

CES Lecture 1: Responsibility and Fairness

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Overview of the lectures: Responsibility and fairness

Lecture 1: The normative approach?

- Is it possible to combine a concern for equality with individual responsibility?
- Background for the experimental lectures.

Lecture 2: The experimental approach I: What do people hold each other responsible for?

- Discussion of a dictator game with a production phase.

Lecture 3: The experimental approach II: Poverty and fairness.

- Discussion of an international experiment involving both poor and rich countries.

Introduction

- **Basic Question:** What is the fair distribution of income in society?
 - This is a core question both in political debate and in normative theory.
- **Standard answer:** It is fair to share equally, but fairness is not everything.
 - Incentive considerations may justify an unequal distribution of income.
 - Classical inequality measurement assumes that all inequalities are unfair.

Fair and unfair inequalities

- **Does fairness really justify an equal distribution of income?**
 - Are there any fair inequalities?
 - * What if people have the same opportunities?
- **Main project in the normative literature in recent years**
 - How to combine a concern for equality with individual responsibility.
 - Rawls (1971), Dworkin (1981), Cohen (1989), Roemer (1996), Fleurbaey (2007)

Two basic moral intuitions

- **Principle of equalization:** There are certain factors that people should not be held responsible for.
- **Principle of responsibility:** There are certain factors that people should be held responsible for.
- **Fundamental question:** Is it possible to combine these two moral intuitions?
 - On what basis can we distinguish between the factors that we should hold individuals responsible for and the factors that we should not hold them responsible for (the responsibility cut)?
 - For any given responsibility cut, how can we formulate the two intuitions more precisely?

Aim: Establish an intermediate position between two extreme views

- Strict egalitarianism: Should not hold people responsible for anything!
- Libertarianism: Should hold individuals responsible for all factors!

Implications for inequality

- Strict egalitarianism: All inequalities are unfair!
- Intermediate view: Some inequalities are unfair.
- Libertarianism: No inequalities are unfair.

The responsibility cut

- On what basis should we distinguish between factors that society should hold individuals responsible for (**responsibility factors**) and factors that society should not hold individuals responsible for (**non-responsible factors**)?
 - Choices and control: Individuals should be held responsible for their choices, as long as they are considered to be within individual control.
 - Private sphere: Individuals should be held responsible for all factors that belong to the private sphere (including personal characteristics beyond individual control).
- Each of the two approaches leaves unresolved questions.
 - Play an essential role in political debates, where one can observe substantial differences between, for example, Europe and USA.

The axiomatic approach

- Can be applied for a formal analysis of these philosophical ideas.
- Basic idea: Study whether there are redistribution mechanisms that satisfy both the principle of equalization and the principle of responsibility.
- Formal statements of each of these principles imposed as restrictions on the redistribution mechanism.
- **Impossibility result:** No redistribution mechanism satisfies all the required conditions.
- **Characterization result:** There is a unique redistribution mechanism (or class of mechanisms) that satisfies the required conditions.

The axiomatic approach and philosophical reasoning

- Both impossibility results and characterization results inform the reflective process by clarifying the implications of a set of moral intuitions.
- Characterization results: May constitute a reflective equilibrium.
 - We obtain a reflective equilibrium if we characterize an intuitively appealing redistribution mechanism by intuitively appealing conditions.
 - Impossibility results: Form the basis for a revision of our initial moral intuitions.

The formal framework

- N individuals.
- Each individual characterised by effort and talent.
- We assume that people are held responsible for their effort, but not for their talent.
- Pre-tax income for each individual is determined by his or her effort and talent.
- A redistribution mechanism assigns a post-tax income (or fair income) to each of the individuals.
- Sum of post-tax incomes should be equal to sum of pre-tax incomes.

A formalization of the principle of equalization

- **The egalitarian requirement:** If two individuals make the same effort, then it is fair that they have the same post-tax income.
 - Any inequality between such two individuals is unfair.
- **Very weak requirement.** It is consistent with huge inequalities among people who make different choices.
 - Violated by libertarianism (and hence cannot be part of a characterization of it).
 - Satisfied by strict egalitarianism (and hence can be part of a characterization of it).

The principle of responsibility

- **The responsibility requirement - version I:** If all individuals have the same talent, then there should be no redistribution.
 - All inequalities in pre-tax income between such individuals are fair.
 - It is not in conflict with the egalitarian requirement, but it is violated by strict egalitarianism.
 - Satisfied by libertarianism.
- The egalitarian requirement and the responsibility requirement (version I) characterize a large class of redistribution mechanisms.
 - Example: Egalitarian equivalent mechanism.
 - But strict egalitarianism and libertarianism do not belong to this class. Why?

The liberal ideal - a more general interpretation

- We have so far only formalized the principle of responsibility for cases where all people have the same talent. But is this moral intuition relevant more generally?
- **The principle of responsibility - version II:** If a person changes his effort, then he should bear the full consequences of this change.
- Rules out many of the mechanisms that satisfy version I.
Example: The egalitarian equivalent mechanism.
- What possibilities remain?

Important impossibility result (Bossert and Fleurbaey, 1996)

- There does not exist any redistribution mechanism that satisfies both the egalitarian requirement and the responsibility requirement, version II (unless pre-tax income is additively separable in effort and talent).

Implications

- Two ways of responding to this impossibility result (as part of a reflective process).
 - **Route 1:** Relax the egalitarian requirement!
 - **Route 2:** Relax the responsibility requirement!
- Substantial literature along both routes.
- However, the standard view is that these weakenings are unfortunate, and that the impossibility shows that one cannot fully capture both moral intuitions when redistributing income.

Our approach

- We follow route 2, but we also believe that this is necessary in order to capture properly the moral intuition in the principle of responsibility.
 - Version II is too strong, it holds people responsible for too much!
 - * Hence, in our view, the impossibility result does not show that it is impossible to find a redistribution mechanism that satisfies both the principle of equality and the principle of responsibility.
- We propose a requirement that we consider a natural extension of (the uncontroversial) version 1 to situations where people differ with respect to talent.

Responsibility and representative groups

- Consider a situation where one group of people exercise high effort and another group of people exercise low effort.
- What can justify redistribution between these two groups?

- **The responsibility requirement - version III:** If all effort groups in society are representative, then there should be no redistribution between the effort groups.
 - Representative group: The distribution of talent in the group is the same as in society at large.

Justification of the requirement

- If all effort groups are representative, then the only difference between them is that they have made different choices.
 - Hence, any inequality between these effort groups is fair.
 - Note that this requirement is not very strong; it only applies to situations where all effort groups are representative groups.
 - * It is for example satisfied by libertarianism.
- Does this open up possibilities?
 - Are there redistribution mechanisms that satisfy both the egalitarian requirement and our interpretation of the principle of responsibility?

The proportionality principle

- Each person should receive proportional to his or her effort.
 - Classical rule that goes all the way back to Aristotle.
- Observation: This redistribution mechanism satisfies both requirements if we have a multiplicative technology.
 - But violates the liberal requirement more generally.
 - Not well specified when we have more than one responsibility factor.

The generalized proportionality principle (Bossert (1996), Konow (1996))

- **The generalized proportionality principle** The fair share of the total income a person receives in a given situation is equal to the share of the total income that the person would have produced in a hypothetical situation where everyone exercised the same effort as in the actual situation but at a ‘representative’ talent.
 - Natural extension of the proportionality principle.
 - Satisfies both the egalitarian requirement and our interpretation of the liberal ideal.
- Cappelen and Tungodden (2007) provide a complete characterization of this rule.

Application - Inequality measurement

- We can now apply this mechanism to calculate the fair income distribution in any given situation.
- Unfair income inequality can then be defined as deviations from fair income.
- The standard framework for measuring income inequality can be generalized to deal with any norm income.

Figure 1: **The Lorenz curves for 1986 and 2002 when hours worked is the only responsibility factor.**