Book Reviews: Political Economy

Superfairness. By William Baumol (Cambridge: MIT Press, 1986. xi, 266p. $20.00).

“Probably the most persistent reason for noneconomists’ resistance to our most cherished recommendations on micropolicy,” observes Baumol, “is our determined disregard of their implications for distributional equity” (p. 1). Concepts and analytical tools have recently been developed, however, that permit a new understanding of distributional questions. Baumol’s aim is to present this literature and to show its usefulness in the evaluation of concrete policy issues. Although he partially achieves his first objective, he falls far short of achieving the second.

In 1967, Foley proposed that a distribution of goods among agents with equal claims be declared equitable if no agent prefers someone else’s bundle to his own. This is the notion of an envy-free (EF) allocation. If there is only one good, then equal division (ED) is the only EF allocation. Then ED is also Pareto efficient (PE). Otherwise, ED is not in general PE, but allocations that are both EF and PE usually exist. Indeed the Walrasian allocations obtained by taking ED as initial position enjoy both properties.

The introduction of the concept of an EF allocation constituted an important development in welfare economics for the following reasons. First, it is ordinal; economists’ reluctance to use the cardinal concept of utility is the principal reason for their extensive reliance on the notion of Pareto efficiency, which essentially places no restriction on the distribution of welfare. Second, it provides a significant reduction of the set of PE allocations; in fact, in many economies with a large number of agents, only the Walrasian allocations from ED, which are generally few, are both EF and PE. Third and more importantly, it is a very natural concept of equity in situations where agents can meaningfully exchange positions, and its recommendations are in accordance with intuition. (To illustrate, an allocation at which one agent receives more of all goods than some other agent is obviously not EF.) Also, it does not rely on ad hoc notions such as, for instance, that of implicit incomes; the suggestion often made by economists to select allocations at which implicit incomes are equal across agents, that is, to allocate resources by operating the Walrasian correspondence from ED, is unnatural since that correspondence has no more normative appeal than a number of other correspondences commonly discussed, when operated from ED.

It was quickly discovered, however, that EF and PE allocations may fail to exist in production economies (because of possible differences in agents’ productive abilities). This disappointing result led to the development of an important literature devoted to the formulation and the evaluation of other fairness concepts. Unfortunately, none of them enjoy all of the appealing properties of Foley’s original concept.

Baumol does not attempt to review the whole fairness literature, but his exposition of the basic concepts (chaps. 2 and 3) is clear and well illustrated with Edgeworth boxes, a tool ideal for this purpose. He describes the intricate structure of the set of EF allocations in the two-commodity, two-person case, relates the EF concept to the criterion of Pareto domination of ED (an allocation may be EF without Pareto-dominating ED; an allocation in the core from ED may not be EF). He also discusses the problem of evaluating the equity of a trade vector from a given initial position (it is natural to say that a trade vector is envy free if no agent prefers someone else’s component to his own), and he notes certain important difficulties that arise when the concepts of EF allocation and EF trade are combined (for example, an EF and Pareto-improving trade from an EF allocation may lead to an allocation with envy). This sort of result has serious implications for the step-by-step implementation of distributional objectives. In this regard, his own attempt at devising a procedure that would yield a single-valued selection from the set of EF allocations via certain sequences of EF trades is instructive, in spite of it being largely unsuccessful. Finally, the author presents, although in much less detail, various generalizations of the EF concept to production economies.

On the other hand, the author’s efforts to show the relevance of the fairness concepts to policy issues are unconvincing. His analysis of rationing schemes (chap. 4) yields no useful results, and his treatment of arbitration procedures (chap. 11) is very limited. (The latter would have been considerably helped by a more systematic use of the Edgeworth box...
representation, a technique also perfectly suited to this topic.

In spite of these serious flaws, however, the chapters discussed thus far are well unified by a common conceptual apparatus. They could have constituted the core of a worthwhile monograph. Unfortunately, the other chapters (a large portion of which are reprints from the author's previous works) devoted to policy issues such as conservation (chap. 5), industry pricing (chaps. 6 and 7), peak and off-peak pricing (chap. 8), and income equalization (chap. 9), are very disappointing (I will not discuss chap. 10, concerned with certain methodological issues pertaining to “economic illusion”: this chapter, also very weak, stands somewhat apart). The analysis is conducted mainly in terms of the standard concepts of Pareto efficiency and Pareto domination. Chapter 7 does contain a fairly comprehensive, although superficial, review of various normative theories of cost allocation schemes, but an application of the concepts and methods of the first chapters is seriously attempted only in a section concerning utility pricing. However, apart from the fact that nothing specific is really said about utilities, the use of the EF concept to analyze a situation in which the two agents are a representative consumer and a representative firm and the two goods are a physical resource and a price is artificial. In fact, it illustrates the basic difficulty (discussed in chap. 11) with the application of the fairness concepts; their usefulness seems to be limited to situations in which all agents play fundamentally symmetric roles.

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The Reason of Rules: Constitutional Political Economy. By Geoffrey Brennan and James Buchanan (Cambridge: Cambridge University Press, 1985. xiv, 153p. $34.50).

Constitutionalism is back. We see it return in a variety of forms. One version is the constitutional political economy developed by the “Virginia school” of public choice. The methodology of such a constitutional political economy is the subject of the present book. But there are many other types of constitutionalism now in the works, including forms of a constitutionalist political economy very different from the Virginia one. These alternatives include applications of interpretive methods to the most fundamental and constitutive political questions as well as the more conventionally scientific study of how impartial standards can restrain collective decisions. There are hermeneutic, neo-Straussian, neo-Parsiansian and causal-behavioral constitutionalisms, as well as the public-choice version under review here.

Why is constitutionalism back? To a degree, no doubt, it is simply a fad, fueled perhaps by the approach of the 200th anniversary of the great constitutions (the U.S., 1787; the Polish, 1791; the French, 1793). But it is surely more than a fad. It is a response to the current political situation, especially the crisis of the “democratic welfare state.” This motive is quite clear in the book under review. But it is also a response to the crisis of political, social, and economic theory, an effort to redirect it to more fundamental questions and to questions of greater normative significance.

There is no question that the Virginia school of public choice is now and will continue to be an important player in this revival. The works of Buchanan, Brennan, Vanberg, and others define a distinct constitutionalist alternative. Anyone who takes the new constitutionalist renaissance seriously will have to study them carefully. Brennan and Buchanan’s The Reason of Rules can best be evaluated in this context. It is important as a report of the current stage of development of the “Virginia” alternative. But it is unlikely, in my judgment, to be a more definitive statement. The book has many marks, in fact, of a transitional work. It is short and sketchy. Most of its arguments are not worked out in great detail, many are short summaries of more elaborate presentations elsewhere, without any attempt to achieve a “grand synthesis.” The tone of the book is highly tentative, it is full of maybes and mights. The overall organization is rather weak; there are at least two dramatic and unexplained shifts in argument. Finally and most importantly, Brennan and Buchanan’s book defends a position that, by the end, the authors themselves acknowledge to be self-contradictory.

The Reason of Rules is engaged in two important intellectual battles. It defends a morally skeptical, contractarian position ac-