WHO GETS WHAT FROM GOVERNMENT

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Preface

In this book I have tried to do two things: (1) to discuss how U.S. government policies affect people's incomes and the overall income distribution, and (2) to explore what political factors make government policies take the shape they do. The first task involves reviewing and commenting on a great deal of work by economists; the second belongs in the realm of political science.

The book was written for anyone interested in how and why government policies affect ordinary citizens. It is intended for general readers as well as for students and scholars. Every effort has been made to use clear language and to explain technical terms when they come up.

Still, the subject matter is inherently complicated; government affects people in a wide variety of direct and indirect ways. It is impossible to discuss some of these effects (tax incidence, e.g., or the overall incidence of fiscal policy, or equilibrium effects of regulation, or the common law of property) faithfully, without writing some passages that some readers will find difficult. In such cases I would urge the reader to forge ahead, to get the general drift and perhaps return later to the difficult passage, but not to let it distract him or her from the main arguments.

I have used notes to support some specific points and also as guides to further reading. It is of course impossible to cite all the many relevant works; I have noted those I consider most important or most representative, with (naturally) an emphasis on those I find most nearly correct. I have tried to cite the strongest arguments against my positions, as well.

In some ways this project began in the academic year 1972–1973 when I was a Social Science Research Council post-doctoral fellow in economics at MIT and Harvard. Lester Thurow and Herbert Gintis, in particular, helped kindle my interest in economic inequality, and I was exposed to the teachings of Paul Samuelson, Kenneth Arrow, Jerome Rothenberg, and others on microeconomic theory and welfare economics.

I did much of the work on the book (considerably later) during several summers and one academic year in residence at the Institute for Research on Poverty at the University of Wisconsin, Madison. I am most grateful to the institute and especially to its director at that time, Irwin Garfinkel, for financial and other support. Many economists, political scientists, sociologists, and others in the lively intellectual setting of the Poverty Institute contributed ideas and criticisms, and Scott Milliman provided energetic and able research assistance. Needless to say, the arguments and conclusions are my own and do not necessarily reflect the views of anyone at the Poverty Institute.

In writing the book I also engaged in long dialogues (some real and some imaginary) with economist and political scientist colleagues at the University of Chicago, whose respective concerns with efficiency and equity and with markets and politics helped sharpen my own thinking.

While the book was in press, I spent a very pleasant and fruitful year as a National Fellow at the Hoover Institution, Stanford, working on a project concerning relationships between public opinion and policy making. Although I am very grateful to the Hoover Institution for supporting my other work, it would be quite incorrect to associate the arguments I make in this book with that institution.

I am grateful to many people for making comments, criticisms, and suggestions on part or all of various drafts of the book. I especially want to thank Christopher Jencks, Joseph Minarik, and Sheldon Danziger for commenting on an earlier draft of the entire book. They stimulated many improvements—though not, perhaps, as many as they would like.

Among those who made helpful comments on one or more chapters, I want to thank Robert Lampman, Brian Barry, Charles Anderson, Jane Mansbridge, Richard Merelman, Murray Edelman, Irwin Garfinkel, Robert Haveman, Paul Menchik, Timothy Smeeding, Ted Marmor, John Bishop, Barbara Wolfe, Richard Burkhauser, Peter Eisinger, Russell Hardin, Duncan Snidal, Ira Katznelson, Roger Noll, Douglas Hibbs, and Alex Hicks. Responsibility for the product and its defects, of course, is mine.

Finally, I want to thank Mary, Benjamin, Alexandra, and Timothy, who have been very patient with a long and sometimes painfully intense writing process. I hope the book's account of my egalitarian arguments will be more convincing to them than the dinner-table versions sometimes seemed to be.

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May 1982

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It is evident that any transference of income from a relatively rich man to a relatively poor man of similar temperament, since it enables more intense wants to be satisfied at the expense of less intense wants, must increase the aggregate sum of satisfactions.[1]

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Why Equality

The question of who gets what from government could mean many different things, depending upon how one chooses to group the population. We might want to know how government actions affect blacks as compared with whites, or the young contrasted to the old, or residents of the Northeast versus the Southwest, for example. This book, while it does touch on such matters, is mostly concerned with what the U.S. government (federal, state, and local) does for high-income people as compared with those of low income—or, to put it loosely, what benefits go to the rich and what to the poor.

The focus is on inequality of income. In this first chapter, I will discuss some reasons why equality is desirable, show that private wealth and income in the United States are very unequally distributed, and suggest government as the place to look for redistribution. The rest of the book deals with what effects the government actually has on inequality and why, politically, it has the effects it does.

Equality, of course, is not cherished by everyone, especially not by those who are at the top of the heap and want to stay there. The last several centuries of world history have seen a gradual breakdown of rigid inequalities in status based on race, sex, class, ethnicity, and the like. Equality of political and legal rights has advanced, and there has been increasing agitation for more equality in material conditions and incomes as well. Still, the idea of moving toward more equal incomes provokes a lot of resistance, and progress, if any, has been slow and uneven, with many ups and downs.

As this book is written, in fact, the United States is in an exceptionally antiegalitarian mood. Writers and politicians have been telling us that government has gone much too far in promoting equality, that economic productivity and growth have suffered as a result, that it will be necessary to tolerate a high degree of inequality in order to encourage people to work and invest and restore vigor to the economy. Contempt for the poor is expressed in high places. Americans' sympathy for the underdog seems to have dried up.

This may be a good time, therefore, to remind ourselves why a high degree of equality is worth pursuing and to examine the record of government action. Some of the evidence may be surprising even to those who follow public affairs closely. In particular, despite a War on Poverty and large social welfare budgets, the United States has not succeeded much—if at all—in reducing income inequality. And that lack of success does not appear to be dictated by the imperatives of economic growth but follows (at least in substantial part) from biases in the political system.

Arguments for Equality

A substantial degree of equality is required in order to satisfy the aims of liberals, radicals, and conservatives alike. Extreme inequalities of income or wealth undermine the values of order and stability, communal harmony, liberty, self-fulfillment, and equal opportunity. Extreme inequalities reduce the overall happiness of mankind.

In order to realize the conservative values of order, stability, and community, for example, we can no longer rely on traditional mores or deference to authority: a good measure of equality is needed. In the modern world, inequalities breed resentment. Resentment, in turn, damages the sense of fellowship and solidarity essential to social harmony. Ultimately, the discontent of the poor can fuel war or revolution, wholly upsetting the social order. Short of insurrection, the deprived may be driven to crime and violence. Thus, conservatives must grant substantial equality in order to avoid alienation, turmoil, or revolt.

Similarly, liberty, which is a function of choices, requires a degree of material equality. Money expands choices, and those deprived of money are deprived of liberty. Moreover, political and legal equality are impossible in the face of severe material inequality. As Rousseau put it, no citizen should be sufficiently opulent to be able to purchase another and none so poor as to be forced to sell himself. We should allow neither excessive wealth nor beggary.[2]

Self-fulfillment and personal development also require material foundations. Freedom of action is limited without freedom from want. Creative thinking and aesthetic appreciation are not encouraged by an empty stomach or a desperate struggle for existence. As Tawney and Mill have argued, it is only in a society marked by a large measure of economic equality that varieties of individual genius and character are likely to find their full expression. The powers that make for energy and refinement should be liberated and cultivated in all men, not only in a few.[3]

Even the liberal notions of equality of opportunity and fair reward for individual achievement depend upon substantial equality of result. To be sure, equality of opportunity implies a competitive race in which the winners and losers enjoy unequal prizes. But the race is supposed to be a fair one, in which the competitors have an equal start. Those who have considered the problem have increasingly realized that members of a current generation cannot get an equal start unless their parents enjoyed substantially equal incomes, that is, equality of condition.

So long as natural families raise the young, the children of past winners have big advantages in their own contests: inherited wealth, good nutrition, intellectual stimulation, and opportunities to learn skills and motivation from family and friends. To be born rich does not guarantee success, but it certainly helps. Take the matter of motivation. If a child is reared by wealthy, supportive, and ambitious parents, they may instill in him self-confidence and drive and need for achievement. It is hardly fair for society to declare the child a winner and offer him (or her) lavish rewards because of this lucky initial advantage. Thus, any real effort to provide equal opportunity by equalizing starting positions must in the end move toward equality of condition.

In fact, we can go further than that. The very logic of equal opportunity is flawed by the impossibility of arranging equal starts, together with the injustice of rewarding those who have initial advantages. Even if unequal parental influences were minimized (perhaps by kibbutz-style collective child-rearing or by leveling parents' incomes), differences in genetic endowment are still bound to occur. In ethical terms, why should society reward those lucky enough to be born with superior qualities of mind or body? One might argue just the opposite, that those less blessed should be compensated.

In any event, if a genuinely equal beginning were somehow arranged (perhaps through a system of lengthy head starts for disadvantaged children), winning would then become random. What justice is there in unequal rewards for chance victories? And those who happened to take an early lead would be advantaged in any future racing. How long should a race last? How many races, with how many new starting lines and new equalization of contestants, should there be? Why stop short of constantly resetting the starting point, that is, imposing equality of condition?

Nor is it easy, once the start and finish of the race have been defined, to judge winners and determine their rewards. Neoclassical economics offers the observation that in a free labor market, with perfect competition, each person is paid exactly the value of his or her marginal product. We might be tempted to call that a fair reward for labor. But even setting aside market imperfections that distort wages—no small matter—we cannot consistently assign the same marginal product to each comparable worker when workers as a body produce more than a simple sum of marginal products. Production is genuinely collective. Nor, if we could do so, would it be just to assign rewards in this way since a worker's marginal product depends upon uncontrollable features of consumer demand, labor supply, and the prices of other factors, as well as on the worker's own skills (themselves not all under his control) and efforts. Rare is the economist who claims that free market wages provide just rewards.[4] Rarer still are alternative suggestions for working out the liberal ideal. The very concept of "to each according to his work" is not a clear one.

In fact, to most modern free market advocates, the argument for unequal incomes is really not ethical but pragmatic: fair or not, people should be paid more for the more productive work so that a lot of productive work will get done. But once the matter is acknowledged to be purely pragmatic, everything then rests upon empirical questions about how great the magnitude of incentive effects is and whether nonmaterial incentives could be substituted. As we will see, the empirical evidence does not provide so much support for inequality as is commonly believed.

The utilitarian aim of maximizing the happiness of mankind, which many take as their central moral imperative, provides some particularly important arguments for material equality. As Pigou concisely pointed out in our opening quotation, if a poor man would gain more satisfaction from a given sum of money than a rich man would, happiness in society would be increased by transferring money from rich to poor.

In fact, if we are willing to accept a few assumptions (as economists are fond of saying), utilitarian reasoning leads to advocacy of complete equality. Suppose we agree with the classical utilitarian postulate that society ought to be arranged so as to maximize the total amount (the sum) of happiness of the individuals in it. ("Happiness," of course, may depend not only upon pleasures of the flesh but also on aesthetic enjoyment, friendship and sense of community, self-development, and, indeed, anything that people value.) By referring to the sum of happiness, we admit the possibility—at least in principle—of adding up and comparing the happiness of individuals. Suppose further that the goods that can be purchased with any given total amount of money bring the same amount of happiness to each individual. Finally, suppose that money has declining marginal utility for everyone, that is, a dollar brings more happiness when one is penniless than when one already has $1 million, and the amount of happiness brought by an extra dollar declines steadily with increasing income.

Under these assumptions, if we treat people only as consumers and posit that there is a fixed amount of income to distribute, simple logic shows that the total amount of happiness in society is maximized by a completely equal distribution of income.[5]

To be sure, the assumptions of this argument are not beyond challenge. Such utilitarian thinkers as Bentham, Mill, Edgeworth, and Pigou questioned one or more of them and pulled back from the conclusion of complete equality. Yet the argument must be taken seriously.[6]

True, the cardinal measurement of utility or happiness, so that quantities can be added, is problematic; it is neither necessary nor possible for ordinalist economic theory. But it is important for normative purposes and can be accomplished by subjective methods or by the Von Neumann-Morgenstern technique involving reactions to risk. Declining marginal utility for money, while not easily demonstrated, is quite plausible and deserves acceptance in the absence of evidence to the contrary. A person usually appreciates a dollar more when he is poor than when he is rich.

Interpersonal comparisons of utilities involve real difficulties, but they cannot be ruled out unless we are willing almost completely to forego discussion of distributive justice. To refuse to compare the happiness of different individuals even in principle is virtually to refuse to make evaluations of income distributions and, in effect, to accept whatever the status quo may bring. It is also to shut one's eyes to a form of judgment we make every day. Sympathy and imagination, important human virtues, are both based on putting ourselves in another's place and comparing the other's happiness with our own. Most of us are convinced that the poor are less happy than the rich because we know we would be miserable in their circumstances.

The assumption of identical utility functions for income is not so absurd as it first appears. The point is not that everyone gets the same pleasure from the same things (smoking, symphony going, carpentry) but only that they obtain the same amount of happiness from the same total income, spent in whatever way they choose. If this assumption is not met and individuals differ in their capacities for pleasure, utilitarianism leads to the rather offensive conclusion that the most money ought to go to those who can enjoy it most. If the deaf, mute, or blind get less satisfaction from a dollar than do those in perfect health, a consistent utilitarian would tax the handicapped and subsidize playboys.[7] But we may reasonably be skeptical about claims of widely differing utilities for income. Any refined tastes displayed by the rich (which in any case are easily exaggerated) probably arise more from their riches than from innate capacity for pleasure. Given time and opportunity, very likely anyone can learn to enjoy what money will buy.

Furthermore, considering the difficulty of measuring cardinal utilities and making interpersonal comparisons and the danger that some people will pretend to have keen capacities for pleasure if that will get them a bigger share of the money, prudence suggests refuge in a principle of insufficient reason. Absent strong evidence to the contrary, a theory of distributive justice ought to presume that utility functions for money are identical and carry through with the egalitarian implications of that fact.

By far the weakest assumption in the utilitarian argument for equality, however, is that there exists a fixed amount of resources to be divided up. This assumption obviously fails, and its failure compels the utilitarian to retreat somewhat from complete egalitarianism. Only the extent of the retreat is in question. This, in fact, is the key to many modern objections to equality.

Resources are produced as well as consumed. If material incentives are needed to encourage work, the prospect of redistribution may affect how much is produced. Neither low-income workers who expect to be subsidized nor high-income workers who expect to be taxed may exert their best efforts. Incentives to save and invest may also be reduced and allocations of effort made less efficient. In order to avoid such losses of productivity and consequent declines in happiness, the optimal utilitarian tax might have to stop well short of the steep progressivity that would be needed to equalize incomes. Under these circumstances, even Rawls's "maximin" criterion would dictate some tolerance of inequality in order to maximize the welfare of the least well off.[8]