people in the upper income classes to people in the lower income classes. Positive literature asks how much redistribution actually occurs, often arguing that much less is actually accomplished than some of the normative arguments might seem to favor. Both types of literature are cast in terms of a redistributive process that is nondiscriminatory among the members of any particular income class. All members of a particular recipient class are presumed to share equally in the gain, just as all members of a losing class are presumed to share equally in the loss.

Most thinking about redistribution runs in terms of transfers from top to bottom, with people arguing about whether a little or a lot of such redistribution occurs. An alternative formulation is “Director's Law," which was articulated by George Stigler (1970). The Director-Stigler formulation portrays income redistribution as flowing from both the upper and lower classes to the middle class. Whatever the direction of redistribution, however, these formulations treat redistribution as a process that is non-discriminatory among the members of any particular income category. If the highest quintile loses, that loss is shared generally by the members of that quintile. If the lowest quintile gains, that gain is shared generally by the members of that quintile. All of these formulations approach redistribution as a transfer from one horizontal class of people to another, and differ only in terms of how much is transferred.

Despite the generally favorable reception that Richard Musgrave's (1959) conceptualization of the distributive branch of government has generally received among scholars, there is no such thing as a "redistribution program" or policy. There is no collective choice of a single, unified program that represents an effort to impose burdens uniformly on the members of some income class, with the proceeds distributed uniformly among the members of some alternative income class. Rather there are numerous particular programs and policies, which may be aggregated after the fact. But each of those programs transfers income among particular subsets of people. Moreover, the people who are members of any particular income category differ in a wide range of respects, including which part of the country they live in, whether they are self-employed or work for someone else, whether or not they have children, their age, the industry in which they work, and so on. Rather than there being some systemic or global articulation of some distributional objective, there are a variety of competing interest groups, some of which will be successful in the effort to become net recipients of transfers and some of which will not--and so will become net donors instead.

The interest group theory of government (surveyed in Tollison 1988) claims that political programs transfer income from the unorganized many to the organized few. It is conceivable to aggregate across programs to construct some global estimate of redistribution. The process that produces redistribution, however, is starkly different from what is commonly envisioned. Redistribution emerges out of competition among political coalitions, and broad income categories provide only a weak basis for the formation of coalitions.

Horizontal coalitions conform to much normative exhortation, but such exhortation is not directly relevant to any positive analysis of redistribution. The formation of public policies that influence the distribution of income emerges through a decentralized process of interest group competition, in which vertical coalitions of demanders of legislation gain at the expense of alternative vertical coalitions who constitute the suppliers of legislation.

If the political process of interest group competition generates a set of programs that transfer income from losing groups to winning groups, the aggregate redistribution that results can be understood only in terms of the underlying process that produced that outcome. For instance, if the domestic automobile industry is a winner in the process of interest group competition, the demand for domestic automobiles will increase by virtue of the higher price imposed on competing, imported automobiles. The distribution of the resulting rent will depend on relative supply elasticities, of course, but in any case there will be some process of vertical distribution. Executives of domestic automobile companies may gain, as might shareholders, who in turn might include union pension funds. The suppliers of specialized labor inputs would gain as well, as would specialized suppliers of inputs to the industry.

In the same way, the redistributive losses in this process of interest group competition would also be apportioned in a vertical and not a horizontal fashion.

For instance, suppose the textile industry were to be a loser in this process. Industry rents would fall, or would be negative. This loss would be distributed throughout the structure of complementary inputs within the industry. Executives of the firms in the industry would lose, as would shareholders and specialized labor inputs. A pattern of losses would be spread vertically throughout the range of incomes represented within the industry.

Suppose the outcome of the political process is simply an aggregation over a whole set of interest group measures. Each of those measures contains a vertical pattern of winners and losers. This is illustrated in Table I for a 15-person, five quintile model. What is shown there is one particular interest group outcome that transfers income from members of group B to members of group A, leaving the five members of group C unaffected. If this transfer program is aggregated by income category, it appears to be a transfer from the middle income classes to the highest and lowest income classes, the opposite of Director's Law. Yet such an aggregative statement totally misconstrues the essential nature of the program, which is a transfer from everyone in group B to everyone in group A.

This conceptualization of redistribution as being essentially horizontal and not vertical is certainly consistent with what we know about revolution and insurrection, as explained by Gordon Tullock (1974). Revolutions are not about the masses rebelling against the upper classes. They are about everyone in group A winning at the expense of everyone in group B, along with a differential distribution of the gains and losses among the members of the two groups. An army needs both privates and generals. This is no less true for revolutionary groups who are seeking to take power than it is for those who are seeking to stay in power. Similarly, some of the most intense conflict over the coming of industrialization was surely that between landowners and peasants on the one hand and industrial entrepreneurs and urban workers on the other hand. Relatedly, legislatures are inhabited by people from the far upper tail of the income distribution, regardless of party or ideology.

As further illustration, consider a tax bill that both repeals a tax credit for reforestation and provides for transition rules that allows the steel industry to get a refund for unused tax credits that otherwise would have been rendered worthless by repeal of the investment tax credit. The repeal of the credit for reforestation will have a negative impact on many people throughout the timber industry. Likewise, the transition rules will exert a favorable impact throughout the steel industry. An aggregation of these impacts by income categories may well show some particular "pattern," but doing so would misconstrue totally the nature of the process under examination.

Table 2 illustrates the same central point, only it does so in a way that in aggregative terms is consistent with Director's Law that the middle classes gain at the expense of the upper and lower classes. Yet the essential nature of the process is the same as before: group A takes 200 from group B. The only difference between the two situations is that the distribution of the gains and losses within the two affected groups differs from the preceding case. When expressed in terms of aggregates, Table 2 would seem to describe a very different situation from Table 1, and yet there is really no essential difference between the underlying situations portrayed in the two Tables.

What holds for the preceding illustration surely holds in general within an interest group model of government. In this more general model we have thousands of interest groups, along with thousands of measures that distribute gains and loses among the members of the various groups. It is always possible to aggregate over all these measures and derive some measure of the amount of redistribution that results, as expressed in terms of income classes. But such an expression of the resulting redistribution both falsifies the nature of the political process that produced the observed outcome and neglects the redistributions among the members of any particular income class.

The treatment of income redistribution in economics is misdirected. Both normative and positive literature speaks as if there were a unified program of nondiscriminatory transfers among broad income classes. It is as if there were a single transfer program of nondiscriminatory taxes imposed on the losers and nondiscriminatory subsidies granted to the winners--and with winners and losers defined in terms of membership in some income class. The considerable controversy over income redistribution in both normative controversy over desirable redistribution and positive controversy over the actual extent of redistribution, has almost universally proceeded in terms of this presumption of a nondiscriminatory process of horizontal redistribution.

The organization of an interest group and the sponsorship of legislation that would aid it is an activity that calls for scarce talent and not common labor.

Not being labor that is in common supply, such entrepreneurial talent would customarily be associated with people in the upper ranges of the income distribution. Instead of trying to get protection for the domestic automobile industry, domestic automobile executives could lobby for golden parachutes for displaced auto executives. This might concentrate the rents wholly on themselves, but at the cost of reducing strongly the chance of enactment. By sponsoring broader based legislation that confers benefits throughout the industry, support for the legislation is strengthened. Although factory workers might not be able to organize a coalition and lobby as effectively as the executives, they are more numerous and will be included as beneficiaries within the automobile interest group. While an army must have generals and colonels, it must also have privates and corporals.

If there were a single program of redistribution, nondiscrimination might be a plausible presumption, though even this is not certain. However, there is no single program, as would be represented by the idea of a redistributive budget. Whatever redistribution that results is the result of aggregating thousands of programs, each of which is intensely discriminatory when compared with any standard of horizontally based redistribution. Moreover, in a world of vertical redistribution, any comparison of actual redistribution by income categories would seem to lose all normative significance because the actual outcomes cannot be reasonably related to the normative categories. An aggregate measure that finds some net redistribution in favor of the lower income classes, for instance, will contain many net losers among members of the lower income categories, as well as containing many net gainers among the upper income categories.

In short, the common approach to income redistribution is predicated upon a presumption that governmental outcomes are the product of some single-minded despot who, some would say, is only imperfectly benevolent. Yet the entire congeries of concepts and categories that has come to exist clashes sharply with the central core of the interest group theory of government. To be sure, that theory emphasizes government as a redistributive process. But that process is animated by the interests of well-organized groups and not by some fiscal philosopher's vision of benevolence.

Table 1 Redistribution Illustrated and Disaggregated, Anti-Director				
Quintile	Group A	Group B	Group C	Aggregate
1	+70	-50	0	+20
2	+30	-40	0	-10
3	+30	-40	0	-10
4	+30	-40	0	-10
5	+40	-30	0	+10

Table 2
Redistribution Illustrated and Disaggregated, Pro-Director

Quintile	Group A	Group B	Group C	Aggregate
1	+20	-50	0	-30
2	+50	-40	0	+10
3	+60	-40	0	+20
4	+50	-40	0	+10
5	+20	-30	0	-10

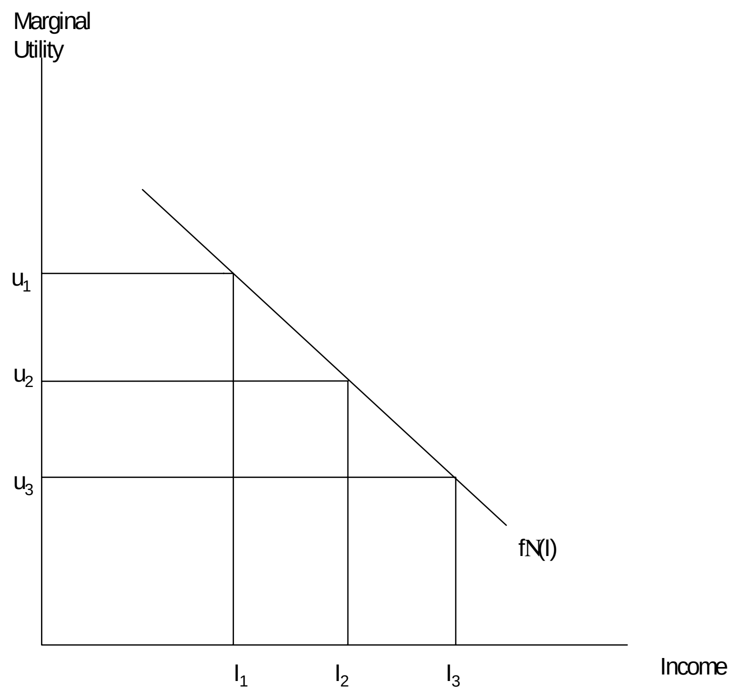

Figure 1: Income-Utility Relationship

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