“Summary of article by Hal R. Varian: Distributive Justice, Welfare Economics, and the Theory of Fairness” in Frontier Issues in Economic Thought, Volume 3: Human Well-Being and Economic Goals. Island Press: Washington DC, 1997. pp. 252-255

Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being

“Summary of article by Hal R. Varian: Distributive Justice, Welfare Economics, and the Theory of Fairness”

Theories of justice emphasize either end-state or procedural principles. End-state principles, as found in John Rawls' theory of "justice as fairness" and also in welfare economics, evaluate current distributions in light of future ideals. Procedural theories assess current distributions according to the justice of past distributions and past transfers. In the year prior to the publication of his famous treatise on libertarian political philosophy, Anarchy, State and Utopia, Robert Nozick wrote an insightful piece defending a distributive theory of justice based on procedural principles.[1] End-state theories, Nozick argued, ignore historical and procedural aspects of justice. This article defends welfare economics from Nozick's criticisms and offers a theory of fairness that pays more attention to the matter of equity in initial allocations.

NOZICK'S ENTITLEMENT THEORY

According to Nozick, a valid theory of justice must include principles of acquisition, transfer, and rectification. Distributions can only be just if they arise from other just distributions obtained through legitimate transfer. Past injustices must be redressed. The primary restriction on these principles is that they cannot violate agents' rights. This is a procedural theory in the sense that whether a given distribution is just will depend entirely upon the justice of the process that leads to it. By contrast, proponents of end-state principles, such as Rawls, contend that we must first decide what a perfectly just state is and then try to move toward it.

Nozick's theory of acquisition implies that nearly any appropriation is legitimate so long as it does not make others worse off by preventing them from freely using their own goods. The concept of private property plays an important role here. Once property is appropriately acquired, it becomes permanent and inheritable subject to the constraints of legitimate transfer within a free market economy. Nozick defends the idea of private property by invoking the market mechanism.

Nozick explains that some of the critical problems with a theory of distributive justice that focuses on a fixed social product (a current time-slice) arise from considerations of whether people have done things in the past to deserve the shares they have today. He goes on to argue that welfare economics ignores the interaction between distribution and production.

In fact, welfare economics does deal explicitly with this issue. To see that this is so, let us consider the intersection of two sets: the set of all possible allocations of goods (including all possible redistributions of initial endowments); and the set of all Pareto optimal allocations. This intersection will be extremely large. It does not take us very far towards answering the basic problem of welfare economics: at which feasible allocation should the economy operate?

Here we can introduce the basic idea of welfare economics, which is "to assume that there is a welfare function which evaluates the 'goodness' of the social states as a function of the utility evaluations of those states by the agents in the society" (139). Because of the way welfare functions are defined, the choice of the best Pareto efficient point is assured by the selection of a feasible allocation of maximum welfare.

The use of the market mechanism is an alternative approach to that which starts from the definition of a social welfare function. The weakness of the market approach is that it is also purely procedural, and does not deal with the fact that any given allocation to which it gives rise must reflect the endowments with which the present agents began. "We are interested in justice precisely because we live in an unjust world; injustices have occurred in the past and are occurring now. The question is what should we do about them." (137) Nozick's analysis seems to depend on the market mechanism -- whose outcomes are strongly determined by the initial allocation -- to 'solve' the distribution problem. This is unreasonable.

An alternative is a concept of 'people's capitalism' which uses the market mechanism as a means of allocating resources, but does not rely upon permanent, private ownership of property. "It is perfectly possible to use prices for allocation, while basing distribution on factors other than the blind-chance assignment of initial endowments." (147)

"The interesting result of welfare economics is that we can relate an end-state principle of justice -- maximum 'social welfare' -- to an allocative procedure -- the market mechanism. Nozick's own theory is most deficient in failing to provide such a relationship: the first part -- how agents come to acquire legitimate holdings -- seems to require some sort of end-state principle and is crucial in determining the entire outcome.

"Unfortunately, welfare economics is itself too arbitrary in that it leaves unanalyzed the basic normative question of the choice of the social welfare function. In the next section I shall consider an alternative to classical welfare theory." (147-8)

THE THEORY OF FAIRNESS

A fair allocation, as defined here, would be both equitable and efficient. To be equitable, the allocation must be one in which every agent is content with his own bundle of goods, i.e., would not prefer the bundle held by any other agent. Such an outcome could, in theory, be achieved using the price system and allowing agents to trade to a market equilibrium, as long as all agents start out with identical endowments. However, even this does not address another justice-related question: how to match each individual's final allocation with her contribution to the social product.

We can extend this concept of equity to include rewards to production if we describe each individual's position in terms of labor contribution as well as of consumption. A fair distribution would exist if, after all desired trades had been made, we found that no agent preferred the consumption-labor bundle held by any other agent. Unfortunately, it would often prove impossible to arrive at such an equilibrium, because agents' abilities may not coincide with their tastes, and because abilities cannot be transferred.

This difficulty can be overcome if we ask agent X, when evaluating each of the other agents' bundles, to consider Y's outcome in light of how much time and effort X would have had to put in to produce Y's output. In effect, "each agent compares his consumption-output bundle to the consumption-output bundle of each other agent." (151)

"If an allocation is such that each agent prefers his consumption-output bundle to that of every other agent, I will say that allocation is wealth-equitable; if the allocation also happens to be efficient, I will say that the allocation is wealth-fair." (151). The feasibility of a wealth-fair allocation can be proven in a similar manner to the earlier fair equilibrium allocation, with similar provisos: that the initial distribution must be an equal allocation of all consumption goods, and the agents buy and sell consumption goods -- and also, in this case, their labor -- at market rates. (Other solutions, such as insurance, will have to be found for problems that arise with agents so handicapped that they are unable to produce another's output by any substitution of their own labor, no matter how much effort they offer.)

"People's capitalism" thus depends upon a combination of government interventions for ensuring an equal distribution of material resources, along with market procedures for allocating material resources, including the products of each person's labor. The major requirement for a non-market intervention is that some entity (presumably the state) has the power to prevent agents from making non-market transfers of property -- e.g., gifts and bequests -- because those would upset the pattern of wealth-fair allocation. It specifies the principles of acquisition, transfer and rectification as follows:

(1) At some stated point (birth, maturity?) each agent is endowed by the state with a share of society's material resources identical to the shares received by all other agents at the same points in their lives. All property reverts to the state when its owner dies.

(2) Agents can transfer ownership of goods and services only through the market mechanism; there are no "private" or non-market transfers.

(3) If some agent finds that he prefers another agent's consumption-output bundle to his own, this is counter to the expected outcome. A complaint along these lines would be taken seriously by the state, which would consider rectification measures.

One other alternative has been suggested by Pazner and Schmeidler, who propose that each agent should start not only with an equal share of all goods, but also with an equal claim on the labor of each and every agent in the economy. This "income-fair" scheme totally corrects for differences due to ability -- in contrast to the wealth-fair allocation which equally allocates all goods, but allows each person complete control over her own time and the benefits accruing from the use thereof.

The wealth-fair allocation seems preferable to the income-fair scheme, mainly because it is easy to organize. This approach to distributive justice is compatible with the form of Nozick's entitlement theory, but goes farther in determining the initial distribution faced by each agent. It does, however, leave open a number of questions:

> "What are we going to do about acts of God, children, mistakes, small gifts, lies, malicious envy, and so on? If these questions can be answered in a satisfactory way, the idea of fairness may provide a very attractive theory of justice that combines the considerations of both procedural justice and distributive justice." (153)

Notes

1. Robert Nozick, “Distributive Justice,” *Philosophy & Public Affairs* 3 (Fall 1974), 45-126