RMM Vol. 2, 2011, 8–12
http://www.rmm-journal.de/

Book Review

Marc Fleurbaey: Fairness, Responsibility, and Welfare

Oxford 2009: Oxford University Press.
ISBN: 9780199215911

by Andreas Tutic

Consider the following problem: There are four individuals differing with respect to two characteristics. First, Anne and Bob received a low bequest (1), while Ruth and Shmuel received a high bequest (3). Second, Anne and Ruth are females and as such show more dedication (3) than Bob and Shmuel (1) to the painstaking task of transforming money into utility. Assume that all actors have the following utility function:

$$well-being = (bequest + transfer) \cdot dedication. \tag{1}$$

The problem is to design a fair transfer scheme, i.e., a reallocation of the aggregate monetary endowment such that reasonable principles of fair division are respected.

In response to Rawls (1971) seminal contribution to political philosophy, the idea of luck egalitarianism or responsibility-sensitive egalitarianism has gained considerable popularity. While, naturally, there is extensive debate on the details, the main content of this idea is nicely captured by the following quote:

> "Distributive justice does not recommend any intervention by society to correct inequalities that arise through the voluntary choice or fault of those who end up with less, so long as it is proper to hold the individuals responsible for the voluntary choice of faulty behavior that gives rise to the inequalities." (Arneson 1990, 176)

Applied to the above example this suggests a transfer scheme which compensates for inequalities due to bequests, since these are clearly outside of the responsibility sphere of the actors. Let us call things outside of the responsibility sphere circumstances and things that we hold individuals responsible for responsibility characteristics. Then, we have just stumbled upon the compensation principle which states that two actors with same responsibility characteristics should enjoy equal well-being. Consequently, $transfer_{Bob} - transfer_{Shmuel} = 2$ and $transfer_{Anne} - transfer_{Ruth} = 2$.

The compensation principle is one of the two main topics of Fleurbaey's monograph. However, note that the compensation principle all by itself does not determine an unique transfer scheme. For example, an anti-dedication scheme could assign Bob a transfer of 3. The compensation principle requires that Shmuel receives a transfer of 1, and feasability together with compensation leads to transfers of -1 and -3 for Anne and Ruth, respectively. Of course, starting with a transfer of -1 for Bob we come up with the symmetrical pro-dedication policy.

The second main principle studied by Fleurbaey is termed liberal reward or neutrality and states that no actor should be envious of another actor with same circumstances regarding his bundle of circumstances and money. In our simple setting this breaks down to $transfer_{Bob} = transfer_{Anne}$ and $transfer_{Shmuel} = transfer_{Ruth}$. Now, combining both sets of inequalities and feasability yields the unique transfer scheme where Bob and Anne obtain 1, respectively, and Shmuel and Ruth loose 1, respectively.

It is crucial to note that actually both principles, i.e., compensation and neutrality, follow from the famous *no-envy* test, the cornerstone of the economic theory of fairness (e.g. Moulin 1995), applied to bundles of money and circumstances. Here, a monetary allocation is envy-free iff there is no actor who would be better off with the money and the circumstances of another actor. Such envy-free allocations are quite appealing, since the absence of envy can be considered as an epiphenomenon of fairness, and the only envy compatible with this kind of no-envy arises if an actor envisions himself with the responsibility characteristics of another actor. However, the very notion of responsibility characteristics means that we hold him responsible for them and consequently responsible for his possibly envious state.

Economists have embraced the no-envy test because it allows to define the fairness of allocations solely in terms of ordinal and non-comparable individual preferences. Put differently, the no-envy test allows us to talk about fairness without making recourse to dingy notions such as intersubjective comparisons of utility. We come back to this point in a moment, for now we keep in mind that there is a close connection between the no-envy test from economics and luck egalitarianism.

The problem with no-envy free allocations is that if we require these allocations to be Pareto efficient as well, they need not exist. For instance, let the circumstances and responsibility characteristics of Anne, Bob, Ruth, and Shmuel be as before and assume that the utility function is

$$well - being = transfer + (bequest \cdot dedication). \tag{2}$$

Now, Anne's transfer must be 6 monetary units greater than Shmuel's, otherwise she is envious. At the same time, Shmuel envies Anne, if his transfer is more than 2 monetary units smaller than Anne's, a contradiction. Since hunting envy-free allocations is a rather quixotic enterprise in many contexts, Fleurbaey, who has a serious interest in economic applications, studies two families of transfer schemes, one favouring the compensation principle, the other at sides with neutrality. Unfortunately, his favourite concept, the Egalitarian Equivalent (Pazner and Schmeidler 1978), is not too easy to grasp intuitively:

Consider a counterfactual situation, in which everybody has identical circumstances. In this situation, no-envy requires that everybody obtains the same transfer. So, in this counterfactual, luck egalitarian situation everybody obtains a certain utility payoff, depending on his responsibility characteristics. The Egalitarian Equivalent seeks to achieve a payoff distribution in the actual situation via transfers that equals this luck egalitarian payoff distribution.

From this description it is clear that the Egalitarian Equivalent always satisfies the compensation principle, since two actors with equal responsibility characteristics obtain the same well-being in the counterfactual situation, and hence in the actual situation. Whether some form of neutrality is warranted depends on the way we let the choice of the reference, counterfactual circumstances depend on the problem at hand. If, for instance, we always choose mean circumstances as reference, this member of the family of Egalitarian Equivalent transfer schemes satisfies a minimal form of neutrality: If all actors have identical circumstances, they obtain the same transfer.

By and large these are the major theoretical underpinnings of Fleurbaey's monograph. These concepts are applied to a variety of contexts providing substantive and insightful results, some of which are more interesting for economists, others more interesting for scholars of political philosophy. The first application is devoted to the primary concern of public economics, i.e., the deduction of a reasonable system of income taxation. Roughly speaking, the set-up of this exploration is as follows: Actors have differential productivity, a characteristic which they are not held responsible for, and different preferences, a characteristic belonging to the responsibility sphere. First, it is demonstrated how the conflict between compensation and liberal reward crops up in this particular environment, then the properties of various taxations schemes leaning towards compensation or neutrality, respectively, are studied using the axiomatic method. It turns out that the traditional approach of dealing with the non-existence of envy-free schemes, i.e., the recourse to the so-called 'wealth-fair' and 'full-income-fair' solutions, is rather unsatisfactory, since these are extreme members of the family of solutions leaning towards neutrality. This negative result is not too troubling because on the positive side Fleurbaey impressively demonstrates how appealing members from the family of Egalitarian Equivalent solutions can be used to evaluate the ethical merits of tax reforms. For example, the Zero Egalitarian Equivalence welcomes any reform that raises the minimum (basic) income, an idea that attracts quite a lot scholars from political philosophy and social policy (e.g. Van Parijs 1995).

Our second example for the fruitfulness of Fleurbaey's conceptual apparatus in applications is of more philosophical nature. One chapter deals extensively with various aspects of Dworkin's (2000) version of luck egalitarianism, in particular his critical distinction between *option luck* and *brute luck* and the *hypothetical insurance market*. Concerning the first topic, recall that Dworkin holds actors responsible for option luck, i.e., lotteries they 'buy' voluntarily, but not for brute luck. For example, if full insurance for car accidents is available and poor Shmuel drives uninsured, a Dworkinian would not compensate him in case of a serious injury, because the availability of insurance signifies a situation of option luck. Fleurbaey firmly rejects the idea that actors can be held responsible for the outcomes of lotteries, since these are clearly outside of their control. For him, option luck is inacceptable as a conceptual notion. Still, some of the solutions leaning towards the principles of compensation or neutrality, respectively, applied to a highly original framework designed by Fleurbaey to study such questions do not involve full compensation for bad luck. Hence, option luck somehow enters the stage through the back door, not as a doubtful conceptual notion, but as a property of transfer schemes.

With respect to the hypothetical insurance market Fleurbaey comes up with a similar criticism like Roemer (1985) when he shows that the utilitarian flavor of insurance markets might violate the compensation principle. More precisely, Fleurbaey studies a setting where luck determines both feasible consumption and utility from consumption. It is true that two actors with identical characteristics and 'symmetrical' prospects in the birth lottery have identical ex ante utility expectations when insurance is available. However, from an application of the first welfare theorem it follows that market equilibria imply that the sum of the ex post utilities is maximized. Now, suppose Ruth and Shmuel have sufficiently identical characteristics such that this result is applicable and poor Shmuel looses in the birth lottery with the consequence that he is worse than Ruth in transforming consumption in utility. Given this scenario, maximizing the sum of their utilities tends to lead to higher utility levels for Ruth than Shmuel, violating the compensation principle from an ex post perspective.

Hopefully, these two examples convince the reader that this monograph contains some material deserving attention. In fact, it is full with it. Another interesting chapter, entitled 'Fresh Starts', deals with ethical consequences of changes in preferences during the course of life. Should we help the imprudent who spent all their endowment in the first half of their life and now feel regret, or would this unduly penalize the more steady-minded amongst us? Fleurbaey pleads for forgiveness and works out the details in a highly stylized model.

After all, the reader may be unsatisfied: Such a long review, so little criticism. However, the simple truth is that Fleurbaey's monograph is a paradigmatic masterpiece for the fruitful combination of philosophy and the axiomatic method in an area of highest interest for the social sciences, just like John Roemer's (1996) 'Theories of Distributive Justice'. In another paper, Fleurbaey writes: "[...] what is proposed in this paper is a closer cooperation between political philosophers, social choice theorists, and public economists, in the 'assembly line' of just institutions. The first would provide the fairness principles. The second would formulate axioms embodying the principles, and derive social preferences. The third would find the institutions that are the best according to such preferences." (2007a, 17) From this review it should be clear that Fleurbaey, together with his collaborators such as Francois Maniquet, has made substantial contributions to the research program sketched in his quote.

If there is any problem with this monograph, then it is the fact that it is too short. Ironically, a champion of social choice has written a book full of philosophy and public economics which somehow neglects the foundation of his approach in social choice. To be sure, there is a lot of axiomatizing social ordering functions in this monograph. However, little is said on the connection between the fairness approach he advocates and the most fundamental issue in social choice, i.e., Arrow's (1963) impossibility theorem. Recall, Arrow's theorem was typically interpreted to suggest that social ordering functions which rely solely on ordinal and non-comparable preferences are impossible. In contrast to prominent alternatives (e.g. Sen 1979; Roemer 1993), the distinguished feature of Fleurbaey's approach is the fact that it works without interpersonal comparisons of utility. Given Arrow's impossibility theorem, this raises the question how this is actually possible. Of course, Fleurbaey has the answer, but he supplies no thorough exposition of this issue in his book. The same could be criticized with respect to the so-called indexing dilemma (Fleurbaey 2007b). In a nutshell, we feel that Fleurbaey was too restrictive in selecting the material for his monograph. That's not too bad, because fortunately we can still read his papers.

References

Arneson, R. J. (1990), "Equality and Equal Opportunity for Welfare", *Philosophy and Public Affairs* 19, 158–94.

Arrow, K. J. (1963), *Social Choice and Individual Values*, New York: John Wiley.

Dworkin, R. (2000), *Sovereign Virtue: The Theory and Practice of Equality*, Cambridge: Harvard University Press.

Fleurbaey, M. (2007a), "Social Choice and Just Institutions: New Perspectives", *Economics and Philosophy 23*, 15–43.

— (2007b), "Social Choice and the Indexing Dilemma", *Social Choice and Welfare* 29, 633–48.

Moulin, H. (1995), *Cooperative Microeconomics: A Game-Theoretical Introduction*, Princeton: Princeton University Press.

Pazner, E. A. and D. Schmeidler (1978), "Egalitarian Equivalent Allocations: A New Concept of Economic Equity", *Quarterly Journal of Economics* 92, 671–87.

Rawls, J. (1971), *A Theory of Justice*, Cambridge: Harvard University Press.

Roemer, J. E. (1985), "Equality of Talent", *Economics and Philosophy* 1, 151–187.

— (1993), "A Pragmatic Theory of Responsibility for the Egalitarian Planner", *Philosophy and Public Affairs* 22, 146–166.

— (1996), *Theories of Distributive Justice*, Cambridge: Harvard University Press.

Sen, A. (1979), "Personal Utilities and Public Judgements: Or What is Wrong with Welfare Economics?", *Economic Journal* 89, 537–58.

Van Parijs, P. (1995), *Real Freedom for All*, Oxford: Oxford University Press.