Toward a Fiscal Policy that Allows for Collective Wants

Lee Christie

Illinois Wesleyan University

Follow this and additional works at: https://digitalcommons.iwu.edu/econ_honproj

Part of the Economics Commons

Recommended Citation
https://digitalcommons.iwu.edu/econ_honproj/97
TOWARD A FISCAL THEORY WHICH ALLOWS FOR COLLECTIVE WANTS

An Honors Research Paper submitted by:
R. Lee Christie
December, 1980

Faculty Hearing Committee:
Robert Leekley
Robert Harrington
Margaret Chapman
Donald Koehn
The specialist in government finance becomes of necessity a sort of propagandist....It is incumbent upon him, therefore, to set up fundamental objectives and criteria of fiscal policy. He must build upon a set of values--and these will usually be things which he brings with him to the special field, not and results of his specialized researches.

--Henry Simons

The future--build for it; don't steal from it.

--Gov. Jerry Brown

For some time, observers skeptical of the panacea of growth have wondered why their contemporaries, who were three or five or ten times richer than their grandparents, or great-grandparents, or Pilgrim forbears, did not seem to be three or five or ten times happier or more content or more richly developed as individual human beings....Our civilizational malaise, in a word, reflects the inability of a civilization directed to material improvement--higher incomes, better diets, miracles of medicine, triumphs of applied physics and chemistry--to satisfy the human spirit.

--Robert Heilbroner
TOWARD A FISCAL THEORY WHICH ALLOWS FOR
COLLECTIVE WANTS

PREFACE

SEC I  The Philosophical Basis

SEC II  Distributive Justice, Economic
         Efficiency, and Neoclassical Confusion

SEC III  Implications of the Collectivist
         Approach—Theory and Policy

FINAL COMMENTS
Economists as a group are fond of discussing "society's best interest." Doing so is their profession, more or less. But the philosophy of individualism, on which the economics mainstream rests, would seem to deny its true followers the opportunity to discuss "social" welfare at all! Though many may wish that economists would talk less, I would encourage them to talk more. And if those economists who advocate this or that course for "society's best interest" would stop to realize what the idea of a social interest really means, economics might have more (and more useful) things to say about questions of public policy.

This paper offers a reinterpretation of Harvard's Richard A. Musgrave, the "dean" of American public finance, who is broadly representative of the neoclassical mainstream. Musgrave makes use of ideas like "the public interest" or the "social welfare function" when he theorizes on government's response to the economy's preferences for non-private goods, and for distributional equity. But at the same time, Musgrave claims to proceed from the basic neoclassical viewpoint that "In the end, all wants are experienced by individuals. A social group as a whole is not an entity which can experience wants."¹ Musgrave holds that the concept of collective wants is simply too

¹—Musgrave, Richard A. and Peggy B., Public Finance In Theory And Practice, 2nd ed, p 64.
vague to offer "a convincing case against a fiscal theory based on satisfaction of individual preferences."

This may be satisfying for Musgrave and the "mainstream." But for me, and for others, it has not been. My own predilections, which I bring with me to the study of public finance—specifically, my distaste for the philosophical individualism on which economic science is based—force me to ask: What might be different in the way we look at positive economic questions if we revise one of the discipline's fundamental norms in order to allow for collectively-experienced wants?

Before I make my case for the notion of collective wants, we need to begin someplace else—at the beginning. To gain a fuller understanding of the mind-set in which this branch of economics is trapped, we briefly outline some past intellectual efforts at defining man's economic well-being. Hopefully, the large gaps in my tracing-through of theoretical individualism from Musgrave back to Adam Smith back to Hobbes and Locke, will not be large enough to obscure the common thread; it is a very real one, and very fundamental. I will then construct an alternative thread of thought—one which recognizes the social organism itself as a viable source of imperatives which can, indeed, be expressed as economic priorities.

2—Musgrave, p 122.
The second section of the paper will point up an inconsistency present in the standard analysis of distributional economics. Despite his assertions to the contrary, Ausgraves tacitly acknowledges a role for what can only be collective wants, after finding that his neoclassical tools of analysis leave him "stumped" on how to find the "socially optimal" distribution of income.

The third section of the paper extends my thesis beyond the neoclassical confusion on the distributional question, carrying collectivist analysis into other issue areas—resource security, environmental protection, social balance, and the uses and abuses of paternalism.

Much of what follows requires a careful reading. Most of the paper deals with a few relatively basic issues, but many of the points I am making are quite subtle. The errors that remain are, of course, wholly my own, but the studied criticisms of Dr. Robert Leekley led me to make changes in many places where, at first, I had managed to confuse even myself! My special thanks are due Dr. Leekley.
THE PHILOSOPHICAL BASIS

A capitalist economy is based on private ownership of the means of production, and on a framework of free enterprise and exchange within which individuals may calculate and pursue self-interest. Capitalism has as its philosophical basis the doctrine of Classical Liberalism, a scheme of thinking which fused the analysis of classical economics with the philosophical premises of what contemporary Marxist C.B. Macpherson has called "possessive individualism." Individualism takes an extreme, atomistic view of humanity—the basic unit which defines human civilization is not any social group or cultural whole but the individual man.

The intellectual fathers of Anglo-American political liberalism were Thomas Hobbes and John Locke. These individualist philosophers devoted a great deal of thought to the relationship among property rights, human labor, and the sources of economic wealth. Their definition of that relationship, and the basis of their political beliefs, was, in the words of Macpherson, that each individual is "essentially the proprietor of his own person and capacities, owing nothing to society for them." Hobbes, who believed that only a totalitarian state could save mankind from its essential meanness, outlined what

he considered a "scientific" theory of human behavior. Hobbes' "rational man" was motivated wholly (and "naturally") by his calculations of his own self-interest. Locke was even more vigorous in asserting that truly rational (and therefore moral) behavior requires the full exploitation of each individual's natural economic capacities. Locke pointed to men's irrationality as the widespread character flaw which kept the laboring class from accumulating any property, or easing its misery. The only fully rational men, in Locke's scheme, were the ones who had managed to accumulate some property, and these were the men who should run the government, the sole function of which was to defend and enhance the property rights of those individuals who composed it. Thus Locke

"erased the moral disability with which unlimited appropriation had hitherto been handicapped. Had he done no more than this, his achievement would have to be accounted a considerable one. But he does even more. He also justified, as natural, a class differential in rights and in rationality, and by doing so provides a positive moral basis for capitalist society."4

The crowning intellectual achievement of Classical Liberalism was Adam Smith's The Wealth Of Nations. In this monumental tract, Smith set forth the famous doctrine of the "invisible hand," which operated to transform or direct individual greed toward the greatest general good. Though Smith himself had a somewhat broader way of looking at the world, his work in political economy was based on the individual-

4—Macpherson, p 221.
istic outlook of his Classical Liberal predecessors. With the invisible hand, Smith joins Locke in rendering the pursuit of self-interest socially innocuous. Indeed, Smith believed in "the probability of human progress. It was a hard-headed confidence, no woolly utopian fantasy, for Smith promised his optimism not on altruism but upon the innate selfishness of the human species and the natural harmony of interests among competing egoisms which laissez-faire societies were certain to enjoy."

The father of modern economics, influenced by the philosophical tradition which preceded him, adopted an individualistic mode of economic analysis, and, for better or worse, the convention has endured.

There was a chance, however, for economics to modify its individualist perspective, when Jeremy Bentham and his followers outlined Utilitarian theory. What the utility theorists actually thought is less important, for our purposes, than the individualistic paradigm established by the later economists who rejected their thought. In general, the Benthamites held that utility might be measurable in absolute terms. Their applications of their philosophy proceeded from the tacit assumption that utilities could be compared as among different individuals. But in the neoclassical view, such ideas are an inappropriate venturing of economic "science" into areas that are too subjective, too normative. A major task of the early neoclassicists was to purge economic analysis of the Utilitarian notions it had inherited from Classicists like John Stuart Mill. Thus, even though economics is the science of maximizing satisfaction, "satis-

faction" itself would lie outside the purview of economic analysis. That economists were to observe only objects, rights, or money units—as representatives of economic welfare—would handicap their broader efforts to understand welfare itself. Thus neoclassical economics proceeds from a perspective even more individualistic than that of its Classical forbears.

As economic development progressed and the role of government grew, economic analysis of the public sector became a major branch of economic theory. Present-day fiscal theory, represented by the work of Harvard's Richard Musgrave, remains an extension of the individualist tradition. Trained in the neoclassical analysis of Alfred Marshall, Musgrave is fundamentally a part of the economics mainstream, which, as we have seen, bases its analysis of material welfare on the individual man: "In the end, all wants are experienced by individuals. A social group as a whole is not an entity which can experience u wants." ⁶ Again, any notion of collective wants is seen as too vague to offer "a convincing case against a fiscal theory based on satisfaction of individual preferences." ⁷

There is, however, another way of looking at the economic problem—a view which recognizes that the economic problem is fundamentally a social one as well as an individual one. Economists already recog-

⁶—Musgrave, p 64.
⁷—Musgrave, p 122.
nize "social" as well as "private" goods, but both of these are seen as meeting wants of individual persons. By advocacy of collective wants adds another dimension to the theory. That lies at the heart of the individualist-collectivist dichotomy is a crucial question of philosophy. It is a difficult question, but one which demands adequate attention before my case can continue. To put it succinctly: Is "the public interest" a result of some combination of individual interests, or is it an entity distinct unto itself? The issue is that simple (or shall I say that complex!) and it is fundamental to social criticism. If society's best interest can be derived from individual interests, then Adam Smith's "invisible hand" may be wholly satisfactory in the right institutional framework—that is, very little public or private institutional framework at all, beyond a stable currency and an effective judiciary. Moreover, a satisfactory analysis of the public sector (a properly small one, of course) will be directed wholly toward its satisfaction of individually-based wants. But if the collective interest is an entity distinct unto itself, then Prof. Ausgrive's conventional analysis of the public economy has gaps in it that need to be filled. The perspective of this paper is that collective wants are real, and that we ought to proceed filling in the "gaps" in the two sections which follow.

But, having made the distinction between individual and collective wants, I am now obliged to explain it; what follows is not likely to resemble what a reader of "economics" articles has seen recently.
Many writers, mostly from philosophy or political science, have struggled with the idea of a "community interest." I find myself especially isolated, however, as I am seeking a definition of collective wants that lends itself to application in specific problem areas in public economics.

A collective want, if one exists, must be one that arises because men do not live in solitude. Humans are, of course, social creatures who communicate and interact with one another, either competitively or cooperatively. I must emphasize here the primacy of what has been called the human being's "moral sense." That is, the key to this "social setting" criterion for identifying collective wants is a man's capacity to appreciate and identify with human lives and human events which lie outside his own life-sphere.

A collective want, if one exists, exists precisely because it is shared. One might speak of the "awareness" and "reinforcement" effects of fellow-feeling. Alternatively, we could consider some social dynamic within which certain wants and desires "snowball." We must take care, however, to avoid consideration of the social interest as a sum, or even as a weighted sum, of egoistic inputs. It may indeed be true that a desire shared by twice as many persons is more than twice as intense, but even this is not what we are talking about. The word "shared" is used here to connote an inherent universality which may or may not be limited to desires for specific outcomes in the present, but which reflects basic elements of morality in civilized human culture. The shared interests we are talking
about are not shared because certain individuals have similar tastes or incomes or ethnic backgrounds. They are shared because all men, if they hope to experience fully their own humanity, must to some extent acknowledge a common origin and a common destiny, and therefore common needs.

A collective want, if one exists, can be acted upon and realized only because it is shared and only if a sufficient climate of social cooperation exists to bring a social interest into viable opposition to the individual, competitive interests (no less legitimate!) which stand in conflict with it on a particular issue of choice. The public sector, of course, is instrumental here. Just as a binding political process must supersede the market in order to reveal preferences for social goods, so the cooperative climate must be promoted, in opposition to the competitive one, in order for collective wants to emerge. A will make sacrifices if B will. C will behave in a civilized manner if D will. In short, all would be willing to do or not do certain things if they believe it will make a difference. That "difference," which makes this aspect of collective wants more than just a clever twist of social goods theory, is that the society itself is made better (as opposed to individual persons being made better off).

Thus a community interest emerges which is distinct from strictly private desires. We might call them desires of individuals-in-society
that are intensified and expressed because they are shared in a climate of social cooperation. 8

Such a community interest comes to be expressed as the sum of what individual interests would be if all individuals were, in the words of the nineteenth-century utopian socialist Charles Fourier, "rich, free, and just," 9 and if the social climate were such that their "nobler" aims could hope to be significantly advanced. I am asserting that this community interest, as I have defined it, is the true preference pattern of society, in spite of the fact that man, his works, and his world cannot be "perfect." We take the imperfection of human nature and human institutions as given and as perpetual. 10

8--There is no a priori reasoning which says that all of these wants will be advocated or acted upon in "possessive market society." (See Macpherson, pp 53-61) That some appear to have been acted upon may or may not be evidence of "civilized society." Many public-interest functions of governments--national defense, basic municipal services, the judicial system--aim at mitigating "bads" in human society, not at promoting the "goods" inherent in the human potential.

9--Fourier's formulation is by no means definitive. The eager idealist may fill in his own set of glowing adjectives.

10--I am not saying that public policy can restructure the social system so as to produce "perfect" individuals, after which we can return to a system based on "individualism." This is ridiculous, as individualism itself is an outgrowth of the fact that man and his world are closer to the way Hobbes saw them than the way Fourier hoped to make them. My position here is that recognizing the community interest as an alternative to individualism will bring public policy nearer to the best possible outcome.
That the real world is not Utopia does not make the notion of the true community interest less useful in our efforts to approach it.

The community interest is thus the true interest of society, the true pattern of preferences, though it cannot be said to be the only pattern of interests. Clearly, there is another pattern—the more readily apparent, individualistic one—which asserts itself with great effectiveness, and offers much objective, marketplace evidence that it exists. Thorstein Veblen made a distinction between what he called "real values" and "pecuniary values" in the origin of economic wants. This psychological dichotomy gives rise to Veblen's cultural dichotomy of "serviceable" and "disserviceable" social institutions. While the latter reflected purely acquisitive instincts, the former embodied the instincts for "workmanship" and for a "parental" conscientiousness. Veblen's general recognition of man's motivational duality—self-aggrandizement coexisting alongside the survival and progress of the social whole—is a useful analogy here.

Clearly, one cannot arrive at postulates like mine (or Veblen's) by starting where Hobbes did, from the premise that human motivation is essential self-interest taken to its rational outcome in the marketplace. The idea of collective wants requires starting with the view that human beings are motivated by some kind of basic morality which gets twisted along the way—twisted by want, by traces of bestiality or "evil" in our characters, and by the socio-political
milieu itself. It has usually been social philosophers of less endur- ing influence (at least in this country) than Hobbes and Locke, that have been willing to begin from such optimistic premises.

For economists trained extensively in statistical and econometric methods, approaching economic policy from the collective wants perspective must seem particularly maddening. The true nature of "the public interest" cannot be discovered, let alone measured or traced back to its specific origin; it can only be guessed at. And since the community interest is a separate and distinct entity, it may come into direct conflict with some individual interests, even if they are the interests of a majority! But this is not to say that a community interest does not exist, or that to make policy based on its dictates is an illegitimate exercise. It is merely a risky one. It does more than merely suggest paternalistic thinking on the part of policy-makers. It demands paternalism.11

As descendants of the individualist tradition, neoclassical econo- mists claim to reject the collectivist philosophy. But when they analyze the question of optimal distribution, they act as if they have embraced it! As the next section demonstrates, neoclassicism is not as rigidly convinced as it claims to be that the source of economic preferences is always and everywhere an individual person.

11—Collectivist notions can lend themselves quite well to abuse, especially in the hands of despotic ideologues—Germany's Nazis come to mind as a recent example. Section three of this paper will address the potential abuses of collectivist and paternalistic economic policy.
DISTRIBUTIVE JUSTICE, ECONOMIC EFFICIENCY,
AND NEOCLASSICAL CONFUSION

There is ample evidence within the public finance literature itself to indicate that a fiscal theory based solely on individual wants cannot fully explain the requirements of public economy. This section will show that using a "social welfare function" to solve the problem of optimal distribution, while it is most certainly necessary, has absolutely nothing to do with the neoclassical shibboleth of individually-based wants. I allow Musgrave himself to introduce the problem of income distribution:

"Indeed, when talking about the "theory of distribution," economists have traditionally referred to the theory of factor pricing and the division of national income among returns to land, labor, and capital....But the theory of efficient factor use by itself is not a theory of distributive justice....The two can be separated by intervention of the distribution branch of the budget."12

Allowance for a public policy role in economic decisions exposes individualism to a new scrutiny which, if theoretically troublesome, can be promising nonetheless. Musgrave admits that: "In the end, one cannot avoid the question of what should be considered a fair or just state of distribution."13 The equity-in-distribution issue is the classic example in which economics tacitly admits that the analytical framework offered by individualism is not the be-all and end-all of legitimate thought. The distributinal question is thus a good place to begin filling the gaps in fiscal theory.

12-Musgrave, p 82.
13-Musgrave, p 82.
Seeking The "Efficient" Distribution

Musgrave arrives at the distributional question by indirection. He sets out, in his Public Finance text, to outline the process of efficient allocation, as a needed preliminary to his discussion of social goods. This outline, Musgrave says correctly, explains the basics of efficiency without complicating matters by including some of the changes needed to accommodate the unusual nature of social goods. Musgrave explains that, given the availability and adaptability of productive resources, and given the preference patterns of consumers A and B, an "omniscient planner" could use the tools of neoclassical analysis (i.e. indifference maps, box diagrams, and the production possibilities frontier) to find a set of efficient allocations for goods X and Y. The plural is used advisedly here. There is not just one solution but a whole set of solutions which can be said to be efficient in the "Pareto" sense--outcomes from which we may not deviate without making at least one of the hypothetical individuals in our abstract, two-person economy, less well-off.

See the diagram on the following page. The set of Pareto-optimal solutions yields a "utility frontier" CD, which need have no particular convexity or concavity. The frontier emerges when levels of

15--Based on Musgrave, p 70, Fig 3-6.
well-being of individuals A and B are plotted against one another for each Pareto-efficient allocation of resources. Points to the northeast of CD are unobtainable. Points to the southwest are inferior, in that moving from a point to the left of the frontier to a point upon it increases the well-being of one or the other individual (depending on whether the movement is horizontal or vertical) without decreasing that of his counterpart. It is possible to arrive at a single, optimal solution only by making an explicit choice with respect to the value of economic well-being experienced by A as opposed to that experienced by B.

Our problem here is that the value of any thing in the individualistic, neoclassical scheme of things, is defined by its contribution to an
individual's economic welfare, or level of "utility." Given this rule, what is the "value" to A of A's own "well-being," when the former is defined as the latter? Clearly, Musgrave is "stuck," unless he introduces a new pattern of (collective) preferences to deal with the distributional issue. He does this, as $\sigma_1$, $\sigma_2$, etc., represent society's assessment of the tradeoff between utility for A and utility for B. This pattern of curves—the "social welfare function," as Musgrave calls it—is an evaluation of the "social utility" of utility itself, and of distributional equality. These curves are analogous in many respects to regular indifference curves, which evaluate the tradeoff of "pure" utility (not "social" utility) as a person substitutes one good for another. In figure 1, the optimal distribution appears as point $E$.

But what is the origin of the "social welfare function" given by $\sigma_1$, $\sigma_2$, etc.? What is it, exactly? A possible explanation (one that fits in with individualism) is that, in Musgrave's abstract example of a two-person economy, the preference patterns of figure 1 were the preferences of the omniscient planner. Certainly A and B, who are taken to be rational seekers of self-interest, will not be equipped to make an impartial judgement on the distributional question. Thus it is the omniscient planner, in Musgrave's abstraction, who determines optimality at $E$.

But Musgrave is a public finance theorist; his task is explaining the economic role of government, which is a real-world animal, not
a theoretical one. Musgrave moves, then, from "pure theory" to a
to a theory of what happens in the real world, dropping the artifice of
the planner. Substituting a market allocation process for the planner
will leave us with two major gaps. First, a pure market economy aban-
dons social goods. Second, without our "omniscience" assumption, it
is as if figure 1 no longer exist, and we must simply accept some
distribution as given, rather than actually choosing one.16

The outcome as it stands is sketchy, and clearly unsatisfactory.
Thus Musgrave forges ahead, going from the pure market framework
to a modified market system, which includes a degree of non-market
allocation—the political budget process. Again, Musgrave is a fis-
cal theorist; as such, he must modify the market in order to get to
the provision of social goods. This much he acknowledges readily.
But what really needs to be emphasized here is that the same politi-
cal mechanism which provides for social goods is also needed for solv-
ing (as opposed to ignoring) the distributional questions of figure 1.
Thus the economic theory of government admits of two "gaps" but ex-
plicitly fills up only one of them.

Musgrave's reluctance to seek the optimal solution in the absence of
the omniscient planner is unfortunate, for he could find the optimum

16—Of course, Musgrave specifically identifies redistribution as one
of government's major "fiscal functions." But accepted practice
keeps the distributional question separate from other analyses.
That Musgrave is not satisfied to use this approach here is an
indication that a sharp separation between distribution and
allocation is a rather dubious proposition.
again if he would only use his "social welfare functions" not as if they were an expression of his planner's wants but as if they were what Musgrave himself said they were when he first introduced them—"an ordering by which society assigns relative values to levels of welfare derived by A and B...where each curve shows mixes of welfare experienced by A and B that, from society's point of view, are equally 'good.'" 17

Thus we see desires for distributional equity emerging not from individuals but from society as a whole. Perhaps fiscal theory could avoid this seeming inconsistency with its own individualistic premises simply by stopping before it gets to anything like figure 1 at all, maintaining a very sharp distinction between allocative and distributional questions. It does not do this, obviously. But then, why should it? To Musgrave's credit, he gets himself into a bind over optimal distribution precisely because of his open admission of economic theory's inadequacy! That is, economic theory to forget, when it is convenient to do so, that "efficiency" is fundamentally a dual proposition. For an allocative result to be optimal, it must obtain in the "correct" distributional situation. In order to say that some distribution is "efficient," and therefore optimal, Musgrave has to bring in social indifference curves—some social judgement on how much inequality is tolerable for the sake of how large a utility-windfall for which individual(s). These curves are not derived from individual preferences, or from anything else in Musgrave's analysis;

17—Musgrave, p 70.
they just exist. He says they do. Indeed, they must exist if we are to explore fully the notion of efficiency. We need the one optimality before we can speak with any certainty of the other.

This point has also been made by Paul Samuelson, as part of a rather elaborate exposition on the subject of "social indifference curves." Interestingly, Samuelson has expressed his pride for having proved that "community indifference curves are impossible—they don't exist." But what he means is that individual indifference curves are not additive. That is, while individual indifference curves can be used to derive individual demand curves, only very unrealistic assumptions—unitary income elasticity of demand for all goods, and absolutely uniform consumer tastes—will allow for a unique set of "community indifference curves" (regardless of the income distribution) from which market demand curves for goods could be derived. Again, the overriding point is that economic preferences depend on distributional patterns. Many patterns of response to preferences can thus be, in Samuelson's words, "computationally optimal" without being "ethically optimal."

How can theory arrive at the best solution? Samuelson, having shown that one kind of "community indifference curve" (for preferences among particular goods) is impossible, sets out to develop another.

kind, which he will call "social welfare contours." He produces a
diagram which bears a striking resemblance to figure 1, and offers
proof that his newly-defined social welfare contours "have the regu-
larity properties of ordinary individual preference contours (nonin-
tersection, convexity to the origin, etc.)"19 His "rigorous proof"
is a manipulation of equations which compare individuals' utilities
under varying levels of total output, and under the rule that "in-
comes are always to be allocated...to keep the social welfare function
at a maximum through the device of keeping the social utility of
every person's last dollar equal."20 (emphasis added) That is, where
dollars of A's income, at the margin, would be more socially useful
in the hands of B, a transfer is appropriate. Samuelson is offering
a mathematical exposition of the familiar efficiency vs. equality
tradeoff. The specifics of what Samuelson's function looks like are
less important than the fact that he takes the trouble to work on it,
and that—like Musgrave's social welfare function—it lies outside
the constraints of individualistic analysis. Says Samuelson, "The
foundation is laid for the 'economics of a good society.'"21

We now take a closer look at where this pattern of social preferences
leads us.

19—Samuelson, p 21.
21—Samuelson, p 22.
The "Demand" For Equity

It was John Hicks, a leader of 20th-century neoclassicism, who began to derive demand curves for public and private goods using the indifference curve method. Today's social welfare functions represent an attempt to express the equity issue in a familiar analytical framework. There is, however, no "demand for equity" which emerges from such analysis, at least not in the normal sense of "demand"—a downward-sloped schedule of prices and quantities which reflects the diminishing marginal utility of a good. Fiscal theory's social welfare diagrams do not even reflect the efficiency-equity tradeoff in an explicit way; the axes are both measures of welfare, not a presentation of output vs. justice. What is instructive, however, is that in this borrowing of neoclassical tools for expression of distributional priorities, preferences are expressed not as those of some individual person, or even of a hypothetical "everyman," but of society itself. Thus, the "demand for equity," so to speak, is a result of the societal judgement underlying figure 1; it is a collective want.

A Challenge To The Collectivist Approach

I am obliged at this point to acknowledge an alternative view of the distributional question, in order to refute it. My response to the inconsistency of using figure 1's social welfare function in an "individualistic" fiscal theory is to reject individualism. There is
a minority school of distributional economics which prefers to reject figure 1 instead. This approach is illustrated by Milton Friedman's advocacy of a negative income tax for redistribution of income. Dr. Friedman sees the "alleviation of poverty" as a social good which satisfies wants of individuals. The basic notion here is that utility can be interpersonally interdependent, that A can derive individualistic benefit from a certain level of economic welfare for B. Thus individuals will have desires for aiding the poor in a systematic, large-scale way—desires which could not be realized in the absence of some public agency to respond to them. The alleviation of poverty is thus seen as a social good which yields utility to individuals, who are therefore willing to sacrifice some income for tax–supported welfare programs. The collective wants approach requires a radically different view. Anti-poverty programs are a response to collective wants—wants not experienced by the taxpayers per se and not expressed by the downtrodden but rather wants which are perceived and acted upon by a legislature assembled to scrutinize society and act on the basis of its own "social conscience."

Friedman's treatment of distributional equity focuses on what is really a narrower issue—the "alleviation of poverty." Friedman's perspective is limited because of the narrow way in which conservatives like himself define the economic role. His task is simply to observe what occurs in the real world, and to explain it in terms of a theory of rational behavior by individuals seeking to maximize
their own satisfaction. The redistribution phenomenon becomes just another social good which satisfies individual wants. If one accepts the proposition that utilities are interdependent, and if one is satisfied with Friedman's narrow purpose—explaining the existence of transfer payments in a free society—it is difficult to argue against Friedman's position. His work hardly ever contains internal inconsistencies.

But, as with any other good, the optimal amount of redistribution in Friedman's scheme will be dependent on the distribution we start with, and on the tastes of "purchasers"—i.e., taxpayers. As with any other good, we would expect the optimal amount of redistribution to vary in different distributional situations. The seeming, simple beauty of Friedman's explanation comes from the way he limits the problem. A theory of redistribution based on individual wants is not properly a theory of distributional equity at all. The new pattern of incomes, which is presumably the result of free factor markets with a modification now for eliminating poverty at the lower end, is not really assumed to be optimal; it is simply assumed to exist, and to lead to some new allocation of resources. Whether the mix of goods and services which results from the new ordering of incomes is truly optimal is left undetermined. For Friedman, this is just not part of the problem; the explanation is already complete. While Friedman seeks to fit the observed phenomenon of income transfers into the neoclassical mold, Samuelson and Musgrave are seeking a
theory which solves the economic problem in a comprehensive way. Friedman's redistribution-against-poverty—a social good which remedies a social "bad"—is brought forth because it yields utility for those who purchase it. By contrast, the very nature of redistribution-toward-equity is that the "purchasers" of the good—i.e., taxpayers—give up utility—and this is not by accident but by design. Friedman deals in the redistribution of dollars to maximize taxpayers' utility, when the real issue is the redistribution of utility itself.

Concluding The Collectivist Approach To Equity

That the individualistic framework is inadequate to deal with our fundamental equity question becomes, as we have seen, a telling handicap for its treatment of efficiency. Both Musgrave and Samuelson, major neoclassical theorists, are led to discuss the issue of distribution and of redistribution-as-a-social-good from a perspective not of individual desires but of a social welfare function. Equity is indeed a social good, and the key word here is not "social" but "good." What makes distributional equity a good is the same thing that makes anything else an economic good—want-satisfying power. Whatever we wish to call the want which is satisfied by altering the factor market result—whether it is the need for "social justice" or the fulfillment of our "humanitarian instinct"—is less important than the fact that we know the new result is itself a good. It must satisfy some want, in order to be rational, because through the taxation which makes redistribution possible, society as a whole
incurs a loss--through "efficiency loss" or "excess burden" and through administrative costs of tax-transfer programs.

So here again is the crucial question: Given that the pursuit of distributional equity is satisfying some want, just who is it that wants it? The way in which the mainstream writers deal with this question is a tacit acknowledgement of an exception to their own individualistic shibboleth. Distributional priorities emerge not from any individual(s) but from society as a whole. This formulation is seen to be more consistent with the fiscal theorists' own use of the social welfare function than are any notions of A deriving compensatory utility from the increased utility of B.

Some Further Evidence

The "pure theory" of distribution is not the only place where the social welfare function appears in standard fiscal theory. In his discussion of cost-benefit analysis, Musgrave introduces distributional weights into the problem of benefit calculation. The question of where the appropriate weighting scheme comes from "once more raises the problem encountered in our earlier discussion of the social welfare function."22 On the subject of "fair" taxation, Musgrave combines the principles of ability-to-pay and equality-of-sacrifice as a standard of tax fairness. But equal sacrifice rules lead one into the messy business of interpersonal utility comparisons. For

22--Musgrave, p 169.
"It is more realistic, therefore, to view the problem in terms of a social utility schedule based on society's evaluation of successive units of income, rather than of one based on a measure of subjective utilities as actually experienced by each individual."\(^{23}\)

There are still more instances, dealing with questions that are not strictly distributional, where Musgrave employs the "collective interest" idea to explain public economics. Two of these—"merit" goods and the "social" rate of discount for future welfare—form the basis of the next section. But, how far have we already come from our first musings over the nature of "the public interest?"

It is one thing for a would-be social philosopher to parrot Rousseau or Kant, and to make bold exhortations to the economics profession about how society ought to be organized—equality as a standard of justice; the community interest, or "moral imperative," as a guide for truly rational decisions; the collective welfare as the overriding social goal. It is, however, quite another thing—hopefully a more persuasive approach—to show economists that using the idea of collective wants (at least tacitly) is not only creative and useful but actually legitimate, and, I daresay, downright orthodox.

\(^{23}\)—Musgrave, p 219.
Having claimed individualism as a starting point, Cusgrava (and mainstream economists in general) time and again deploys collectivist analytic in his discussions of problems in public economy. The real work, for those enterprising economists who share this paper’s perspective, is yet to be done. The next section suggests some appropriate directions.
IMPLICATIONS OF THE COLLECTIVIST APPROACH— THEORY AND POLICY

Proceeding With Bold Caution

There is, of course, a basic problem with the collective wants approach to economic decisions—how do we know what in the world we are doing? How are the needs and wants of the collective whole to be perceived, measured, advocated, and acted upon? We have a whole body of economic theory which tells us how we pursue self-interest in the market, and how a representative government can look after the self-interests to which the market fails to respond, by providing this or that package of social goods. Dollar-votes tell what is the right mix of private goods. Political votes tell what are the right types and amounts of public services. But nowhere does fiscal theory explicitly say how collective wants are to be dealt with; they aren't supposed to exist. Nor have I, myself, said much about how collective preferences are to be revealed.

We have seen, however, that makers of economic policies would be placed in a paternal role, forced to make value judgements, and that fiscal theorists who employed the notion of "the collective interest" to advocate this or that course could never be certain that they were right; they could be sure only that they were going out on a limb.
Before Prof. Musgrave dismisses collective wants, he acknowledges that other writers have not always done so. In a capsule summary of non-individualist interpretations of the origin of wants, Musgrave mentions the "great teacher" scenario, in which "The true structure of collective preferences is said to be revealed to a great teacher or political leader who, as in the Monist pattern, then transmits this insight to the people."24 It is perhaps indicative of the dim view Musgrave takes of collective wants that, having introduced the idea, he refers the reader to a German article "from the Nazi period."25 You will recall that, for the Nazis, the "community interest" called not only for massive public works during the Great Depression but also for the gassing of Jews and for revenge against the parties to the Versailles peace. The point is not that the collectivist philosophy is inherently evil but that the application of it can become so. The notion of the community interest may be used as "a coverup for special interests or for preferential treatment."26 The implication of such governmental "meddling" for personal freedom in economic choices is clear. It is also worrisome. Any writer who expects to be listened to (to become the "American Fad") is advised to proceed with caution!

24--Musgrave, p 122.

25--Hans Ritschl's "Communal Economy and Market Economy" is seen by Musgrave as typical of European thought (and especially German thought) on collective wants during this period.

26--Musgrave, p 122.
Sadly, there is no magic solution which can reveal the true community interest in a way that persons of divergent political persuasions will readily accept. But individualism is clearly a limited worldview. Both the level of affluence we enjoy and the precarious balance on which it rests are rendering the individualism of the 17th and 18th centuries philosophically and analytically obsolete. Ideas can be the harbingers of progress or the enemies of it—too often, economic theory has occupied the latter role.

Still, opportunity exists for economists to explore the idea of collective wants, and what it could mean for society and for public policy; their ideas could have an impact on future decision-making. Conservative critics will no doubt call them apologists for elitism and statism. To be sure, just because an economist is honestly concerned with a better, richer life for all does not mean he will be correct about what it is and how to achieve it. But collective wants are already tacitly recognized by the central mainstream of fiscal theory. The conclusions made available to the theorist who fully recognizes the separate community interest will be controversial in the U.S. economics establishment. But, in the words of Prof. Galbraith, "In economics, it is better to be right than to be consistent."

Lacking a sure course to follow, and faced with the sole alternative of denying the collective interest altogether—thus securing a less-than-optimal policy mix—the public sector's economists have perhaps

27—Really stalwarts of liberal ism, in the Classical sense.
only one, best course—to recognize a legitimate alternative to strict individualism, and proceed from there with a somewhat bolder caution.

In discussing the application of the collective wants approach, we need to make another limiting assumption, in order to keep the problem in focus. The perspective of this paper cannot include the theory that "market" capitalism in its modern form does not respond adequately in the service of consumers. We'll have to assume that individual wants for private goods are more or less taken care of by the output of the private sector, operating as it sometimes does under governmental "carrot and stick" policies for "internalizing" externalities. We must also assume that individual wants for goods which are social are met by governments—governments operating according to the normal theory, which says, of course, that this is precisely what governments do.

The implication of my thesis, then, is that even if the present mix of public and private decision responds adequately to individual preferences, it might still produce an unsatisfactory result if there are legitimate, collective wants to which it does not respond fully. The present literature, as we have seen, already recognizes (albeit by indirection) instances in which the public sector does

20—The contemporary leader of this school of thought is, of course, John Kenneth Galbraith.
respond to collective wants. The possibilities for a broader response to "social needs" is the subject of the rest of the paper. Clearly, a system of production based on profit-greed in unrestricted markets—a system set in motion within a political framework based on the work of Locke and his disciples—is not likely to respond in a comprehensive way to needs which do not have their roots in self-interest. But, though our institutions tend toward inflexibility, they are not totally immutable. Governments can be provoked to action, especially by economists who specialize in public finance, whose work it is to explore the policies I now suggest.

**Collective Paternalism and "Merit Goods"**

When standard fiscal theory calls for public remedies against market misallocations, those market results are seen as violating an efficiency standard which, according to convention, is defined solely by individual preferences. We have seen, however, that government intervention in the economy can be a response to collective wants—wants not only for maldistribution remedies but for misallocation remedies as well. The community interest lies not only in one pattern of distribution which is preferable to others but in the production of particular, preferred goods and services as opposed to others. We are led directly to the troublesome (for Sungravé!) issue of merit goods.
Merit goods, and their counterpart, "demerit goods" or "social bads," lie outside the consideration of standard social goods theory. Musgrave lays out his fiscal theory of individual preferences and then observes that, in the real world,

"Budget policy suggests in many instances where the very intent of the decision maker appears to be to interfere with or override individual preferences. Thus sumptuary taxes are imposed on liquor because the consumption thereof is held undesirable, or low-cost housing is subsidized because decent housing for the poor is held desirable. The consumption choices which are penalized or supported in some instances involve goods which, by our previous definition, are private...and in others, goods which are social...The issue now under consideration, therefore, must not be confused with the distinction between private and social goods itself."29

In attempting to explain the role of merit goods in the fiscal scheme, Musgrave walks all around the issue without ever confronting it directly. He first suggests autocratic imposition of elitist choices as one explanation. Alternatively, he allow that merit goods policies might be a corrective mechanism for general misinformation--social guidance toward choices which truly lead to want-satisfying outcomes for individual consumers. Also, since publicly subsidized merit goods--low-cost housing and school lunches, for example--are often directed toward low-income groups, Musgrave takes note of the obvious and suggests paternalism as the answer. Merit goods are thus a modification of "pure" redistribution undertaken because poor

29--Musgrave, p 65.
people are thought by others to be incapable of rational choice.

Musgrave's discussion of merit goods employs several different ways of saying the same thing, without ever defining the issue from a collective wants perspective. This is to be expected, of course, and the line, when drawn, is indeed a fine one. But a fusion of Musgrave's various approaches produces the collective wants approach which he refuses to employ! Keeping in mind our previous acknowledgment of a necessary degree of paternalistic policy-making, we can see that public guidance toward choices which truly satisfy true wants is perfectly in line with my thesis, as long as the "imposed" choices are the product not of an invidious "elitism" but of the community interest, which emerges from collective want. All aspects of Musgrave's merit goods discussion head in this direction, but, necessarily, he stops short of any explicit explanation which would offend the individualistic framework of standard fiscal theory.

The General Welfare

Extending the influence of collective wants more generally to the allocative aspects of fiscal policy will be interesting and fruitful. We find immediately that the standard theory of the demand for social goods is inadequate. These demand curves are usually derived, in theory, as the (vertical)\textsuperscript{30} summation of individual demand curves

\textsuperscript{30}-- That fiscal theory sums these curves vertically for social goods, rather than horizontally as for private goods, is a peripheral matter of no importance for my case.
for public goods and services. For any social goods that satisfy collectively-experienced wants, the true demand will exceed that which standard fiscal theory predicts. 31

Furthermore, non-social goods in the public budget will suffer "under-allocation" as well, if they are provided in amounts which balance marginal costs to marginal benefits-to-individuals. This is a point which cuts across many areas of public sector activity—goods with externalities, "mixed" goods (like education, for example), merit goods. An overallocation rationale is as easily applied to "demerit" goods. The idea of collective wants blurs what was already a somewhat fuzzy distinction among various categories of fiscal response. Musgrave's summary dismissal of merit goods from the social goods and spillovers frameworks is called into question if these forms of fiscal response, like merit goods, are allowed to reflect deliberate government interference with the result that would obtain if individual preferences were definitive. What we come up with is a much more general statement of fiscal purpose: Goods, activities, and economic outcomes which produce true social benefits (as opposed

31—Some would even argue that the provision of social goods is itself a social good! By virtue of their being cooperatively produced and communally consumed, social goods enhance the functioning of society as a society. Though this argument probably stretches things too far, the implication is that fiscal theory itself might contain a general bias against social goods, even those which arise from individual wants!
to external benefits to individuals) or generate social costs, are said to do so because they either promote or frustrate the public interest. Efficient public sector response to these community interest situations—even where the community interest is in opposition to significant individual interests—is not an impairment of well-being but an enhancement of it.

Collective Time-Preference--The Social Rate Of Discount

A special part of the economic equity question involves the effects of present decisions on future welfare. The issue of "intergeneration equity" has come to the fore in recent years, especially in the great social debates over fuel and other mineral resources, and over environmental contamination. Reusgrabe himself takes note of "the asymmetrical fact that the present can affect the future but not vice versa."32 For example, present decisions on the rate of capital formation determine the stock of productive capital for some years ahead. Much of the capital stock, however, is worn-out and replaced over a relatively short span of years, and so "intergeneration" equity is less important here. But there are present decisions which affect well-being beyond ten or twenty or fifty years into the future. Present use of finite mineral resources affects their availability not just next year but into the next century, and the next. Economic activity which damages the environment imposes dual costs on the

32--Reusgrabe, p 99.
future—costs of needed cleanup plus detriments which prove irreparable.

Now, if all wants are individual, the wants of individuals not yet born with respect to the level and composition of economic output can, obviously, not be expressed. Reliance solely on individual wants thus ignores Musgrave's "asymmetrical fact," and introduces an inefficiency into the allocation, as wants which ought to count are ignored!

For the intergeneration equity issue, the implications of allowing for collective wants are clear. The market rate of interest, which is an evaluation of present vs. future welfare for present persons, may have to be revised downward when it is used for discounting long-term benefits of public investment projects, and long-term costs of environmentally-risky production. As Musgrave explains, the rationale is that "the private sector tends to underestimate the social value of future consumption and capital formation, thus calling for the use of a lower rate by the private sector."33 The problem is that the determinants of market rates of interest exclude collective wants (for a "good" future), introducing a present-consumption bias into the result. That collective wants coexist alongside market signals is implicit in the position which advocates use of a "social" rate of discount.

33—Musgrave, p 177.
There still may be a good case for use of the market rate on private investment—the overall net value of the project is captured by its owners, as it is "capitalized" into the value of the securities they hold. The rationale for discounting future benefits in the first place is that persons would rather have them now than later. But when governments are involved in investment for things like transportation systems, resource renewal, energy research, etc., it is clear that the benefits of these cannot be had in the present, nor can their true value be "capitalized" by their "owners," in a sense of giving them back some economic power—society as a whole cannot be said to exert economic power over itself, to command resources away from itself. Thus, much public investment—in water resources, waste site reclamation, our "energy future," etc.—is a response not to the wants of individuals, living or unborn, but to the collective imperative of social responsibility to the future.

Neither social goods theory nor the externalities concept, both based on individual wants, can offer a helpful approach to the question of intergeneration costs and benefits. The externalities approach requires that future generations be charged for the external benefits which they enjoy from present investment; efficiency is brought about when externalities are "internalized." It is arguable that use of the lower, social rate of discount results in more public investment, and in a higher level of debt to be serviced by tomorrow's society. But there is a fallacy here. Interest payments by governments are a pecuniary transfer within society. Our future beneficiaries
cannot be said to be repaying a debt to dead taxpayers, because pay-
ments by Uncle Sam to John Doe do not transfer any resources out of
the present into the past. If we try to use the individualistic
framework of social goods theory, benefits to future generations
from public expenditure must be seen as satisfying the wants of
present individuals, who cannot pursue good for their posterity as
individuals in the marketplace. If we adopt this approach, however,
every investment, public or private, becomes a "social good," at
least in part, if it is expected to yield utility over the very long
term—utility which will accrue to individuals not yet born. This
is a highly impractical interpretation.

Thus the only satisfactory explanation for use of the social rate
emerges from the notion of collective wants. As Husgrave explains,
"it is argued that people as members of society should care more
about future generations than in fact they do, i.e., that future
consumption should be considered a merit good."34 The notion of the
discount rate as a measure of the disutility of deferring satisfac-
tion is rendered inappropriate. The investment itself is a present
response to a present imperative. The rate of discounting benefits
over the useful life of such public investments may easily, under
this view, approach zero. In fact, given that the costs of not
undertaking certain kinds of projects (for environmental protection

34—Husgrave, p 174.
and resource security) will be as incalculable as they will be irreversible, a time-preference reversal, which puts a premium on future welfare, may be appropriate—a negative rate of "discount."

Naturally, any project—no matter how grandiose, risky, or costly—could be made to "look good on paper" if the "premium rate" on future welfare were pushed high enough. But the point here is still valid: If the level of public investment in resource security and the environmental future is being decided based on any positive rate for discounting future welfare, then the resulting level of expenditure may very well be insufficient—no, inefficient, as the present trends toward resource scarcities and environmental dangers press ever harder against the collective social goal of assuring a good life for posterity.

**Equity Revisited**

Economists in general, having mentioned the existence of equity issues, and having reluctantly acknowledged their vital importance for finding real "efficiency," have little else to say. Ausgraves observes candidly that, "Economists, over the last fifty years, have increasingly held that a theory of just or equitable distribution is not within the purview of economics but should be left to philosophers, poets, and politicians."

But if the income distribution itself can be a social good—one which satisfies a collective desire for equity—new light has been shed on the issue, and economics may have

35--Ausgraves, p 82.
more to say about the distributional question. What does the notion of a social desire for equitable distribution really mean for that society? We might say that a society which seeks distributive justice has truly resolved itself to the pursuit of an admirable ideal—the "just society." Obviously, the just society needs to have equitable economic and political arrangements, especially with respect to the distribution of economic welfare. Conversely, the "unjust" society need have no such worries! A government whose role it is to promote the wants of the "unjust" society it serves need make no serious effort in the area of distributive justice. But government in the just society is not so easy; to ignore the society's needs for distributional equity becomes inefficient economic policy, as a legitimate want is neglected by the only sector of society that can do something about it.

Having recognized the true origin of Musgrave's theory of optimal distribution, we are now free to count those benefits which improve the society itself, as well as those which increase the total utility experienced by individual persons. The overall result is that we can observe the prevailing distributional pattern with a clearer critical eye. If there is perceptible inequity, does public policy hesitate because of "efficiency" worries? The notion of a social need for equity makes failure to take effective action an inefficient public response. The present balance in the policy debate is tipped in favor of greater activism on the distributional question.
The serious reader of this paper has likely been convinced of one of two things. First, he may be convinced that economic "science," doomed at the start to be inexact, is based on individualism because it had to be in order to be a manageable discipline at all. Alternatively, the reader may be convinced that a truly useful economics, especially one which seeks to explain taxation and public expenditures, must go beyond individualism. The latter is, of course, the preferred conclusion, to the most widely-read (and presumably most "useful") public finance scholars have indeed gone beyond individualism, though perhaps without meaning to.

I have argued for the notion of a community interest, a pattern of societal priorities which is separate from the objectives and aspirations of individual decision-makers. It is an idea traditionally more suited to political philosophy than to political economy, applied more often to organizing political institutions than to managing scarce means and allocating welfare. Critics of the collectivist philosophy have charged that it is a utopian pipe-dream, which proceeds from a fallacious assumption that the problem of scarcity has been solved in industrial society. Only when the well-being of all individuals was taken as given, the argument goes, could the collectivists reject competitive society and concentrate on promoting the cooperative whole. It is scarcity, however, which makes the notion
of collective wants so important, as the means available to society are allocated according to one or another pattern of preferences, without being able to fulfill all of them. Only the society which can achieve a balance—between meeting aspirations of its individual members and promoting its own progress as a society—has been truly "economic" in the use of its capacities.

That I have done here should be seen as a rough beginning effort. People who introduce new modes of thought—especially in economics, where we are supposed to be finding ways to make life better—ought to do so not with vanity but with hope—hope that, before too long, someone else will pick up where we left off, do it all again, and do it better. If I have shown anything in this paper, it is that an acceptance of collective wants by the public finance specialist can help him to take the "economic efficiency" arguments so often leveled against public decision-making, and turn them to his own advantage, and to the advantage of the public interest. Samuelson, were he younger and still prone to enthusiasm, might have called it "the economics of a good society."