

Working Paper No. 13/05

**Personal responsibility and
income distribution**

by

**Alexander W. Cappelen
Bertil Tungodden**

SNF Project No. 2515

From circumstance to choice: Implications of the new genetics
for social justice and health policy

The project is financed by the Research Council of Norway

INSTITUTE FOR RESEARCH IN ECONOMICS AND BUSINESS ADMINISTRATION
BERGEN, February 2005
ISSN 1503-2140

© Dette eksemplar er fremstilt etter avtale
med KOPINOR, Stenergate 1, 0050 Oslo.
Ytterligere eksemplarfremstilling uten avtale
og i strid med åndsverkloven er straffbart
og kan medføre erstatningsansvar.

Personal responsibility and income distribution

Alexander W. Cappelen*and Bertil Tungodden†

January 4, 2005

Abstract

Standard welfare economics and optimal tax theory have primarily relied on welfarist theories of distributive justice. An important limitation of welfarist theories is that they are unable to incorporate considerations of personal freedom and responsibility. So-called liberal egalitarian theories of justice have become an important alternative to the welfarist framework. The aim of these theories is to combine the ideal of personal autonomy and responsibility with the ideal of equality. In this paper, we present the main features of the liberal egalitarian framework and discuss how these theories differ from other major traditions of distributive justice. We also discuss implications of liberal egalitarian ethics for redistributive policies, and argue in particular that this perspective may contribute to a better understanding of the limitations inherent in standard income tax systems.

1 Introduction

Standard welfare economics and optimal tax theory have primarily relied on welfarist theories of distributive justice. In particular, the utilitarian view, that the government should try to maximize the sum of individual welfare,

*The University of Oslo and Norwegian School of Economics and Business Administration, Bergen, Norway. e-mail: alexander.cappelen@nhh.no.

†Norwegian School of Economics and Business Administration and Chr. Michelsen Institute, Bergen, Norway. e-mail: bertil.tungodden@nhh.no.

has dominated normative economics. The welfarist framework has proved a productive point of departure for much economic analysis, but there are some inherent limitations in this perspective. One important limitation is its inability to take into account considerations of individual autonomy and personal responsibility. Welfarist theories evaluate policies solely on the basis of welfare information, and thus do not assign any intrinsic importance to how a specific situation came about. In the context of distributive justice, this implies that information about who contributed to the production of various goods only is relevant to the extent that it affects the welfare calculation. By way of illustration, to justify rewarding effort within a utilitarian framework, one has to show that such a reward contributes to an increase in overall welfare in society. A second limitation in the welfarist framework is the absence of any distinction between different kinds of inequalities. By way of illustration, the standard Pigou-Dalton principle of inequality aversion states that the elimination of welfare inequality (between two persons) always is just, at least as long as it does not contribute to a decrease in overall welfare. As pointed out already by Mirrlees (1971, p. 120, our emphasis), however, the aim of redistributive policies should be to establish effective redistribution mechanisms that offset “the *unmerited* favours that some of us receive from our genes and family advantages”, which is a view not easily captured in the framework of welfarism.

After the seminal work of Rawls (1971), so-called liberal egalitarian theories of justice have become an important alternative to welfarist theories of justice. The main aim of these theories is to combine the ideal of individual autonomy and personal responsibility with the ideal of equal opportunity. Liberal egalitarian theories make a fundamental distinction between factors that individuals should be held responsible for and factors that individuals should not be held responsible for. They also share the view that inequalities arising from the first type of factors should be accepted, while inequalities arising from the second type of factors should be eliminated (see among others Dworkin (1981), Arneson (1989), Cohen (1989), Le Grand (1991), Roemer (1993)). Consequently, the liberal egalitarian framework both incorporates a distinction between unmerited and merited favours and an intrinsic justification for rewarding effort (given that we hold people responsible for the effort they exercise). In other words, the liberal egalitarian project can be seen as an attempt to develop a theory of justice that does not face the two limitations of the welfarist framework.

Liberal egalitarian theory is very much in line with moral intuitions

present in modern societies. In a recent study of moral opinions on distributive justice in Norway, the statement that we should accept inequalities due to personal choices gained support by 87% of the respondents. Equally interesting, 88% of the respondents agreed to the claim that people exercising the same labour effort should receive the same income, and close to half of the sample (48%) endorsed the view that inequalities due to factors beyond a person's control should be eliminated. In contrast, only 12% of the respondents supported the view that income should be distributed on the basis of needs.¹ In a similar vein, based on several surveys of attitudes to welfare policies, Bowles and Gintis (2000, p. 47) conclude that "...egalitarian policies that reward people independent of whether and how much they contribute to society are considered unfair and are not supported, even if the intended recipient are otherwise worthy of support".

Despite the fact that liberal egalitarian theories capture some widely held moral intuitions and have dominated contemporary political theory and parts of modern social choice theory (see, for example, Fleurbaey (1995a,b,c), Bossert and Fleurbaey (1996)), Sprumont (1997), Iturbe-Ormaetxe (1997), and Fleurbaey and Maniquet (1999)), they are largely unknown to most economists. In this paper, we want to provide an overview of the liberal egalitarian perspective and illustrate how it may change the way we should think about income distribution in particular and distributive justice more generally. In Section 2, we present the main features of liberal egalitarian theories and briefly discuss how they differ from other major traditions of distributive justice. Section 3 discusses the liberal egalitarian view of income inequality and shows how it solves two fundamental problems in standard welfarist reasoning, namely "the slavery of the talented" and "the exploitation of the energetic". In Section 4 we argue that the liberal egalitarian framework contributes to a better understanding of the limitations inherent in standard income tax systems, and thus also may be a more promising framework for studying tax policies. Finally, in Section 5, we illustrate how the liberal egalitarian framework also relates to topical debates on health care and fiscal equalization.

¹The study was organized by Alexander Cappelen, Tone Ognedal and Steinar Strøm at the University of Oslo. The sample consisted of 1062 individuals in all age groups above 15 years.

2 Liberal egalitarian theory

Liberal egalitarian theories of justice seek to combine the values of equality, individual autonomy and personal responsibility. The contemporary focus on this relationship can be traced back to the seminal work of Rawls (1971), but it has historical roots both in the US Declaration of Independence (1776) and the French Declaration of the Rights of Man and Citizen (1789). These societies developed in rather different directions, though, and as noted by Nagel (2002, p. 88), “what Rawls has done is to combine the very strong principles of social and economic equality associated with European socialism with the equally strong principles of pluralistic toleration and personal freedom associated with American liberalism, and he has done so in a theory that traces them to a common foundation”. The ideas of Rawls have been developed further, notably by Dworkin (1981), Arneson (1989), Cohen (1989), Roemer (1993, 1996, 1998), and Fleurbaey (1995a,b,c), where the main achievement has been to provide a more precise analysis of how considerations of personal responsibility can be incorporated in egalitarian reasoning. The dominating modern egalitarian view is that people, within a framework offering equal opportunities and respecting personal freedom, should be held responsible for their accomplishments.

Liberal egalitarians argue that society should eliminate inequalities arising from factors beyond individual control, but consider inequalities arising from factors within individual control as legitimate. Factors beyond a person’s control is often thought of as race, educational background, social environment and talent, whereas our notion of factors within a person’s control is fuzzier. However, any modern society makes judgments on to what extent a person is responsible for a particular action, and in the following we will have this politically revealed notion of personal control in mind. In general, we refer to the factors beyond personal control as *circumstances* and the factors within personal control as *choices*. A liberal egalitarian approach can then be seen as consisting of two parts. First, the liberal principle that people should be held accountable for their choices, what we name *the principle of responsibility*, and second, the egalitarian principle that individuals making the same choices also are entitled to the same outcomes, what we name *the principle of equalization*.

Liberal egalitarianism is clearly different from welfarist theories of justice, which focuses solely on the distribution of welfare in society. But it is also important to distinguish liberal egalitarian theories of justice from

libertarian theories of justice (see for example Nozick (1974)). Both theories are concerned with the equalization of opportunities, but while liberal egalitarians aim at eliminating the effect of all factors beyond individual control, libertarians are primarily concerned with non-discrimination. For example, in the design of labour policies, libertarians mainly aim at eliminating formal and informal barriers in the labor market so as to ensure that people with the same abilities have the same opportunities. Liberal egalitarians, on the other hand, would move much further and also support policies aiming at equalizing opportunities between groups with different abilities.

The liberal egalitarian view also differs in important ways from strict egalitarianism. Strict egalitarianism does not allow any inequality among agents and hence is not at all sensitive to differences in choices. It can be criticized on two accounts. First, it is inefficient; second, it is unfair. The former criticism is well-known and has been a major concern in discussions of egalitarian redistributive policies. But the incentive argument is not the only reason liberal egalitarians object to strict egalitarianism. Liberal egalitarians also find it fair that agents are held responsible for their choices.² To illustrate the difference between the fairness argument and the incentive argument, consider a case where individual Hicksian labour supply is inelastic. In such a situation, there is no incentive argument for rewarding labour supply and thus there is no efficiency argument against a policy that assigns the same level of income to all individuals. Liberal egalitarians, however, would insist that it is fair to reward persons exercising a high level of effort (assuming that individual effort is within their control), independent of incentive considerations, and thus would justify income inequalities reflecting inequalities in choices.

The liberal egalitarian framework faces two main challenges. First, it has to make a precise distinction between circumstances and choice. Second, it has to specify how to hold people responsible for their choices. We now turn to a discussion of these issues.

2.1 Circumstance or choice - that is the question

The way we draw the cut between responsibility factors and non-responsibility factors is crucial in liberal egalitarian reasoning. According to Rawls (1971),

²However, see Cappelen and Tungodden (2004a) for a discussion of the problem of establishing an independent fairness argument for holding people responsible for their choices within the liberal egalitarian framework.

individuals should be held responsible only for their preferences or their idea of the good life. Society should therefore not be concerned with individual welfare, but rather with the distribution of the resources necessary in order to pursue any idea of the good life, so-called primary goods. The primary goods are broadly defined, including categories like rights, liberties, and income and wealth. In the following, we will focus on the income part of this definition, and in this respect it is important to notice that Rawls claims that an individual's pre-tax income is morally arbitrary since it is determined by factors outside individual control. In particular, he defends the view that individual effort is not an appropriate basis for distributing resources: "[T]he effort a person is willing to make is influenced by his natural abilities and skills and the alternatives open to him. The better endowed are more likely, other things equal, to strive conscientiously, and there seems to be no way to discount for their greater good fortune. The idea of rewarding desert is impracticable" (p. 373). Consequently, Rawls argues that all individuals should receive the same income in the absence of incentive considerations (and according to the leximin criterion when the income of the worse off can be increased by accepting some inequalities).

Rawls has been criticized by later liberal egalitarians, both for holding individuals responsible for too much and for holding them responsible for too little. First, among others Sen (1992) have argued that an unequal income distribution sometimes will be necessary in order to secure people equal opportunities: "[T]he relationship between *primary goods* (including incomes), on the one hand, and *well-being*, on the other, may vary because of personal diversities in the possibility of converting primary goods (including incomes) into achievements of well-being...One consequence of the basic fact of human diversity is to make it particularly important to be sure of the space in which inequality is to be evaluated" (p. 27). A person with a handicap may, for example, need more resources than a person without a handicap in order to achieve the same goal, say, of social integration. Second, many authors have criticized the assumption that people should not at all be held responsible for their pre-tax income. This was a main target of the criticism in Nozick (1974), who considered this view to undermine the liberal egalitarian ideal of individuals as autonomous and responsible agents. And, as pointed out by Cohen (1990), it is certainly not easy to see how to align the idea of individuals being responsible for their preferences with the view that individuals should not be held responsible for their choice of effort. Nevertheless, Cohen considers Nozick's interpretation of Rawls as a misreading, and argues that

Rawls should be understood as defending the thesis that “effort is partly praiseworthy and partly not, but we cannot separate the parts, and the indicated policy consequence is to ignore effort as a claim to reward” (p. 365). The aim of more recent liberal egalitarians, however, has been to incorporate the idea that people can control at least some factors that affect their income (see, for example, Le Grand (1991), Roemer (1993), Fleurbaey (1995a,b)).

In sum, both from a theoretical and practical point of view, it is not straightforward to make a clear distinction between choices and circumstances. Still we believe that this distinction has to play an important role in a theory of distributive justice, as it does in the present political debate. The controversy between the left-wing and the right-wing of the political spectrum may to a great extent be seen as a controversy about where to draw the responsibility cut.³ Right-wingers consider people in control over a large fraction of the factors influencing their lives, while left-wingers argue that a larger part of existing inequalities are due to factors outside individual control. Hence, if we want to have a theory of distributive justice that relates to this debate, then we need to incorporate a distinction between responsibility and non-responsibility factors, that is, we need to work within the framework of liberal egalitarianism.

2.2 Rewarding effort

Even if we should agree on how to make a distinction between circumstances and choices, it is not obvious how people’s choices should be rewarded (see Bossert (1995), Fleurbaey (1994, 1995b,c,d), and Bossert and Fleurbaey (1996)). To illustrate this problem, let us assume that the only factor under individual control is her labor effort and that the only factor outside individual control is her talent or pre-tax wage.⁴ Given this assumption, one may argue that the principle of responsibility implies that individuals should be rewarded with their marginal productivity when they increase effort. The marginal productivity interpretation of the principle of responsibility, how-

³However, as we show in Cappelen and Tungodden (2004b), there is no straightforward relationship between the level of responsibility assigned to individuals and the ideal level of redistribution within a liberal egalitarian framework. It may, for example, be the case that more responsibility sometimes implies more redistribution, contrary to what is commonly thought to be the case.

⁴As illustrated in Bossert and Fleurbaey (1996), it is easy to extend this discussion to a setting where both effort and talent are multi-dimensional.

ever, is in general not compatible with a reasonable interpretation of the principle of equalization, namely that people exercising the same level of effort should receive the same income. To see this, consider a case where initially two persons' with different marginal productivity, person *A* and person *B*, make the same effort. For simplicity, let us disregard incentive considerations. The principle of equalization implies that they should have the same post-tax income. Assume now that the person with higher marginal productivity, say person *A*, increases her effort. The marginal productivity interpretation of the principle of responsibility implies that the increase in post-tax income of person *A* should be equal to her increase in pre-tax income. But assume that person *B* later on makes a similar increase in effort. Again, the marginal productivity interpretation of the principle of responsibility implies that the increase in post-tax income for person *B* should be equal to the increase in her pre-tax income. This increase, however, is not sufficient to ensure that person *B*, who in the new situation again exercises the same level of effort as person *A*, has the same post-tax income as person *A*, as required by the principle of equalization. Hence, in sum, it seems impossible to combine the principle of equalization with the principle of responsibility.

This apparent tension between the two liberal egalitarian principles can be resolved by noticing that the ethics of responsibility *only* requires that a person should be held responsible for *exercising high effort*, and *not* for *being a person with a specific talent* exercising high effort. Hence, from the ethics of responsibility, it follows that a person should bear the consequences of exercising high effort per se, but not that he or she should bear the consequences of exercising high effort as a more or less talented person (Cappelen and Tungodden (2003, 2004c) and Tungodden (2004)). In other words, when people differ in marginal productivity, then the marginal productivity interpretation of the principle of responsibility is inappropriate because it holds people responsible for too much.

In these situations, however, there are many possible ways of interpreting the liberal egalitarian framework. One approach would be to determine a reference wage and treat all individuals as if they had the reference earning capacity. This would imply that people were held responsible for the same kind of consequences (i.e., the ethics of responsibility is satisfied) and that they would receive the same post-tax income if they exercised the same level of effort (i.e., the ethics of equalization is satisfied). Such an approach faces three challenges. First, it may be Pareto inefficient. Second, given the fact that people differ in marginal productivity, it will create a deficit or a surplus

that has to be shared among the members of society. Finally, we need to determine the reference earning capacity. Let us examine each of the challenges in more detail.

Most liberal egalitarians (like Rawls (1971)) endorse Pareto optimality, and hence the role of liberal egalitarian reasoning is to provide a reference point for the choice among Pareto optimal allocations. Consequently, the egalitarian equivalent mechanism should be understood as outlining an ideal distribution, which we should aim at approximating to the extent possible given the incentive structure of any particular situation. Therefore, the fact that the ideal situation may be inefficient does not imply that liberal egalitarians have to choose a Pareto inefficient allocation, but rather that there is a need for working out more precisely how the reference point can be used in the choice among Pareto optimal allocations. Roemer (1993, 2002) illustrates one way of doing this, but there is need for more research on this issue.

The second challenge raises the important question about how to finance the costs of compensation. Consider a case where a person with marginal productivity below (above) the reference wage increases her effort. This creates a deficit which has to be financed by someone. One possibility is to distribute such a deficit (surplus) *equally* among all individuals, that is, independent of the effort exercised by each member of society. The combination of rewarding effort by the use of a reference wage and distributing the deficit (or surplus) equally is known as the egalitarian equivalent mechanism in the social choice literature (Bossert and Fleurbaey (1996) and Cappelen and Tungodden (2003, 2004c)). Alternatively, one may consider sharing the deficit (or surplus) on the basis of effort or proportionally to the post-tax income. We discuss both these mechanisms, the subgroup solidarity mechanism and the proportional egalitarian equivalent mechanism respectively, in more detail in Cappelen and Tungodden (2003; 2004d).

The choice of reference earning capacity is probably the most difficult issue within this framework, and it is undoubtedly an issue that in the end has to be delegated to the political sphere. Nevertheless, as we illustrate in Cappelen and Tungodden (2003), it is possible to add some structure to this question by studying the properties of various redistribution mechanisms for different reference earning capacities. For example, given the egalitarian equivalent mechanism, it can be shown that the reference earning capacity has to be equal to the minimum earning capacity if we want to avoid that an increase in effort by someone has a negative impact on others, and it has to be equal to the average earning capacity if the egalitarian equivalent mech-

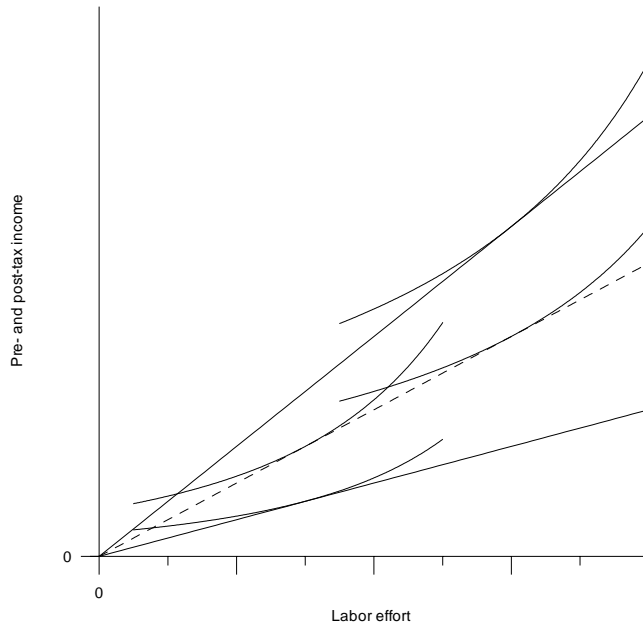


Figure 1:

anism is to be neutral between effort levels (see Cappelen and Tungodden (2004d)). Interestingly, if we adopt the average earning capacity as the reference earning capacity and assume that the effort distribution is the same for all talent groups, then we can illustrate the egalitarian equivalent mechanism as follows.

In this economic environment, the second part of the egalitarian equivalent mechanism cancels out and the ideal is simply represented by everyone facing a reference wage equal to the average earning capacity in society.

3 Two types of income inequality

We will now illustrate how the general framework of liberal egalitarianism avoids the two dilemmas of standard welfarist reasoning, namely the “exploitation of the energetic” and “the slavery of the talented”.

Consider first a situation in which all individuals in the economy face the same wage rate, but differ in their preferences.

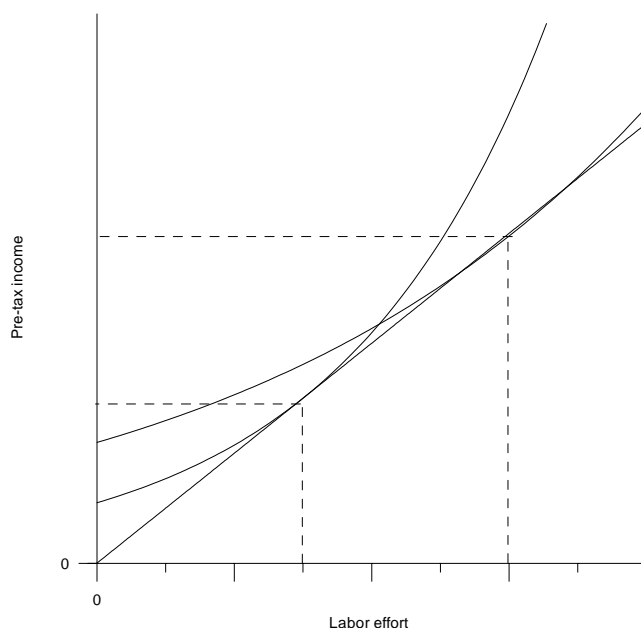


Figure 2:

As illustrated in Figure 2, without any taxation, people choose to exercise different amounts of labor effort and consequently they have different income levels. The “energetic” person ends up with a high level of income and the “lazy” with a low level of income. How should we evaluate this situation? According to liberal egalitarian theory, the answer is strikingly simple. There is no reason to worry at all. The principle of responsibility states that individuals should be held responsible for inequalities that result from factors within their control, and the inequality in Figure 2 only reflects a difference in choice.

Utilitarianism, on the other hand, may have very different implications in these cases. In an interesting study Sandmo (1993) shows that utilitarianism may justify redistribution from the “energetic” to the “lazy”, depending on the structure of the utility functions; for example in the case where the marginal utility of consumption is independent of the talent level and cardinally interpersonally comparable. We name this the “exploitation of the energetic”. If we consider preferences and the utility function more generally to be within the control of the individual, then such a conclusion should

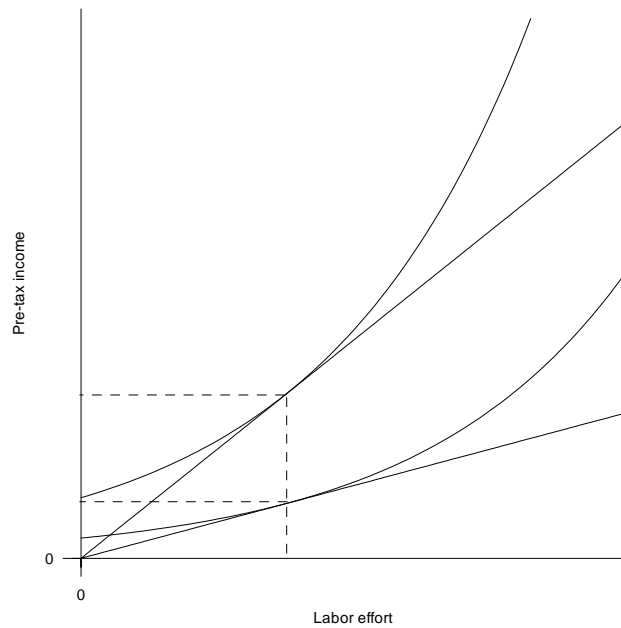


Figure 3:

be considered a problem for utilitarian reasoning (see also Sandmo (1993, p.162)).

Let us now study the kind of situation analyzed by Mirrlees (1971), where the individuals have the same preferences but differ in earning capacity. In particular, let us consider a case where the Marshallian labor supply is inelastic, such that all individuals make the same choice of labor effort.

A liberal egalitarian considers the situation in Figure 3 problematic because it violates the principle of equalization. The income inequality is due to factors beyond individual control, and thus liberal egalitarians would aim at equalizing incomes as much as possible in such a situation (within the constraints of Pareto optimality). Equally important, this would be the *only* concern of liberal egalitarians in this case.

Utilitarians may also endorse a redistribution from the more talented to the less talented, but this would again depend on the properties of the individuals' utility functions (and not only their preferences). Let us for simplicity assume that the individuals have the same utility functions and that they are cardinally interpersonally comparable, which implies that such re-

distribution is justified, and consider the more interesting difference between utilitarianism and liberal egalitarians in these cases. Utilitarians would not only be concerned with pure redistribution, but also with the level of effort exercised by the individuals. Specifically, utilitarians would aim at having the more talented exercising more effort than the less talented, because this would increase the total amount of utility in society. The more talented individuals, because of the high alternative value of their leisure time, are less efficient “utility machines” than the less productive individuals. This is the well-known problem of the “slavery of the talented”.

In sum, utilitarianism and the standard welfarist framework more generally face the problems of “the exploitation of the energetic” and “the slavery of the talented”, which we will claim shows that this framework violates basic moral intuitions in society. Liberal egalitarianism, on the other hand, avoids both these conclusions, and moreover presents a less instrumental justification of the pattern of income distribution in society. Income inequalities are seen as intrinsically justifiable if they reflect differences in choices, and an equal income distribution is seen as intrinsically justifiable if it reflects that the individuals have made the same choices. Hence, in the process of justification, no reference is made to other larger goals, like the total amount of welfare in society, which income equalities or inequalities may or may not contribute to.

4 Tax policy

According to standard optimal tax theory, the underlying problem in the design of an income tax system is the lack of information; the government typically cannot observe each person’s talent directly (Stiglitz (1987)). To introduce tests in order to reveal talent would be self-defeating, since an intelligent person (probably) would be able to pretend to be less talented than she really is. It is therefore impossible to levy differentiated lump-sum taxes on the basis of individual talent. If, on the other hand, the government had access to such information, then the standard view predicts that the government would have been able to ensure an ideal distribution of income by a system of differentiated lump sum taxes.

An interesting implication of liberal egalitarian theory is that differentiated lump-sum taxes are insufficient in order to ensure an ideal income distribution. In order to equalize income opportunities, we have to change

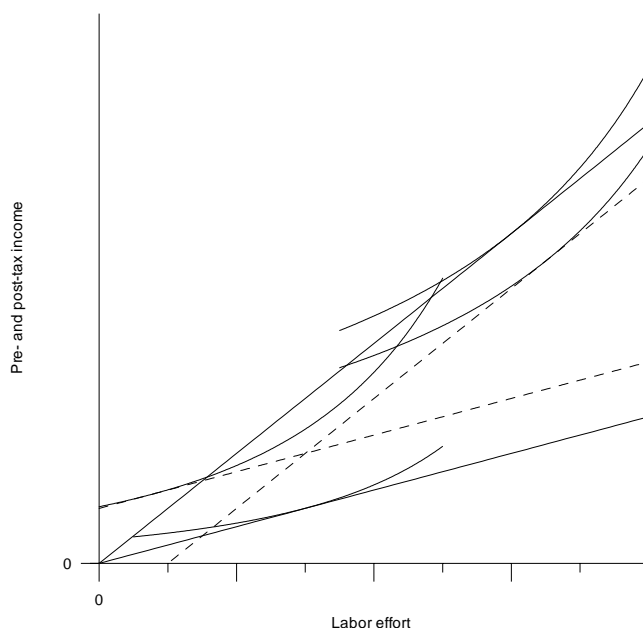


Figure 4:

the slope of people's income opportunity sets. A lump-sum tax from the high talented person to the low talented person will not do so, as illustrated in Figure 4.

With a lump sum tax, the post-tax income opportunities are higher for the low skilled person at low levels of effort and higher for the high skilled person at high levels of effort. In general, lump-sum taxes can only satisfy the principle of equalization at one effort level (i.e., at the level where the post-tax income curves intersect). Clearly, no set of lump-sum taxes can implement the first-best ideal of the egalitarian equivalent mechanism, as described in Figure 1.

This first-best analysis provides a nice illustration of an important distinction between standard welfarist and liberal egalitarian reasoning in redistributive questions. The fact that the standard welfarist perspective focuses solely on differences in welfare, implies that the opportunity set offered to any individual *only* is instrumental for giving this person a certain level of welfare (see also Sen (1988)). Hence, the shape of the opportunity set offered to each individual is irrelevant. The liberal egalitarian ideal, however, is that

all individuals are given the same opportunities, and this cannot be achieved by a set of differentiated lump sum transfers.

This difference is also important in second best analysis, where the tax system has to rely only on income information. The standard welfarist framework views the possibility of a deadweight loss as the *only* problem of progressive taxation, where the deadweight loss is assumed to be traded-off against the gain of transferring resources from people with low marginal welfare to people with high marginal welfare (possibly discounting for differences in total welfare). The liberal egalitarian approach, on the other hand, also sees an equity problem with progressive taxation. Progressive taxation implies redistribution from individuals exercising high effort to individuals exercising low effort. The gain of progressive taxation, according to liberal egalitarian reasoning, is that we have a redistribution from people with a high talent to people with a low talent. Hence, in choosing among Pareto optimal second best tax systems, a liberal egalitarian would have to balance these two considerations, and we will argue that this approach is more in line with actual considerations in the policy debate.

It may be argued that the informational requirements of liberal egalitarian considerations are too demanding because information about individual effort is unavailable for the tax authorities. However, it is important to notice the difference between using information on effort, for example labour supply, in the *operation* of a tax systems and in the *evaluation* of tax systems (see also Atkinson and Stiglitz (1980, p. 358). Even if information about individual effort can not be used directly by the tax authorities, there is a lot of statistical information available on labour supply that can easily be used in normative analysis of alternative income tax systems.

5 Concluding remarks

Our discussion has been placed in the context of income distribution and effort in the labour market, but we should like to stress that the present framework is relevant for a much broader set of policy issues. Let us briefly illustrate this by considering such different issues as health policy and interregional redistribution. People make different choices about how to live their lives and these choices affect the health risks they face and their expected need for treatment. The WHO reports that three out of the four top risk factors contributing to the burden of disease could be attributed

to unhealthy life style such as unsafe sex, tobacco and alcohol consumption (WHO (2002)). The idea that individuals must take responsibility for their own health is also an increasingly focused topic in the popular press. A legitimate question is thus how the costs of treatment should be distributed between different individuals and to what extent the distribution of costs should be related to individual behavior. Liberal egalitarians claim that people who make informed and free choices should be held responsible for these choices. However, holding individuals accountable for their choices in the context of health care is extremely controversial. We believe that the main reason for this is that the principle of responsibility is given the wrong interpretation. It is often assumed that responsibility for own health implies that individuals who become sick should pay for their own treatment. But this would imply that those who are unlucky or who are more disposed to become sick would pay more than others living the same kind of life, which violates the principle of equalization saying that people making the same choices should receive the same share of burdens and benefits. Hence, it is important to have in mind that liberal egalitarian theory only attempts to hold individuals accountable for their choices, which in most cases will be very different from holding them responsible for the actual consequences of their choices. Taking this into account, we believe that liberal egalitarian reasoning provides a valuable starting point for analyzing health policies, by providing us with a framework that captures the modern focus on responsibility for own health.⁵

The question of how the distribution of burdens and benefits should be related to an agent's effort is also at the core of interregional fiscal equalization. Local jurisdictions within the same country often have different capacities to raise revenue and face different costs of providing public goods. This calls for intergovernmental transfers. Fiscal equalization aims at reconciling two important political principles in such situations. First, the principle that differences in fiscal capacity among local jurisdiction should be eliminated, which reflects a concern for interregional inequality being a result of factors beyond the control of the local jurisdictions. Second, the principle that a jurisdiction should be held responsible for the decisions that are under their control, in particular their tax effort, which reflects a concern for local autonomy. The fundamental challenge for central governments is how to design a system of intergovernmental transfer satisfying both these two principles,

⁵For a further discussion of this issue, see Cappelen and Norheim (2004).

that is, a transfer system that gives all local jurisdictions equal opportunities and at the same time rewards their tax effort. Again we believe that a liberal egalitarian framework is necessary in order to capture such considerations, which is also reflected by the fact that the two most prominent interregional transfer schemes, the foundation grant and the power equalization grant, can be seen as two different interpretations of liberal egalitarian ethics.⁶

Finally, we should like to stress that liberal egalitarian framework also may add some insight into positive economic analysis. It is important for positive economic analysis to establish a satisfactory model of individual action that combines both self-interested and moral motivation. As shown by the survey referred to in the introduction to this paper, liberal egalitarian intuitions are important in people's moral motivation. A better understanding of liberal egalitarianism can therefore contribute to positive economic analysis by giving us a better understanding of the structure of people's moral motivation.

References

- [1] Arneson, R. (1989) "Equality and equal opportunity for welfare". *Philosophical Studies* 56: 159-194.
- [2] Atkinson, A. and J. Stiglitz (1980) *Lectures on Public Economics*. McGraw-Hill.
- [3] Bossert, W. (1995) "Redistribution mechanism based on individual characteristics". *Mathematical Social Sciences* 29: 1-17.
- [4] Bossert, W. and M. Fleurbaey (1996) "Redistribution and compensation". *Social Choice and Welfare* 13: 343-355.
- [5] Bowles, S. and H. Gintis (2000) "Reciprocity, self-interest and the welfare state". *Nordic Journal of Political Economy* 26: 33-54.
- [6] Cappelen, A. and O. F. Norheim (2004) "Responsibility in health care – a liberal egalitarian approach", forthcoming in *Journal of Medical Ethics*.

⁶See Cappelen and Tungodden (2004b) for further analysis.

- [7] Cappelen, A. and B. Tungodden (2003) “Reward and responsibility: how should we be affected when others change their effort?”. *Politics, Philosophy and Economics* 2: 191-211.
- [8] Cappelen, A. and B. Tungodden (2004a) “The Liberal Egalitarian Paradox”. Discussion Paper 8/04, Norwegian School of Economics and Business Administration.
- [9] Cappelen, A. and B. Tungodden (2004b) “Relocating the responsibility cut: Should more responsibility imply less redistribution?”, Discussion Paper 35/04, The Norwegian School of Economics and Business Administration.
- [10] Cappelen, A. and B. Tungodden (2004c) “Rewarding Effort”, Discussion Paper 9/04, The Norwegian School of Economics and Business Administration.
- [11] Cappelen, A. and B. Tungodden (2004d) “How should the costs of equalization be distributed”, mimeo, Department of Economics, The Norwegian School of Economics and Business Administration.
- [12] Cappelen, A. and B. Tungodden (2004e) “Local autonomy and interregional equality”, Department of Economics, University of Oslo, Memorandum No. 24/2004.
- [13] Cohen, G. A. (1989) “On the currency of egalitarian justice”. *Ethics* 99: 906-944.
- [14] Cohen, G. A. (1990) “Equality of what? On welfare, goods and capabilities”. *Recherches Economiques de Louvain* 56: 357-382.
- [15] Dworkin, R. (1981) “What is equality? Part 2: equality of resources”. *Philosophy and Public Affairs* 10: 283-345.
- [16] Fleurbaey, M. (1995a) “Three solutions to the compensation problem”. *Journal of Economic Theory* 6: 96-106.
- [17] Fleurbaey, M. (1995b) “Equality and responsibility”. *European Economic Review* 39: 683-689.
- [18] Fleurbaey, M. (1995c) “Equal opportunity or equal social outcome”. *Economics and Philosophy* 11: 25-55.

- [19] Fleurbaey, M. and F. Maniquet (1999) “Cooperative production with unequal skills: The solidarity approach to compensation”. *Social Choice and Welfare* 16: 569-583.
- [20] Iturbe-Ormaeche, I. (1997) “Redistribution and individual characteristics”. *Review of Economic Design* 3: 45-55.
- [21] Le Grand, J. (1991) *Equity and Choice: An Essay in Economics and Applied Philosophy*. Harper Collins Academic.
- [22] Mirrlees, J.A. (1971) “An exploration in the theory of optimal taxation”. *Review of Economic Studies* 38: 175-208..
- [23] Nagel, T. (2002) *Concealment and Exposure & other Essays*. Oxford University Press.
- [24] Nozick, R. (1974) *Anarchy, State, and Utopia*. Harper Collins.
- [25] Rawls, J. (1971) *A Theory of Justice*. Harvard University Press.
- [26] Roemer, J. (1993) “A pragmatic theory of responsibility for the egalitarian planner”. *Philosophy and Public Affairs* 22: 146-166.
- [27] Roemer, J. (1996) *Theories of Distributive Justice*. Harvard University Press.
- [28] Roemer, J. (1998) *Equality of Opportunity*. Harvard University Press.
- [29] Roemer, J. (2002) “Equality of opportunity: A progress report.” *Social Choice and Welfare* 19: 455-471.
- [30] Sandmo, A. (1993) “Optimal redistribution when tastes differ.” *Finanzarchiv* 50: 149-163.
- [31] Sen, A. (1988) “Freedom of choice.” *European Economic Review* 32: 269-294.
- [32] Sen, A. (1992) *Inequality Reexamined*. Harvard University Press.
- [33] Sprumont, Y. (1997), “Balanced egalitarian redistribution of income.” *Mathematical Social Sciences* 33: 185-201.

- [34] Stiglitz, J. (1987), “Pareto Efficiency and Optimal Taxation and the New New Welfare Economics“, in Auerbach, A. J. and M. Feldstein (eds.) *Handbook of Public Economics*. North-Holland.
- [35] Tungodden, B. (2004) “Responsibility and Redistribution: The Case of First Best Taxation”, forthcoming in *Social Choice and Welfare*.
- [36] WHO (2002) *The World Health Report: Reducing risks, promoting healthy life*. Geneva, The World Health Organization.