A limited defense of Pareto optimal redistribution

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In a recent article in Public Choice, E. C. Pasour, Jr. (1981) attacks with considerable zeal the usefulness of the so-called Pareto optimal redistribution literature. He finds little of value in this approach either as a normative guide for judging redistribution programs or as a positive tool for explaining existing redistributinal activity. While several of his criticisms are valid, Pasour's wholesale dismissal of the usefulness of the approach overlooks much of the more recent literature in the area and is based upon a narrow, mechanistic interpretation of this line of analysis.

Pasour's major theme is the failure of real-world redistribution to fit into the model established by the Pareto optimal redistribution or utility interdependency literature. It should be noted that the articles cited for his criticism (Hochman and Rodger; 1969; Zeckhauser, 1971; Thurow, 1971) are now a decade or more old. These were seminal articles in this area which may have quite understandably overstated the power of this approach. He has not dealt with some of the more recent literature, especially that which has focused more narrowly on the analysis of particular programs and policies such as, for example, the tax treatment of charitable contributions (Hochman and Rogers, 1977), aid to dependent children (Orr, 1976), the food stamp program (Giertz and Sullivan, 1977 and 1978), and wage supplements and negative income taxation (Holahan and Perlman, 1978).

1. The positive analysis of governmental redistribution

Pasour's main argument deals with what he perceives to be the failure of the utility interdependency approach to explain real-world redistribution activity by government. He rejects this approach because it fails to give a complete explanation of redistribution, i.e., because other factors in addition to utility interdependencies are also important in shaping redistribution programs. He

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is quite correct in suggesting that the political power of donors is an important factor (very likely the most important one) in explaining redistribution through the political system (Tullock, 1981). There is no reason to believe, however, that such programs are shaped solely by one factor. Most political decisions are the result of a complex set of interacting forces. In the case of redistribution, these forces include lobbying efforts by potential recipients as well as the efforts of both altruistic and selfish donors (taxpayers) and of groups who are involved in administering the transfer programs (Giertz and Sullivan, 1978). None of these factors can be neglected in the analysis of most redistribution schemes.

If there were no interdependencies, however, it is doubtful whether even the most skillfully organized recipients could be as successful as they have proved to be in achieving the passage of governmentally organized transfer programs. Recipient organizations are often very adept at using the interests of altruistically inclined donors to gain sufficient support to offset the power of groups which oppose any transfers. Pasour is wrong in dismissing the power of the utility interdependency approach simply because it is not the only explanation for redistribution. 1

Pasour seems to suggest that redistribution influenced by utility interdependencies would result in only transfers from rich to poor. He, therefore, views any other type of redistribution observed in the real world as a refutation of this approach. 2 There is no reason to believe that interdependencies are based solely on a one-dimensional measure such as income, however. The interdependencies of potential donors may also be influenced by such factors, in addition to income, as the age (particularly very young or very old) or the health of recipients as well as their location and their consumption patterns. For example, it is quite clear that an aged person of a given income and health level is treated more favorably under the tax and transfer laws than a non-aged person of comparable status. Pasour would seem to suggest that this phenomenon could be explained solely by the political power of the aged (or soon to be aged) population. It is hard to believe, however, that a transfer as massive as that generated by the social security system could occur without the support or at least the acquiescence of many altruistically inclined taxpayers who stand to be net losers from the system on strictly private grounds.

Similarly, it would be difficult, if not impossible, to explain the existence of most in-kind transfer programs as strictly the result of recipient political power. First, many recipient groups for such transfers as food stamps, health care and public housing would not be expected to wield a great deal of political power given their size and situation. Furthermore, if they did have sufficient power to arrange such transfers, a rational recipient would never design programs in the manner that in-kind transfers have evolved in the United States. Several studies have suggested that recipients of in-kind