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Equality and Equity

By MARTIN BRONFENBRENNER

ABSTRACT: The terms equality and equity are widely confused. Despite their phonetic similarity and philological connections, they are quite distinct. The equality of a distribution of income or wealth is basically a matter of fact and is, therefore, basically objective. The equity of the same distribution is basically a matter of ethical judgment and is, therefore, basically subjective. The discussion attempts to avoid extraneous issues, such as whether the particular poor—at any time or place—are apt to be morally superior, or inferior, to the particular rich; and whether economic, as distinguished from ethical, maldistribution can cause, or has caused, economic depression. The paper begins with the valiant attempts by the marginal-utility economists of the turn of the century to frame an objective case for income equalization and with A. P. Lerner's later extension of this case. It then moves on to the rebuttals of conservative opponents. Three more recent attempts—under the headings of (1) interdependent utility functions, (2) limiting the domain of inequality and (3) John Rawls' recent theory of justice in generalized ethics—are then summarized. The discussion ends, however, on a skeptical note.

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IN twenty-five years of teaching income distribution to budding economists, I have been struck both by the prevalence of confusion between the terms "equality" and "equity" among students and by my own inability to remedy this confusion. The confusion, if such it be, carries with it important ideological consequences. For if equality were indeed equity and equity, equality, the major normative issue of distribution theory would be reduced to a matter of definition and would be amenable to an obvious and simple solution.

DEFINITIONAL EXERCISES

Being neither a linguist nor a philologist, I cannot guess intelligently whether—and to what degree—the confusion of equality and equity in the English language is generally prevalent. Since the words have a common Latin root, one might expect confusion in most of the Romance languages, which are more directly and exclusively related to Latin than is English. Nor should anyone be surprised to find some confusion prevailing over a wider range, since ethical philosophers define commutative justice, or equity, precisely as the equal treatment of equal things or persons. On the other hand, in Japanese, the only non-European language with which I am at all acquainted, equality is *byōdō* and equity is *kōhei*.¹ There is active debate about their inter-

relations, but it proceeds unencumbered by verbal magic.

The distinction between commutative and distributive equity is at least as old as Aristotle's *Ethics*. We have already defined commutative justice as the equal treatment of equals. Distributive equity, on the other hand, is the appropriate treatment of unequals in view of the differences between them. This concept is not particularly helpful; in fact, it opens the Pandora's box of distributional issues—in American slang, the whole can of worms. At any rate, distributional equity is nonmechanical in principle. It implies that the distribution of income, wealth or whatever is being distributed will be in accordance with principles of justice; therefore, my personal view is that the concept of distributive equity is largely, if not completely, a subjective matter. This implies the impossibility, in principle, of objectively judging whether something called maldistribution exists in a given society and whether one distribution is better than another. Such a view annoys my twentieth century liberal friends and colleagues in both the American and the Japanese institutions where I have taught, because it denies the possibility of proving their views; they find no comfort in the converse proposition that these views cannot be disproved.

Distributional equality—as distinguished from equity—is a mechanical or statistical matter in a first approximation. When one talks about equal income or wealth per unit, problems arise as to the definition of the units considered: in the numerator, should one be interested in the flow of income or the stock of assets—wealth? What allowances should be made for fringe benefits, receipts in kind, social prestige? In the denominator, is the individual, the nuclear family or the ex-

1. These words are related in that the same Chinese character forms the *byō* in *byōdō* and the *hei* in *kōhei*, but Japanese attach little significance to such relations—particularly when the character in question is a common one, as in this case. By itself, the character signifies a plain or plateau, and is also one of the most famous family names in early Japanese history. In compounds, it also appears in the words for peace, tranquility, a bargain, an average, and a steppe or prairie.

tended family the focus of interest?² May the number of units be augmented or diminished in such special circumstances as illness, age, handicaps, extraordinarily slow or fast depreciation of human capital? Problems also arise in any regime permitting private property in the means of production, in the weighting of incomes from manual labor, and nonmanual labor, and property involving varying degrees of uncertainty-bearing or managerial responsibility—inasmuch as some forms of income and wealth are more secure than others or involve smaller sacrifices of leisure. In principle, however, equality means what it says.

DODGING ISSUES: CLEARING THE AIR

To limit the scope of the discussion and to minimize entanglement in extraneous issues, I shall avoid—or evade—whole classes of important problems, usually by making special assumptions which I realize will be less than half true.

—I shall not be concerned with the truth or falsehood of Leo Durocher's law, "Nice guys finish last"—in pedantic jargon, that a man's moral worth, x , is correlated negatively with his income or wealth, y . At the same time, I

2. A nuclear family basically consists of one husband, wife and their natural children; in some cases, a small number of other close relatives by blood, marriage or adoption are included. An extended family combines a number of nuclear ones—commonly, the nuclear families of the extended family's head, his adult sons and his retired parents—especially if they live together in a common compound. In the American context, the definition of the family—the spending unit or the consumer unit—takes on practical importance in connection with the division of responsibility among working adult children, state social security agencies and private charity for the support of the aged poor.

shall avoid the opposite Social Darwinian assumption that x and y are correlated positively, which we might call Herbert Spencer's law.³ Avoidance of both Durocher's and Spencer's hypotheses is tantamount to an implicit neutral assumption that x and y are independent of each other; thus, the identities of neither the rich nor the poor will affect the analysis.

—I shall be speaking of income and wealth almost interchangeably. This usage implies that wealth is simply income capitalized at a uniform real market rate of interest. In practice, property income is capitalized into physical capital at a systematically lower rate than that at which labor income is capitalized into human capital—for example, for security against a loan. Thus, the wealth position of the representative man with one thousand dollars of property income per unit of time is superior to that of a representative man with one thousand dollars of labor income during the same unit of time.

—I shall attempt no distinctions between the ethical bases of labor and property income. I shall take as given whatever may be the existing institutions of physical property and its inheritance⁴ or, what

3. In America, William Graham Sumner's law. A concise statement of Sumner's position is: "Let it be understood that we cannot go outside of this alternative: liberty, inequality, survival of the fittest, not—liberty, equality, survival of the unfittest. The former carries society forward and favors all its best members; the latter carries society backward and favors all its worst members," as cited in Arthur Schlesinger, Jr., "Ideas and the Economic Process," in *American Economic History*, ed. Seymour E. Harris (New York: McGraw-Hill, 1961), p. 14.

4. However, I shall assume that there are no property rights in other human beings,

amounts to the same thing, as though each unit's income were divided similarly between functional sources—despite all the evidence that, in fact, the relative importance of the property component in income increases with income size, once we pass the lower tail of the distribution.

—I shall not be discussing the validity of economic, as distinct from ethical, maldistributionism. Economic maldistributionism is the combination of two strongly-held beliefs about the operation of the macro-economy: (1) it suffers from constant or periodic tendencies to under-consumption and over-saving; (2) these tendencies are caused by a distributional flaw—too high a proportion of the national income going to the saving, and too little to the consuming, levels of society. They are not caused by any defect in the society's mechanisms of money and credit, by any tendency at all income levels to attempt hoarding of cash or by any undertaking of capital investment without sufficient attention to the demand for any eventual increment of consumption goods. To ignore this broad and important range of issues implies that either the doctrine of economic maldistributionism is wrong or, less restrictively, that its consequences are remediable within reasonably short periods by appropriate combinations of fiscal and monetary policy, without resort to redistribution.

—Finally, I shall not consider the possibility, or desirability, of remedying whatever degree of maldistribution one may believe to exist

in any society or the choice between alternative mixes of whatever redistribution methods there may be. In short, this paper will address maldistribution exclusively as a problem distinct from the closely related issue of redistribution within capitalist or socialist institutions and distinct from the choices between the two systems.

NORMS OF INCOME DISTRIBUTION

Economists owe to Jan Pen, of the Netherlands, the following twenty-one norms which dominate much current discussion of distributional equity.⁵ Some of them are completely inconsistent with others, and many stress redistribution equally with maldistribution.

1. Distribution is irrelevant, because income is irrelevant. Already, there is too much consumption of the sort which makes people unhappy in the long run. Property is theft, and "income distribution" is an expression which legitimizes it.
2. All should get the same income with slight differentiation by size of family, age or other "elementary differences in wants" (compare with norm 12, below).
3. Incomes should be received only from work. Under this socialist norm, how to divide the total wage bill still remains a problem.
4. The rich are too rich. The top k percent— k equalling 1, 10?—should be stripped of all their surplus above some maximum level.
5. High and even medium incomes

5. Jan Pen, *Income Distribution* (London: Allen Lane Penguin, 1971), pp. 293–315. Our discussion is greatly condensed and omits the bulk of Pen's commentaries on individual norms.

that is, the absence of such institutions as slavery, indentured service or peonage.

are immoral so long as impermissible poverty exists. By impermissible poverty, Pen refers to incomes below the present fifteenth or twentieth percentile of the country's personal income distribution. A number of American writers prefer poverty lines at approximately 50 percent of the national median income.

6. Inequality is too great so long as some are rich while many workers cannot support their families decently. Pen interprets the papal encyclicals as expressing this position on behalf of the Catholic Church.
7. There should be progressive taxation in accordance with ability to pay. Pen supports this position on marginal-utility grounds which, as we shall find in the next section, are somewhat shaky.
8. Money easily earned—which refers particularly to income from property and income by bequest—should be taxed more severely than other income.
9. Ill-gotten gains should be eliminated. Pen means those incomes from monopoly, graft and crime. He adds speculation to this list, but probably means only such speculative abuses as cornering markets, spreading false rumors and abusing preferential access to information.
10. Income distribution should be acceptable to all. This Utopian position Pen ascribes to Jan Tinbergen, in particular. For example, assume that income receivers A and B in the same community know each other's work and income. Income is justly distributed if neither A nor B is willing to change places with the other.
11. Nondiscrimination by race, religion, color or sex; equal pay for equal work; and equal access to preferable jobs (closely allied with norm 21, below).
12. To each according to his wants, at least his legitimized wants. When only "primary differences in wants" are recognized, this principle is egalitarian, as is the socialist "to each according to his need." When a sufficiently wide range of wants is legitimized, the same principle becomes antiegalitarian (compare with norm 2 above).
13. Support for the family as an institution, to include stress on family allowances, higher pay for married workers, provision of child care for working women and, also, unhampered inheritance.
14. More even distribution of property. Pen's suggestions involve minimal wealth to the value of a house or apartment of one's own, some multiple of one's annual income or a sum sufficient to finance one job at the going capital-labor ratio. Some American proposals would reserve corporate income tax receipts for equal distribution, to give every citizen a stake in corporate profits.
15. Reward for deserving professions and, also, for unusual merit in any field. This is the first of a series of norms which are antiegalitarian either in principle—as in this case—or in practice.
16. Reward for special effort (which has the same effect as norm 15, immediately above).
17. Leave people as you find them—or minimal interference with distribution, as determined by market forces. This would be

antiegaltarian in practice, at least in capitalist societies.

18. Expropriation of land rent and other forms of economic surplus, which can be taken over without reducing the stock of productive resources.
19. Suppression of wage-price spirals and other manifestations of cost-push inflation, for the particular benefit of pensioners and small renters.
20. Income distribution keyed to maximum production and growth (as with norm 17, probably anti-egalitarian in practice).
21. Equal opportunity for all at starting (once this is achieved, norm 17 and/or 20 should apply; compare also with norm 11, above).

Here, as elsewhere in his treatise, Pen is not adverse to making his own position clear and to indulging in occasional preaching on the side. He believes that norms 5, 7, 8, 10, 11, 14, 15, 16, 19, 20 and 21 are of the greatest practical importance. "With a little give and take," he argues, "these eleven principles can perhaps be combined into a practical policy" of income redistribution.⁶ At the same time, Pen is careful to state his conclusions only as subjective preferences, with which he hopes most men of good will can agree, and never as objective or scientific laws of economics. For example, faced with members of the libertarian Mont Pélérin Society, who tend to emphasize norms 17 and 21 to the exclusion of most others, Pen could advance against them, as far as one can gather from his book, no argument more telling than the proportion of ethically nonpariah people whom these doctrines might leave stranded below admittedly arbitrary

poverty lines and amenable to crime and revolution.

UTILITY THEORIES

Economists have been accused of "irrational passion for dispassionate rationality," by John M. Clark, a distinguished member of the profession, himself. Certainly, most of them distrust policy prescriptions impervious to dispassionate rationalization—at least in their own field, which includes distribution theory. Almost equally, they distrust the late unlamented Dr. Josef Goebbels' injunctions "mit Ihrem Blut zu denken" and the currently chic New Left or existentialist nonrational ways of knowing. Kenneth E. Boulding has distinguished economists from business men in a quatrain with a similar moral:

Business men are rather dumb;
Their model is the rule of thumb;
Economists, it must be said,
Would much prefer the rule of head.

The utility revolution of the 1870s—against cost theories of value, of which the labor theory of value is best known—was later to serve two generations of Anglo-Saxon reformist economists as a scientific foundation for doctrines of egalitarianism and as a criticism of the capitalist order's maldistribution of the country's income. Perhaps the single most important group in this tradition were the Fabian-Socialists of England, who intellectually dominated the British Labour Party for much of this period.

I propose to distinguish two stages in the application of utility theory to maldistribution problems. The earlier of these stages culminated in Arthur C. Pigou's *Wealth and Welfare* (1913); in revised editions, the title became *The Economics of Welfare*. The later stage focused on Abba P. Lerner's *Economics of Control* (1944).

6. Ibid., p. 317.

The conventional Fabian of the late-Victorian or Edwardian vintage, insofar as he concerned himself with theoretical economics, attached overweening significance to utility. Albeit somewhat apologetically, he regarded utility as a measurable entity, such as temperature—not quite the same as height or weight because the zero point of utility remained arbitrary. Simultaneously, it measured both actual and anticipated satisfaction; the representative consumer, sufficiently rational and well-informed, would reduce the distinction between satisfaction *ex post* and *ex ante* to a quibble. Furthermore, utility was to be considered uniform by all individuals; thus, A's satisfaction, expressed in utils, could be added to B's, expressed in identical utils, and the sum interpreted as the social utility of—A and B's—society.⁷ The supply side of any particular market—or, indeed, the total real income to be distributed—was sometimes taken as given and as largely independent of distribution. More often, the prospect of reduced supply and income—if one went too far with egalitarianism—remained in the background as an imprecise and fuzzy limit to the implications of the utility, or demand, side of theoretical analysis.

The implications of the utility, or demand, side were quite egalitarian and implied maldistribution in the highly nonegalitarian outcomes of free market processes. These egalitarian implications were particularly clear in public finance and taxation. If levying taxes to support general public expenditures were to be based upon any of three

desired alternative principles: (1) equal sacrifice of utility by all individuals regardless of pretax income; (2) equi-proportional sacrifice of utility by all individuals regardless of pretax income; or (3) minimum total sacrifice, leaving maximum utility “for the contemplation of God,” it would follow that taxation should be progressive rather than proportional. Moreover, taxation would be more progressive if based upon principle three, than on principle two, than on principle one. Principle three—minimum sacrifice—implies, in fact, that the entire tax to be paid by the *n* richest taxpayers—the size of *n* depending upon only the cost of the expenditures to be financed.⁸

Passing on to the second stage of utility analysis, Lerner's contribution has been to generalize these conclusions. In particular, the interpersonal comparability assumption is replaced by a substantially weaker one. Lerner's assumption is that of any pair of individuals, A and B, the richer and the poorer are equally apt to have the higher utility function for income or wealth as a whole. The other assumptions, plausible and otherwise, are retained. Using his weaker assumption about interpersonal comparability, Lerner shows that, starting from any position other than equality of incomes between A and B, a utility gain from moving towards greater equality can be expected; a move in the opposite direction would result in a loss of utility.⁹

Lerner's probabilistic assumption of equal likelihood is plausible enough, if A and B come from disparate social

7. Alternatively, possible differences between the efficiencies of A and B as “pleasure machines” were ignored deliberately, less because of the difficulty of measurement than because, insofar as they existed, they were so largely consequent on past inequalities of distribution that allowances for them were clearly apologetics for the status quo.

8. If this essay were a textbook chapter, a proof of this proposition would be offered as an exercise.

9. A. P. Lerner, *Economics of Control* (New York: Macmillan, 1944), chap. 3, especially pp. 30–32. Compare Martin Brofenbrenner, *Income Distribution Theory* (Chicago: Aldine, 1971), chap. 5, sec. 5, pp. 99–101.

classes so that at least one of the pair has never had the opportunity for a career choice which might have put him in the other's position. But if A, the poorer of the two, is a chemistry teacher who might have been a physician in private practice and B is a successful physician who rejected a teaching career to enter medical school, it is rather likely that A prefers additional leisure, with a quieter and longer life, to the additional income of B; B has quite consciously made the opposite choice.¹⁰ In such a case, Lerner's method cannot show any presumption of utility gain from equalizing the two incomes. All one can say in such cases is that, with no rule of interpersonal comparison, A gains from equalization at B's expense. Of the net effect upon the society, one can say nothing.

ANTIEGALITARIAN REBUTTALS

In their rebuttals, antiegalitarians have been quick to stress the restrictive nature of utility theory assumptions, especially the assumptions about interpersonal comparison of utilities and the possible—but unproven—production, supply and income effects of equalization. They go further and make a case for distributive *laissez-faire*, which Richard H. Tawney has called "the religion of inequality." Their case, insofar as it is independent of Social Darwinism and Herbert Spencer's law, concentrates upon criticizing particular

redistribution methods in particular societies. Perhaps the most pervasive of such arguments anticipates the decline of cultural values to the mass level, if income is redistributed. The example quoted below, by Paul Leroy-Beaulieu, the French liberal economist, has an 1880 dateline and transcends *laissez-faire* in the interests of maintaining or increasing inequality:

The real danger to civilized societies in the future is not that there will be too great an inequality of conditions but that there will be too little, and that in a few decades a dreary uniformity of incomes and ways of life will produce apathy and stagnation.¹¹

Such fears were more plausible in homogeneous small country societies—such as nineteenth century Holland rather than nineteenth century France. They seem extreme in terms of America a century later with its regional, racial and, above all, occupational variations. In the American case, the white collar differential between the ordinary clerk and the ordinary manualist has turned negative; the skilled craftsman's income approximates the income of the average professional man; and the typical family farm requires substantial capital investment over and above the value of its land. However, the blue-collar and white-collar cultural differences and

10. Among the saddest cases of academia are the once idealistic, young men who chose peace and quiet, and/or interesting lives, at twenty but have changed their tastes at fifty; influenced, perhaps, by materialistic wives and children they find that it is too late to shift to better careers with higher incomes. Private professions and business also have their quota of embittered and dyspeptic rich men who regret the materialism of their youth and wish that they had chosen more meaningful occupations 30 years ago, rather than higher incomes.

11. Paul Leroy-Beaulieu, *Collectivism: A Study of Some of the Leading Social Questions of the Day*, trans. and abridged by Sir Arthur Clay (London: J. Murray, 1908). Unlike most writers in the aristocratic tradition, particularly in France, Leroy-Beaulieu does not in this passage make the unprovable claim that any, and every, mass or middle-brow culture is inherently inferior to the haute couture of contemporary aristocracy. Presumably, a society of Westchester Counties would lead, for Leroy-Beaulieu, to the same "apathy and stagnation" as a society of Harlems.

the rural and urban differences show no signs of disappearing, despite the homogenizing consequences of air transportation and nationwide mass communication.

Similarly, say the antiegalitarians, private charity and philanthropy will vanish if incomes are equalized. The arts, education and scholarships must then be supported by public bodies, governments or governmental corporations. A maldistribution of power over the public mind and taste would result, which would be more deleterious and monopolistic than the maldistribution of income and wealth which it was supposed to remedy. Such a line of argument assumes a highly centralized system of administration—patterned on Bismarck's Germany, Napoleon's France or Meiji Japan; it is less valid in a federal system, such as the American, or an international grouping with free migration, such as the European community. On the American academic scene, there seem to be many differences in intellectual climate among the public universities of different states, rival institutions funded by the same state, private institutions aimed at similar clienteles and private and public institutions with similar ambitions within a given state.

Another of their common claims is that redistributive taxation falls with greater severity upon those who are getting rich rather than upon those who are rich—that is, progressive income tax rates which prevent the accumulation of new fortunes may be but a minor inconvenience to those living on income from fortunes accumulated in the past. This is quite true, so long as major recourse for redistributive purposes is income, rather than wealth, taxes. The moral is not that redistribution be abandoned, but that less emphasis be put on income taxation. Two other

charges are also heard against redistribution by fiscal means—public expenditures, as well as taxes. (1) They cannot be enforced adequately, short of tyranny—maldistribution of power once more. (2) Redistribution by public expenditure, supplementing or subsidizing the expenditures of the poor, may indeed—even with nonprogressive taxation—take from the rich more than it returns to them. But it may give less to the poor than to the middle class, who administer the programs and live on these budgets. In other words, the largest net gainers may not be the poor, but the middle classes.¹² Neither of these charges has yet been quantitatively demonstrated for any sufficiently broad range of fiscal activity as a whole.

THREE RECENT CONTRIBUTIONS

In this subjective limbo, I believe, the discussion of distributive equity stood in 1966, when I wrote the "Maldistribution?" chapter of *Income Distribution Theory*. In the succeeding years, there have appeared, in English, several ambitious attempts to carry the subject further on an objective and rationalistic basis. While the philosopher's stone of scientific distribution theory continues to elude the economic geologists, some new research merits special consideration: (1) the intensive application of interdependent utility functions by economists affiliated mainly with the University of Virginia and the Urban Institute in Washington; (2) the approach called "limiting the

12. An alleged tendency of social expenditures to hurt both rich and poor for the benefit of the middle classes is sometimes called Director's law, named for the economist Aaron Director. Supporting evidence for Director's law is drawn largely from public higher education, patronized mainly by children of middle and upper class families and funds supplied mainly from sales taxes on the consumption of the poor.

domain of inequality," by James Tobin of Yale;¹³ (3) the distribution-theory implications of the theory of justice, by the Harvard philosopher John Rawls.¹⁴

Interdependent utility functions

If there are n individuals and m goods in a community, the utility function of individual i may be written:

$$U_i = U_i(x_{i1}, x_{i2}, \dots, x_{mi}, w_i); \\ (i = 1, 2, \dots, n). \quad (1)$$

where the terms in x —all positive¹⁵—are quantities of each of the m goods and services demanded or supplied per period by individual i , and where w_i measures his wealth at the end of the period.

Nothing in equation (1) relates to any individual other than i . Each individual's satisfaction depends upon only his own income, wealth and supplies of productive services, with no reference whatsoever to the position of anyone else. The interdependent utility function, as in equation (2), below, complicates our jargon; however, it is nothing more than a realistic generalization of equation (1) to include the income, y_j , and the wealth, w_j , of individuals 1, 2, . . . , n other than i , himself ($i \neq j$):

$$U_i = U_i(x_{i1}, \dots, x_{ni}, w_i; \\ (y, w)_n) \\ (y, w)_1, \dots, (y, w)_j, \dots \\ (i \neq j) \quad (2)$$

Apostles of income redistribution believe that the representative individual's

13. James Tobin, "On Limiting the Domain of Inequality," *Journal of Law and Economics* 13 (October 1970).

14. John Rawls, *Theory of Justice* (Cambridge, Mass.: Belknap, 1971), especially chap. 2 and 5.

15. For example, an x term may be defined as the number of bedbugs, lice or roaches exterminated rather than "consumed."

utility, U_i , is related positively to the income and wealth position, $(y, w)_j$, of his fellowman, j , if i 's original position is substantially higher than j 's. Of course, exceptions are recognized in cases of personal, racial, religious or similar enmity. The motivation may be benevolence towards those poorer than oneself, indirect insurance to lessen the probability of violent crime against oneself and one's property at the hands of the poor or, an even less direct motivation, to secure higher incomes all round, if higher incomes for the poor elicit higher quantities or qualities of their labor for the community.¹⁶ In addition, U_i may be related negatively to $(y, w)_j$, if j 's original position is higher than i 's. Here, again, the motivation may be malevolence or envy towards the rich or the liberation of one's family from pressure of keeping up with the Joneses. A sharp welfare economist can also point out—quite correctly—that in practice, one's attitudes towards both the rich and the poor have an undistinguishable effect upon one's demand for redistribution; either set of attitudes, without the other, can suffice to set off redistribution demands.

The public good is another technical-economic notion involving interdependence effects. A good—or, more usually, a service—falls in this category if the amount most, or all, individuals are willing to spend on the service conforms with utility functions such as (1)

16. On the quantitative side, there is an apparent conflict with the economics of the labor supply and the labor-leisure choice. Economic theory concludes that increased income from nonlabor sources will lower, not raise, an individual's labor supply—by increasing his demand for leisure; compare Bronfenbrenner, *Income Distribution*, chap. 9, sec. 6 and 11. This all assumes, however, a given and constant utility function, U . Redistributionists may plausibly hope that equality may shift utility functions in directions favorable to the labor supply.

or (2); this also depends significantly upon the amount they believe other individuals are spending on the same good or service. Education, charity, highways, defense, sanitation and police and fire protection are all cases for which an individual is willing to spend more as a member of a collectivity than he is willing to spend on his own. His willingness is motivated by the greater probability that his expenditures will help accomplish something of significance and the smaller probability that his neighbor will not obtain a free ride on the basis of these efforts.

The next step has been to combine these ideas and to treat income redistribution as a public good. As a simple model, a three-person society can be postulated. A and B are two brothers, perhaps one with a superior income position and the other with a superior wealth position. C, their aged, widowed mother, has no significant sources of income or wealth. It is easy to envisage A, B and C arranging to transfer income, and/or wealth, from the two brothers to their aged mother—or A and B working out an arrangement for the benefit of C. There are a number of such arrangements possible, all of which would improve the position of C, while subjectively leaving neither A nor B worse off than before—since C's welfare presumably enters significantly into their utility functions. The redistribution is a public good in this three-person society, since it improves the position of at least one member of the society while leaving the others no worse off than they were at starting. From the viewpoint of the welfare economist, the postredistribution position is superior to the preredistribution one. The second position is sometimes called Pareto-superior and the first, Pareto-inferior, in honor of Vilfredo Pareto, the great Italian economist and sociologist.

At the same time, one cannot prove that any such Pareto-superior position will exist; the likelihood of existence decreases as one deals with larger and more diverse societies.

Returning to the simple three-person society, one can imagine the redistributive process continuing further—a step at a time, with each outcome Pareto-superior to all those that preceded it. Eventually, the passage to successively Pareto-superior positions may stop. A particular distribution might be reached from which improvement of the position of any party will involve injury to at least one of the others; such a position is called Pareto-optimal.¹⁷ Even in this simple society, no Pareto-optimal position may exist or there may be a multiplicity of such positions. The unique Pareto-optimal position may be unstable, in the sense that it can be reached only by chance, with any small departure tending to become larger as negotiations proceed. Most importantly, even a unique and stable Pareto-optimal redistribution need not conform to any critic's conception of distributive equity. We cannot even be certain that a stable Pareto-optimal redistribution—assuming that it can exist—will be more equal than the original distribution.

Limiting the domain of inequality

It is fascinating to read Professor Tobin's seminal essay on this subject from the interdependent-utility point of view. Suppose that the middle and working classes sufficiently dislike the poor—both the unemployed poor and those relegated to some secondary or substandard labor market¹⁸—to block

17. Compare Harold M. Hochman and James D. Rogers, "Pareto-Optimal Redistribution," *American Economic Review* 59 (September 1969).

18. Thomas Vietorisz and Bennett Harrison, among contemporary American writers, have

any Pareto-optimal redistribution of generalized purchasing power in favor of the poor. Can nothing more then be done for them? Professor Tobin is sanguine. There exist certain merit wants, as public finance theorists call them. These include basic food, housing, health care and education. Presumably, the better off—in particular, the third and fourth quintiles of the income distribution—will consent to meet the merit wants of the lowest quintile in higher quantities and on easier terms than they will redistribute generalized purchasing power. At the same time, additional satisfaction of these merit wants will increase, to some extent, the real incomes and, more importantly perhaps, the future incomes of the poor.

Certainly, something of the sort has happened, and is happening, in the United States and elsewhere under circumstances when outright income redistribution is politically unfeasible. Food stamps, public housing, medicare and medicaid programs are cases in point, as is the proliferation of public universities and junior colleges with open-admission and credit-no-entry features. Apparently, society will trust the poor to a greater extent with that which it thinks the poor ought to want—merit wants—than it will trust the poor with that which they may actually want more—generalized purchasing power. Tobin accedes, on the principle that half a loaf is better than either no bread or pie in the sky when you die, and proposes concentrating attention upon increasing the quantity and quality of public services available to the poor rather than upon proposals for income floors or negative income taxes.

Here, again, there are limits. They

been active in defining and measuring such labor markets, particularly in the larger American cities.

are connected, perhaps, to the attitudes of the third and fourth quintiles of the income distribution rather than to those of the top quintile; so, at least, the American election results of 1972 seem to suggest. These limits can become—if only periodically—more stringent than Tobin would prefer to recognize. Public housing, yes; but not if it is too near the rest of us; if it is higher in quality than ours; if “they” do not maintain it; or if their criminal elements take over the housing projects.¹⁹ Medical assistance, yes; but not if it raises taxes or doctors’ fees too much or if it seriously impinges upon the medical time and hospital beds available for the rest of us. Educational assistance, yes; but not if Sonny is kept off the state university’s main campus and is relegated to the backwoods boondock branch to make room for some slum kid with lower college board scores and higher propensities to riot and make trouble. And so it goes.

Distribution in the Theory of Justice

John Rawls is a social philosopher and political theorist in the great tradition of Locke, Hume, Marx and Mill. Which is to say, *inter alia*, that, at the professional level, he accepts responsibility for thorough knowledge not only of technical philosophy, but also of the several social studies to which his work is related. In economics, Rawls’ contribution has an impressive freshness and novelty. Professor Rawls’ *Theory*

19. In Tokyo public housing projects have almost none of the crime and drug problems that have plagued, for example, Pruitt-Igoe in St. Louis. Tokyo’s public housing has not only a long waiting list but exhaustive investigation of everyone who wishes to live in the project. There is also a minimum—as well as a maximum—income requirement for eligibility; not only the criminal and problem elements, but the poorest of the poor, are effectively excluded.

of *Justice* springs from both Kantian ethical principles and the seventeenth and eighteenth century theories of social contract. He is explicitly reacting against the individualist ethical tradition of English Utilitarianism, which has dominated conventional economics. It would be fair to view Rawls as a technically modernized reincarnation of the Königsberg sage and his book as one Kant might have written, had technical economics of our day been added to his formidable professional armamentarium. Rawls' message, as a whole, brings good tidings of great joy to the contemporary New Left, not only in terms of economic maldistributionism but also in terms of a number of political overtones: support for civil disobedience and intense minorities, denunciation of private campaign funds as inconsistent with liberty, and so on. His economics applies the complex notion of lexicographic or, as he calls it, lexical utility.

In a simple model of lexical utility, two goods, x and y , are the only claimants for a consumer's expenditure. Furthermore, x has a higher degree of essentiality than y , in a somewhat special sense; this special sense is that the consumer in question cannot possibly be better off consuming x_1 units of x per period than consuming x_2 units—with $x_2 > x_1$ —no matter how much of the less essential y he has at his disposal. At the same time, y is also desirable; thus, consumption of (x_1, y_2) is preferable to consumption of (x_1, y_1) —with $y_2 > y_1$. The mathematical implication of this so-called lexical assumption is that no utility function, U , can exist for x and y and that a great number of comforting and convenient results, which economists have derived from utility functions, no longer hold.

Rawls draws these social and economic consequences: (1) Let x be a set

of primary social goods, not a single good. Rawls treats these as inherently equal in their distribution between individuals; liberty and moral worth are examples. (2) Let y be a set of goods, the ordinary commodities, "butter and eggs and a pound of cheese," with which economics deals. An individual with (x_2, y_1) in Utopia or Communia is better off than he would be with (x_1, y_2) in America—however small the differential $(x_2 - x_1)$ or however large the differential $(y_2 - y_1)$. In other words, no increment of American style material affluence is worth even an infinitesimal sacrifice of primary social goods. To this extent, the primary social goods of liberty and moral worth take precedence in Rawls' system. These goods are—at least implicitly—ordinal, if not measurable.²⁰ They are also inherently equal, in the sense that none in society has more than the least endowed. Furthermore—if I interpret Rawls correctly—inequality of conventional economic income and wealth, in practice, can probably reduce the quantity of primary social goods for the poor and, therefore, for society as a whole.

Even if not primary in Rawls' sense, income and wealth are, to some extent, important; some sacrifices may be worth making to secure more of them. Accordingly, certain inequalities are sanctioned as fair in Rawls' system of "justice as fairness," but only to the extent that, within a hypothetical original situation of society, they receive democratic approval. This original situation is one in which no individual

20. The distinction between ordinality—or ordinal measurability—and measurability—or cardinal measurability—is often put in the following way: The entity x is ordinal whenever the statement $x_3 > x_2 > x_1$ is meaningful. In addition, x is measurable if the statement $(x_3 - x_2) > (x_2 - x_1)$ is also meaningful.

knows his position in advance and can cast his vote with complete unselfishness—that is, none knows either his relative standing in such attributes as IQ and physical stamina or what the relative social standing of his particular race, sex, religion or age group²¹ may be. Rawls suggests that equity—conceived of as fairness—with whatever degree of inequality individuals in this hypothetical original position and with lexical utility functions would approve, would serve as a means to increase the welfare of the society's least-advantaged members—whose identity, when the vote was taken, would be completely unknown. It seems safe to assume that the degree of inequality sanctioned in the Rawls system would be substantially smaller than that which prevails in American or Western European capitalism—or, for that matter, in any of the “people's democracies.”

Rawls believes, then, that only such inequalities are equitable—and that only these would be approved in a democratic vote as both fair and preferable to the original position—as improve the absolute economic welfare of the least advantaged segment in the actual economy as it develops. Should the advantage engendered by inequality to the least favored economic segment raise them above one or more segments previously better off, the rule would be applied again for the benefit of the new lower depths; presumably through convergent series of adjustments, an asymptotic state would be reached from which further shifts toward inequality would

21. In dynamic economic problems involving the distribution of the formal theory of economic growth, the most important distributive aspect is not only between age groups but between generations which may not overlap in time. Rawls does not attempt to evade this problem; he supposes that none originally is aware of the relative position of his generation, vis-à-vis posterity in the growth process.

be disallowed. Also, it must be assumed that equalizing processes, which aid the least privileged segment of the economy, will not lower the absolute position of any other underprivileged segment, below the mean or median income of the economy. Rawls' theory makes this assumption straight-forwardly and explicitly. In the light of the last American election returns, I felt considerable uncertainty about its validity.²² If what Rawls calls “chain connection and close-knitness” do not hold between two underprivileged segments, A and B, some or all forms of inequality which benefit A may injure B. One is left, in economist McCulloch's phrase, “at sea, without rudder or compass.”

So original, ingenious, scholarly and articulate is Rawls' ethical-systematic case for “justice as fairness,” or “equity as equality,” that readers can easily overlook the essentially subjective elements in the impressive and orderly structure. Are our utility functions indeed lexical? Are Rawls' primary goods—despite Socialist sneers at “liberty to starve”—primary? Can anyone really envisage how he might think and feel—in particular, his preferences for, or aversions to, risk and uncertainty—in the Rawls “original situation” or the contractarian “state of nature?” What relevance—beyond the definitional—do,

22. These results, themselves, apply to a society where every voter knows not only whether he is “poor, young, female, and/or black,” but also what being “poor, young, female, and/or black” means; thus, they are irrelevant to Rawls' original position. The results may be interpreted as a protest against a particular set of equalizing methods attributed to Senator McGovern and his supporters—heavy tax increases, accelerated inflation—and not to inequality, as such. They may be interpreted, less favorably to Rawls' theses, as anxiety—on the part of quintiles 2 and 3 of the income distribution—to maintain their differentials above the lowest quintile.

or should, an individual's presumptive thoughts and feelings have to his actual decisions? What if the requisite chain connections and close-knitness are incomplete among the poor, either in the original or the actual situation—or, perhaps, in both? Finally, what can anyone in any existing society say about the degree of inequality justified by Rawls' "loophole"—production for the imaginary poor in an imaginary state of affairs, while retaining consistency with absolute equality of the primary social goods?²³ Would the resulting inequality be as minimal as Rawls and his partisans anticipate? Reflected upon in tranquility, Rawls' rationalization for equality in the name of equity and his subordination of the production and supply of ordinary economic goods and services will maintain its appeal to many of his readers, while appalling a good many others. Still others will regard it as meaningless *gainen no yūgi*

23. The Marxist-humanist arguments for "moral incentives" and educational conditioning of "new Socialist man" are aimed at securing maximum production independent of economic reward; they are off limits in the Rawls system, as I understand it. They are based on a party-line monopoly of propaganda and public enlightenment to an extent incompatible with Rawls' concern for liberty, however sincere their rejection of forced labor.

and *kijō no kūron*,²⁴ for the reasons of the hypothetical elements in his system and his neglect of operational, intermediate steps for getting "from here to there" and for ascertaining where "there" may be.

CONCLUSION

There may be some objective connection, positive or negative, between equity and equality in the distribution of income and wealth. It may transcend both Alexander Pope's, "One truth is clear: Whatever is, is right" and Henry Simons' disdain for the existing distribution as esthetically "unlovely." Unfortunately, we still do not know what that connection is or how, if at all, it relates to the economists' Pareto-optimality. We can confirm neither the humanistic instincts of the egalitarians nor the skeptical instincts of the practical men. One or another philosopher's stone, which would confirm one or another set of instincts—or possibly amalgamate them—still awaits some venturesome economic geologist.

24. These Japanese pejoratives may be translated separately as "juggling concepts" and "desk theory abstractions" or, combined, as "closet philosophy."