"Tough Love": Implications for Redistributive Policy

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Policies formed by tough love will result in less redistribution to the poor but also result in greater labor force participation than would be the case under policies motivated solely by concern for the income of the poor.

In 1965, President Lyndon Johnson launched the most ambitious effort in American history to eliminate poverty. Known as the Great Society, this effort consisted of a variety of social programs designed to alleviate the problems of the poor. Declaring that "the days of the dole in this country are numbered," Johnson sought to provide short-term assistance to the able-bodied poor in the belief that it would enable recipients to lift themselves out of poverty; the smaller population of individuals who could not work would receive long-term support. The belief that poor individuals would escape poverty if given short-term support was echoed by the *New York Times*, whose editorial board claimed that the ultimate benefits of the War on Poverty would be reaped through "the long-term reduction of the need for government assistance" (Royal 1985).

An enormous number of people entered the welfare rolls as a result of Great Society programs. However, the hope that they would use the programs as "a hand, not a handout" was unrealized. The poverty rate, which had been declining since World War II, began to rise despite a twentyfold increase in social welfare expenditures (Novak 1985). Increasingly, the ranks of the poor were composed of single-parent families and an "underclass" of able-bodied males who remained in poverty considerably longer than poor two-parent households (Mead 1991; Murray 1992). Great Society supporters suggested that higher welfare benefit payments were needed in order to care for long-term recipients, while opponents found themselves accused of indifference to the plight of the poor.

Indifference is clearly one reason someone might favor a reduction in welfare benefits. However, an increasing number of analysts have argued in favor of such a reduction *for the sake of the poor* (Murray 1984; Novak 1985). By providing income to those individuals who do not work, welfare discourages recipients from entering the labor force and encourages workers to join the welfare rolls, aggravating the unemployment problem and lowering the rate at which the economy can grow. Traditional notions of altruism assume that compassion for the poor is measured by one's willingness to redistribute income, but, to the extent that more generous support for the poor actually encourages recipiency, welfare programs simultaneously mitigate and exacerbate the problem of poverty. It is therefore conceivable that altruism, when defined as concern for both the well-being and the number of poor, could imply "tough love" toward welfare recipients.[1]

This article explores the differing implications of traditional altruism and the "new altruism," which combines the traditional with tough love. The first section of this article describes the economic model. Next, the article introduces the model's political framework and demonstrates that, when altruism is defined in the traditional sense, a relatively altruistic individual will prefer relatively generous welfare benefits. The following section compares the public policies favored by a traditional altruist and an otherwise identical new altruist. It shows that benefit levels are unambiguously higher under the traditional altruist but that labor force participation is unambiguously higher under the new altruist. The conclusion summarizes these points.

The economic model

Consider a system of jurisdictions, which are inhabited by individuals for whom migration is both costless and unrestricted. These mobile individuals may choose whether to enter the labor force. Employed individuals are endowed with one unit of labor, which must be used to produce the numeraire according to a production function $f_i(e_i)$, where e_i denotes the number of employed individuals in jurisdiction i. In exchange for their labor, employed individuals receive their marginal product, $f_i'(e_i)$, from the jurisdiction. Poor individuals, by contrast, receive no labor endowment but obtain welfare payments from their jurisdiction. A jurisdiction may engage in neither wage nor benefit discrimination.

In addition to wages and benefits, each person receives disutility from congestion, and every employed individual receives disutility from work. I assume a congestion function of the form $c_i(p_i + e_i)$, where c_i is the monetized value of congestion and p_i represents the number of welfare recipients in jurisdiction i.[2] I assume that each individual has a finite disutility value, which expresses, in monetary terms, the degree to which that individual is averse to work.

Since migration is costless, the net income of the poor must be equalized across jurisdictions, and the net income of the employed must also be equalized across jurisdictions. These incomes are given by

$$Y^P = b_i + c_i(p_i + e_i), \tag{1}$$

and

$$Y^E = f_i'(e_i) + c_i(p_i + e_i), \tag{2}$$

where b_i represents the benefit level in jurisdiction i.

In addition to these individuals, I suppose that each jurisdiction contains a single immobile landowner. This landowner claims any residual profits from the production process and finances redistributive benefits.[3] The net income of the landowner is

$$Y_i^L = f_i(e_i) - e_i f_i'(e_i) - b_i p_i, \tag{3}$$

where $f_i(e_i) - e_i f_i'(e_i)$ is the residual profit from production (output less wages), and $b_i p_i$ is the total benefit payment from the landowner to the poor in his jurisdiction.

Given these assumptions, it is possible to characterize the behavior of mobile individuals under a change in benefit policy. When a jurisdiction increases its level of redistributive benefits, poor people will immigrate and employed people will emigrate until the net incomes of both groups are equalized across jurisdictions. This movement spreads the impact of the increase across every jurisdiction, ensuring that every welfare recipient is aided by the increase but that no recipient reaps the full amount of the increase. The increase also induces a certain number of workers to leave the workforce, which reduces the total number of workers and thereby lowers the gross domestic product of the system of jurisdictions.

A decision-making framework

The previous section establishes an economic framework from which to examine redistributive policy. However, redistribution is as much a political as an economic process. For this reason, the motivations of political actors are crucially important to the study of redistribution. This section surveys existing political models and examines optimal redistributive policy under the most common model: the landowner/policymaker.

Perhaps the most important result in political theory is the median voter theorem of Bowen (1943) and Black (1948). This theorem gives conditions under which, when each voter has a most-preferred policy and judges other alternatives by their distance from that policy, the preference of the median voter cannot be beaten in a majority vote. When governments act in accordance with median voter theory, an analyst who can describe the preferences of the median voter has a complete description of political outcomes. The intuitive appeal of median-voter theory in democratic states has led to its use in a wide variety of applications, including several associated with the debate about redistributive policy (Brown and Oates 1987; Epple and Romer 1991). There is also empirical evidence to suggest that median-voter theory is relevant to discussions of politics (Stigler 1970; Inman 1978).

Substantial anecdotal evidence about excessive government spending prompted a renewed examination of the extent to which government behavior is consistent with median-voter theory. In a seminal analysis, Niskanen (1971, 1975) concludes that government services are provided by inefficient bureaucracies that have an incentive to overproduce. This analysis is extended by Romer and Rosenthal (1979), who argue that politicians also increase the size of government through their ability to restrict the set of policies over which voters may choose. Empirical studies on a variety of governing bodies—ranging from Oregon school districts to the government of the United States—provide support for the big-government thesis (Romer and Rosenthal 1982; Peltzman 1992). This evidence suggests that a simple median-voter framework is inappropriate for analyses of redistribution.

While both the median-voter and the bureaucratic approaches offer insights into political behavior, the most common political model in analyses of migration and redistribution is the landowner/policymaker. In the tradition of Pauly (1973), these analyses assume that the poor abstain from politics and permit immobile landowners to control government policy. Examples include the "profit-maximizing communities" of Sonstelie and Portney (1978) and Epple and Zelenitz (1981), the "bad politics" scenarios of Henderson (1985) and Hoyt (1993), and the analytical work of Wildasin (1991). Because of its prevalence in the literature, the landowner/policymaker is the political model employed here.

Consider a landowner who is empowered to change the level of redistributive benefits provided by the landowner's jurisdiction. Landowners who feel no altruism toward the poor will simply maximize their net income. From equation 3, the landowner receives the residual income from the production process but finances redistributive benefits from this residual. The change in residual income from a small increase in benefits is given by

$$\text{(4)} \qquad \frac{dR}{db_i} = -e_i f_i''(e_i)\frac{de_i}{db_i} < 0,$$

where R denotes output less total wages, and the change in total redistribution from the landowner to the poor is given by

$$\text{(5)} \qquad \frac{d(p_i b_i)}{db_i} = p_i + b_i \frac{dp_i}{db_i} > 0.$$

Since redistribution unambiguously lowers residual income, the landowner would never choose a positive level of redistributive benefits.

Suppose, however, that the landowner is altruistic in the traditional sense of desiring a higher net income for the poor. This altruism could derive from personal convictions, or the landowner may behave in an altruistic manner to retain political office. Denote the landowner's (monetized) benefit from altruism as $\lambda_i(Y^P) > 0$, and suppose that the function is increasing in its argument at a decreasing rate. Although the landowner would oppose redistributive benefits in the absence of altruism, a sufficiently high level of altruism will induce support for welfare benefits. To examine the conditions under which an altruistic landowner would be willing to redistribute, it is necessary to examine the comparative statics of the system. The derivative of the altruism function with respect to a change in redistributive benefits is given by

$$\text{(6)} \qquad \frac{d\lambda}{db_i} = \lambda'(Y^P)\frac{dY^P}{db_i},$$

and the condition under which the politician would choose to increase redistributive benefits is

$$\text{(7)} \qquad \frac{dY^P}{db_i} > \frac{e_i f''(e_i)\frac{de_i}{db_i} + p_i + b_i\frac{dp_i}{db_i}}{\lambda'(Y^P)} > 0.$$

Rewriting this equation as

$$\text{(8)} \qquad \lambda'(Y^P) > \frac{e_i f''(e_i)\frac{de_i}{db_i} + p_i + b_i\frac{dp_i}{db_i}}{\frac{dY^P}{db_i}} > 0$$

demonstrates that there is a unique level of altruism above which the landowner will engage in redistribution. In other words, a landowner who is sufficiently concerned about the income level of the poor will redistribute, while one who is not, will not.

Redistributive policy and the new altruism

Although redistribution raises the income of the poor, it provides an incentive for able-bodied individuals to choose welfare benefits over work. This section examines the behavior of new altruist policymakers who simultaneously wish to raise the income of the poor and reduce their ranks. It demonstrates that policies favored by the new altruist will always result in less redistribution to the poor than would policies formed by a traditional altruist. It also shows that new altruist policies will always result in fewer welfare recipients (and a higher number of workers) than would policies formed by a traditional altruist.

Consider a new altruist who values both greater income for the poor and fewer people in the ranks of the poor. Suppose that these terms are separable, such that the total altruistic benefits reaped by the new altruist are of the form $\lambda_i = \lambda_1(Y^P) + \lambda_2(\sum p_i)$. It can be shown that an increase in redistributive benefits increases the total number of poor individuals by some positive level and that the total change in landowner utility derived from altruism is

$$\frac{d\lambda_i}{db_i} = \lambda_1'(Y^P)\frac{dY^P}{db_i} + \lambda_2'(\sum p_i)\frac{d(\sum p_i)}{db_i}. \tag{9}$$

Equation 9 demonstrates that the new altruist is always less willing to redistribute than is an otherwise identical altruist to whom the number of poor is irrelevant. However, it also suggests that it is possible for the new altruist to favor more redistribution than would traditional altruist, as would be the case if, for example, the traditional altruist ($\lambda_2 = 0$) in question were primarily concerned about his or her own income, while the new altruist ($\lambda_2 > 0$) were primarily concerned about the income of the poor. Thus, new altruism is consistent with any level of welfare expenditures. What is unique about the new altruist is a willingness to trade a portion of the poor's income for a reduction in their ranks.

The willingness to reduce welfare benefits in the name of the poor has led some to question the new altruist's sincerity. Ironically, income distribution arguments made by redistribution proponents could also justify a reduction in welfare benefits. Thurow (1971), for example, argues that society is better off under a more equal distribution of income. However, welfare expenditures have an indeterminate effect on income distribution: they help the poor while simultaneously encouraging middle-income workers to become poor. To the extent that welfare programs discourage labor force participation, then a reduction in redistribution might be justifiable—which is precisely the argument new altruists make.

Conclusion

This article examines the economic and political ramifications of tough love for redistributive policy. It confirms the traditional result that a politician who feels no altruism toward the poor would not engage in redistribution. It shows that a traditional altruist might engage in redistribution if the desire to help the poor is sufficiently strong. Finally, it models the preferences of an altruism that incorporates tough love and describes the implications of those preferences. Policies formed by tough love will result in less redistribution to the poor but also result in greater labor force participation than would be the case under policies motivated solely by concern for the income of the poor.

This article has important implications for American public policy, both because of the results it demonstrates and those it does not demonstrate. It shows that the broader definition of altruism held by the new altruist leads one to favor less generous welfare benefits than would an otherwise identical traditional altruist. But it does not show that the new altruist wishes to reduce or abolish redistribution: a new altruist is perfectly willing to support a generous welfare benefit system if the labor force consequences are sufficiently low. This article suggests that efforts such as the Great Society can have significant work-disincentive effects, but it does not show that the Great Society itself should be viewed as a failure by the new altruist. A traditional altruist whose altruism is sufficiently low could reject Great Society programs, and a new altruist whose concern for the income of the poor is sufficiently high could embrace them.

Finally, this article shows that both support of and opposition to welfare benefit programs are consistent with altruism, but does not show that every real-world policymaker is motivated by altruism in making judgments about welfare. People can oppose redistribution because they do not wish to give up their income to the poor, and people can support redistribution because they do not object to spending other people's income on the poor. The conclusions reached in this article suggest the need for a renewed examination of the policy proposals of the new altruists and a renewed effort to understand the impact of redistributive programs on labor force participation.

Notes

1 There are, of course, welfare recipients who cannot work because of physical disability. Neither the new altruists nor Great Society supporters suggest that these individuals would benefit from tough love.

2 For purposes of this article, one can assume that the congestion is the result of a fixed supply of housing

for which all residents must bid. Congestion might also result from a fixed supply of public goods, such as parks and roads.

[3] The theoretical analysis holds for a variety of financing arrangements, provided the arrangement does not violate the landowner's position as residual claimant. An example of such an arrangement is a payroll tax on workers under which the landowner must finance the difference between payroll tax collections and benefit disbursements.

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