On Pluralistic Ethics and The Economics of Compassion

Economists characterize peoples' choices as deliberate rather than capricious. This raises two fundamental questions: are people really rational? And, if rational, what reason(s) do individuals use to criticize or justify actions? This paper is based on the belief that economists have responded satisfactorily to the first question, but not to the second. While we all make whimsical decisions, it is by no means clear that assuming any particular type of irrationality would improve economists' capacity to describe human behavior (Sen 1987). As a first-order approximation, the standard economic assumption of rationality is likely less biased than any alternative formulation we might devise.

With respect to the rationale(s) rational people employ, economists are trained to believe individual choice consistently follows a single, coherent ethic. In actual practice, however, we are almost all pluralists, arriving at decisions not based on a single criterion but rather relying on a variety of low-level principles to guide our choices. Rare indeed must be the individual who actually applies a consistent utilitarian ethic. Similarly, different people apply different rationales in making similar choices. So how do we understand, model, and prescribe choice founded on pluralistic ethics? Does it matter? This paper suggests that it does indeed matter, outlines an approach to integrating pluralistic ethics with rational choice modeling, and briefly discusses some implications of this approach for public policy.

The paper is motivated in particular by the phenomenon of compassionate behavior and the provision, at multiple levels in human societies, of safety nets for the suffering and the vulnerable. Compassion involves sharing the vulnerability or suffering of another in the inclination to give aid. Neoclassical economic models of altruism reconcile such benevolence with utilitarianism, implying that giving is only superficially selfless. The benefactor either values others' welfare or the act of charity and thereby derives pleasure from being generous. But are charitable acts really calculated to produce self-satisfaction, i.e., do people act on their compassion for others only because it indirectly benefits themselves? Or might sacrificial kindness result because people consider themselves duty-bound to exercise charity? The answer to that question has implications for how we ought to model such behavior and thereby for both empirical investigation of compassionate behavior and normative analysis of public policy.
These are not idle questions for the Christian economist, since our faith explicitly compels love of neighbor and sacrificial giving. Humans actively participate in the redemption of the world and the advancement of God’s kingdom through adherence to the moral duties of believers. In this paper I concentrate on one such duty in particular: the preferential option for the poor articulated repeatedly by Old Testament prophets, Jesus, and His disciples. The concern about intragenerational equity found repeatedly in Scripture is generalizable also to the contemporaneous concern of the Church for intergenerational equity and the protection of the biosphere, God’s creation (Barrett and Bergstrom 1998, Grizzle and Barrett 1998).

The paper is laid out as follows. The next section first briefly lays out the mainstream neoclassical model of altruism. Then it adds a deontological constraint on utilitarian choice, generating an ethically pluralist, rational choice model of compassionate behavior. The section identifies how this new approach implies different observed behavior than the standard neoclassical model of altruism. By adding uncertainty, differential information, and quasi-fixed factors, the model provides an explanation for the multi-layered provision of safety nets in society following the principle of subsidiarity. A brief conclusion summarizes the key points of the discussion and identifies key next steps in this line of research.

The Positive Concern: Mixed Motives For Giving

A recent casual discussion over lunch with two colleagues highlights the mixed motives behind selfless behavior. The sole private provider of curbside recycling in our town (there is no public recycling program) recently curtailed this service. One colleague bemoaned that this would move forward the time when we would need an expensive new landfill because, at the margin, many people would prove unwilling to haul their own recyclables to a central collection point. He argued that the community should subsidize private recycling because of the obvious externalities involved and the responsiveness of prospective users to the economic cost of alternative means of recycling. Another colleague countered that while it was now more inconvenient to recycle, and therefore more expensive for people with a high opportunity cost of time, he and others would nonetheless continue to recycle because they did so not due to favorable cost-benefit calculus but out of a sense of obligation to future generations. It remains to be seen which of my colleagues’ predictions proves correct: will voluntary recyclers in our community prove responsive to a shift in prices? Regardless, I found myself agreeing with both the teleological (utilitarian) and deontological (duty-bound) motives they articulated. We are neither pure consequentialists nor pure deontologists in our behaviors. Mainstream economic theory does not (yet) reflect the fact that pluralistic ethics are the rule, rather than the exception, in human behavior and belief.

In the past twenty or so years, economists have paid increasing attention to the implications of nonegoistic behavior, notably for intragenerational and intergenerational transfers (Barro 1974, Becker 1974, Foster and Rosenzweig 1995) and for cooperation in finite games (Stark 1989). The economics literature on altruism nonetheless remains wedded to the fundamentally utilitarian approach of neoclassical theory. Altruism occurs when an individual’s welfare is increasing in either others’ welfare (“pure altruism”), when one derives pleasure from giving to others (“impure altruism”), or both. A general neoclassical specification of altruism thus assumes that the i'th individual’s utility is a function of three things. First, she values her material...
Compassionate acts commonly go beyond utilitarian altruism, reflecting a moral assessment of what acts are intrinsically right...

The consumption of a Hicksian composite good, \( x_i \). Second, she values the opportunity set(s), defined over prices and income, enjoyed (from the perspective of her own indirect utility) by any \( j^{th} \) person about whom she cares, \( V_j(p_j, y_j) \). Any such person belongs to the set \( F \), for family and friends. Finally, she may value the act of giving to individuals in \( F \), \( g_{iF} \). The literature emphasizes the existence of such “warm glow” effects.\(^4\) Individual \( i \) then maximizes her welfare subject to a budget constraint. Income is a function of private endowments (\( e \)), prices (\( p \)) and public goods (\( z \)). So \( i \)’s choice problem can be expressed as

\[
\max_{x_i, g_{iF}} U_i = \Gamma(x_i, V_i(p_j, y_j), g_{iF})
\]

s.t. \( p_i x_i + g_{iF} \leq y_i (e_i, p_i, z_i) \)

If \( \partial U_i / \partial g_{iF} = 0 \) for all \( g_{iF} \) while \( \partial U_i / \partial p_j \neq 0 \) or \( \partial U_i / \partial y_j \neq 0 \), then this reduces to a model of pure altruism. If \( \partial U_i / \partial V_j(p_j, y_j) = 0 \) for all \( (p_j, y_j) \) but \( \partial U_i / \partial g_{iF} > 0 \) for some \( g_{iF} \), then this reduces to a model of impure altruism. The simple geometry of altruism is depicted in Figure 1 (above), where individuals 0 and 1 are nonaltruistic and altruistic, respectively. Individual 0 will never give to others unless compelled to by something other than self-interested utility maximization. The nonaltruist (0)’s optimal budget allocation always yields a corner solution. Individual 1, by contrast, will voluntarily give if her budget set permits an interior solution, as in B2/U’1, but when her own entitlements are scarce (as in budget set B1), she too adopts the nonaltruist’s corner solution allocation.

The key feature of altruism in this literature is that it internalizes externalities and can thereby enhance efficiency (Becker 1974). In the case of pure altruism, public redistribution—whether intra- or inter-generational—will act as a perfect substitute for private voluntary giving, so government activities are neutralized by private responses, as reflected in the hypothesis of Ricardian equivalence (Barro 1974). The curious prediction of neoclassical models of pure altruism is thus that in...
the presence of public redistribution, altruism can coexist in equilibrium with zero private nonmarket transfers. This neutrality hypothesis falls in the face of impure altruism, as giving generates value irrespective of the actions of government.

The existence of enlightened self-interest and, consequently, the need to pursue its implications for economic behavior are not in dispute. But I largely agree with Samuelson (1993): “Such argumentation...is not even wrong. It is just boring, irrelevant, and in the technical sense of old-fashioned logical positivism “meaningless”” (p.143, emphasis in original). Similarly, Monroe (1994, p. 861) likens the literature on altruism to a fat lady in a corset: “the overall effect may be aesthetically pleasing, but it does fundamental distortion to the underlying reality.” Compassionate acts commonly go beyond utilitarian altruism, reflecting a moral assessment of what acts are intrinsically right, regardless of the consequences. Compassion is necessarily redistributive, while, as pointed out in the preceding paragraph, altruism is not. This is an important distinction, particularly to a good understanding of the economics of safety nets, the subject of the next section.

Compassion may also be motivated by a sense of duty that can usefully be modeled as a deontological constraint on individual choice. Deontologically constrained choice has been posited recently in the theoretical literature on environmental sustainability (Asheim 1991, Howarth 1995). The exclusion of unjust social allocations has also received limited treatment in the social choice literature (Sen 1973, Blackorby and Donaldson 1977). The key concept behind these lines of modeling is the recognition that individuals must reconcile pursuit of happiness with the discharge of moral duty. Any of a wide variety of duties could be mooted and modeled in this way. In this paper, I concentrate on the duty to seek distributive justice, and in particular a variant of the notion of justice as fairness. So individuals who adhere to a deontological standard of justice will rationally exclude resource allocations that are unjust relative to other feasible allocations. This sort of behavioral rule finds clear expression in Christian thought in Gospel directives to treat others as you wish to be treated (Matthew 7:12) or as you would treat God Himself (Matthew 25:34–46). Justice as fairness has also found expression in contemporary scholarship (notably Rawls 1971), including work in economics (e.g., Foley 1967, Varian 1974, Pazner and Schmeidler 1978, Baumol 1986, Chavas 1994).

The economics tradition of justice as fairness relies on a “no-envy” criterion, wherein no individual would prefer, given his own preferences and abilities, to have what another does. This version of fairness as justice yields ex ante (but not necessarily ex post) egalitarian distributions. The no-envy criterion and the fairness theory that employs it have a number of axiomatic strengths and weaknesses in welfare analysis ably surveyed by Arnsperger (1994). The key feature I wish to draw from the welfare economics literature on fairness is the articulation of a notion of justice as fairness in a manner that obviates problems of interpersonal comparisons of utility.

But let’s switch vantage points. Rather than taking the perspective of a potentially envious someone who might want to exchange circumstances with another, consider instead the view of one who might wish not to exchange circumstances with another. Another’s suffering may excite pity or compassion on which one feels dutibound to act. Surely this feeling is familiar to most parents, most people who have met a starving child, and most who fear for the welfare of the biosphere under present human consumption patterns.

That feeling of duty can be modeled as follows. Define an opportunity set, \( V_i(p, y) \), that person \( i \) considers sufficient to ensure the dignity of any person. The opportunity set could be defined relative to one’s own opportunity set (as in egalitarian models), or at some absolute...
By including a moral constraint, this model explicitly captures a variety of distinct behavioral types observable in society.

standard, equivalent to a poverty line. I take the latter approach here, primarily for convenience’s sake. Recall that income, y, was specified earlier to be a function of private endowments, e, prices, p, and public goods, z. Insufficient opportunities might be the product of high prices, meager asset holdings, a lack of public infrastructure, or some combination of these. A compassionate person may feel obliged to remedy the insufficient opportunities of another of whom they are aware. Call the set of others of whom one is aware, H, which includes as a proper subset F—the (perhaps empty) set of friends and family for whom has altruistic feelings.

It may be possible to improve someone’s opportunities by providing a gift, g, intended to produce benefits, b. But gifts need not map to benefits one-to-one. There may be fixed factors, w, involved in the production of information necessary to identify deserving beneficiaries or in the delivery of benefits. Benefits received are thus a function b(g, w), that is nondecreasing in both g and w. If b(g, 0) = 0 and the w is lumpy, i.e., expensive to provide in any positive quantity, giving may be known to be entirely ineffective and therefore not required under any system of ethics. This foreshadows the role of tiered safety nets, wherein some acts of compassion are best executed bilaterally, between donor and beneficiary, while others are most effectively pursued by pooling contributions (through nonprofits or government) to enable efficient provision of benefits infeasible to individual donors.

Finally, I would add to this framework a complicating, axiomatic refinement: no one is obliged to help those more fortunate than him- or herself. Among people of meager means, an egalitarian ethic may prevail, in which one is obliged to help others, but not to the point where one’s own suffering becomes greater than that of one’s beneficiaries. People may wish to make such sacrifices for altruistic reasons, but it should not be demanded of them.

These points yield the following deontological (duty-based) constraint on the budget-constrained consequentialist choice (1):

\[
\min \left[ V_i(\mathbf{p}_i, \mathbf{y}_i - \sum_{h} g_{ih}), V_i(\mathbf{p}_i, \mathbf{y}_i) \right] < V_i(\mathbf{p}_i \mathbf{y}_i + b(g_{ih}, w)) 
\] (2)

Relation (2) requires that if the hth person known to decision-maker i has insufficient resources to lead a fully capable life, and if i can make a gift, g_{ih}, that can make up for h’s insufficiency, then i must do so if i enjoys greater ex ante entitlements than h. This specifies a duty born of distributive justice that the decision maker must satisfy in maximizing her own utility, regardless of whether preferences are altruistic.

Dutiful giving is sacrificial in the sense that it involves not only a sacrifice of material consumption, which altruists make voluntarily, but a sacrifice of individual welfare. In formal terms, sacrificial giving exists when the Lagrange multiplier on the justice constraint is strictly positive. The concept of sacrificial giving is, as best as I can tell, entirely absent from the mainstream literature on nonegoistic behavior.

By including a moral constraint, this model explicitly captures a variety of distinct behavioral types observable in society. Call those who perceive and respect the constraint “dutiful” and those whose own welfare increases with either others’ welfare or with giving to others “altruists.” Four types immediately emerge: the dutiful nonaltruist (DNA), the nondutiful altruist (NDA), the nondutiful nonaltruist (NDNA), and the dutiful altruist (DA). Patterns of giving and the sacrifice, if any, involved therein vary across types. Figure 2 (right) shows how behaviors might differ between the altruist (A)—since the constraint is not binding, we cannot know if this person is DA or NDA—the dutiful nonaltruist (DNA), and the nondutiful nonaltruist (NDNA). Because altruistic and dutiful people both give in some measure, it is impossible empirically to distinguish modest levels of altruism from dutiful behavior. But altruism may inspire giving beyond the satisfaction of one’s moral obligations to
do justice. While the nondutiful person is selfish, but may be beneficent nonetheless, and the nonaltruistic person gives joylessly, if at all, the supra-dutiful altruist is extraordinarily charitable, giving joyfully beyond what could reasonably be expected of anyone. Unlike the mainstream models of altruism, this model thereby facilitates distinction between ordinary and extraordinary acts of selflessness.

The pluralism of individuals’ motives with respect to any one charitable opportunity is mirrored by the heterogeneity of any one individual’s motives across opportunities. We may give to our children, a co-worker or the local hospital (individuals and organizations in the set F) because we intrinsically value their well-being, perhaps even supra-dutifully, yet we may recycle trash, donate to our church, or take in a delinquent nephew our sister just threw out of her house due to a sense of duty (to persons in the broader set H), not to sentiment.

The pluralist model just outlined does not merely liberate the fat lady from her corset. Perhaps more intriguingly—at least to adherents of Friedmanite positivism—it yields different testable predictions than does the traditional utilitarian model of altruism. In particular, the pluralist model yields predictions conditional on individuals’ type. Let me give two examples. An important empirical regularity in the non-profit community is that low-income people give a greater proportion (albeit, a lesser absolute amount) of their income to charities than do the rich. One can rationalize this in the traditional utilitarian model by treating giving as a normal good, with an elasticity of income below one. That rationalization conflicts, however, with another empirical regularity: that the poor more actively degrade the natural environment (i.e., make negative bequests of natural capital to their progeny), implying an income elasticity of giving greater than one. This conflict belies the fragility of the monist utilitarian model of nonegoistical behavior, for there exists no theory to explain why some forms of

**Figure 2**
Altruism should be necessities and others luxuries.

The pluralist model developed here, by contrast, predicts that among the subpopulation of dutiful persons (DA/DNA), the concave justice constraint yields greater charity, as a share of income, among the poor than among the wealthy. This is perfectly consistent with giving being a luxury good among the subpopulation of altruists, and with the NDNA subpopulation not giving at all. These three options, and the different expansion paths they imply, are sketched out in Figure 3 (above).

For a second example, think back to the anecdote that opened this section. A utilitarian model of altruism would predict that recycling—in essence, a bequest of natural capital to future generations—will fall as its price increases, due to both income and substitution effects. The pluralist model—Figure 4 (right)—instead predicts belief-conditional behaviors. As the conventional model predicts, those altruists who recycled curbside because it made them feel good about themselves should exhibit non-zero, negative price elasticity of demand for recycling (they reduce bequests to the next generation from $v_{g1}$ to $v_{g2}$). But there could be other sorts of people. Those who recycled curbside out of a sense of duty to future generations should exhibit zero price elasticity of demand for recycling (i.e., they continue to bequeath $v_{gd}$ to future generations). And NDNA types did not recycle previously and their behaviors would be unaffected by the termination of voluntary curbside recycling. The model of morally-constrained choice yields richer and more intuitive predictions than the mainstream model of nonegoistic behavior.6

The next refinement is to introduce uncertainty. The existing literature on altruism relies heavily on deterministic opportunity sets.7 Yet poverty, ill health, hunger, and other manifestations of suffering have both structural and stochastic determinants (Morduch 1995, Barrett forthcoming). Moreover, many nonegoistic
transfers occur in advance of the beneficiary suffering misfortune. Instead, transfers are often meant to relieve vulnerability before it turns to suffering. The approach outlined above can be generalized to a setting in which opportunity sets are stochastic and subject to asymmetric information.

Let $\Theta(I_{ih})$ represent the subjective joint distribution perceived by decision-maker $i$ with respect to person $h$’s opportunity set, defined over stochastic endowments of private and public goods and prices $(e_h, z_h, p_h)$, conditional on $i$’s information on $h$, $I_{ih}$. Information about $h$’s prospects may be asymmetric. Without loss of generality, define $I_{ih}$ as an index on the unit interval, with $I_{ih}=0$ representing no information and $I_{ih}=1$ perfect information, i.e., no information asymmetry between $i$ and $h$. Thus, $\Theta(I_{ih})$ converges in distribution to $S_p$, individual $h$’s true stochastic opportunity set, as $I_{ih}$ approaches 1.

This formulation captures the difficulty of evaluating whether another’s unfortunate current circumstances are the product of chance or of chosen behaviors. There is a small sample problem of sorts in that it is often difficult in observing a single individual to assess their opportunity set and how one’s generosity might influence his or her opportunity set. But if $I_{ih}$ is increasing in $i$’s social proximity to $h$, the extent of information asymmetry will be heterogeneous across the population. In particular, more “distant” observers have less reliable information than “close” observers and are therefore more likely to err in patterns of charitable (non)assistance than are “close” observers of prospective beneficiaries’ prospects. Differential information thereby confers a comparative advantage in compassionate assistance on family members, neighbors, coworkers, and others relatively familiar with a prospectively vulnerable person’s needs and prospects. Differential information availability also allows clearer definition of the set $H$. Those persons about whom one has nontrivial information, $I_{ih}>0$, are members of that set toward whom we may...
perceive a moral duty born of distributive justice.9

The constrained optimization problem posed by (1) and (2) can be generalized to employ the subjective stochastic opportunity set, \( \Theta(I_{ih}) \) in the following way.

\[
\begin{align*}
\text{Max } U_i &= \Gamma(x_i, V_i(\Theta(I_{ij})), g_{iF}) \\
\text{s.t} \quad &p_{ij} x_i + g_{iF} \leq y_i (e_i, p_{ij}, z_i) \\
&\min[V_i(S_j), V_i(\Theta(I_{ih}^+) + \beta(g_{ih}, w))] \\
\end{align*}
\]

Any pure altruism now relates to the decision-maker’s valuation of the stochastic opportunity set, \( V_i(\Theta(I_{ij})) \), of person \( j \) in the set \( F \) of family and friends. The individual’s constraint related to her distributive justice duty requires that others’ opportunities not be inferior, in the sense of at least first-order stochastic dominance,10 to \( V_i(S_j) \), the minimum stochastic opportunity set necessary to ensure the minimal livelihood security necessary to maintain human dignity. The right-hand side argument in the second constraint, \( \Theta(I_{ih}^+) + \beta(g_{ih}, w) \), is a mixture of two distributions, with the latter being a stochastic generalization of the benefits production function \( b(g, w) \). If \( i \) can provide a transfer, \( g_{ih} \), that is effective in making \( h \)’s opportunity set preferable to \( S_j \) in the stochastic dominance sense appropriate to \( i \)’s risk preferences, then she is morally obliged to do so. The transfer could be in any of several forms—cash, kind, or an insurance policy to truncate the downside tail of \( h \)’s stochastic opportunity set. Indeed, the most cost-effective transfers will often be those that either mitigate downside risk \textit{ex ante}—e.g. child vaccination programs, safe minimum standards for environmental protection—or cope with adverse shocks \textit{ex post} through state-contingent transfers such as unemployment insurance or disaster assistance.

Assume that no ordering can be made when \( I_{ih} = 0 \), in other words there is no moral duty associated with distributive justice toward people about whom one is unaware. Informational gaps can thereby yield persistent suffering. Social proximity affects giving behavior through two effects. First, those who are socially close are more likely to fall into the altruistic set, \( F \), and, second, information on individuals in the set \( H \) improves with social proximity. When a vulnerable person is someone about whom an altruist cares intrinsically—an elderly relative or a child, for example—or when a dutiful person is presented with evidence that someone is indisputably vulnerable and that the prospective benefactor can make a difference, then she pitches in and helps. Voluntary provision of a social safety net may therefore occur for either consequentialist (pure altruistic or warm glow) or deontological (dutiful) reasons.

Sacrificial giving to a distant other, \( h \), depends on both awareness of the other’s vulnerability, and confidence that the transfer will make a difference. This makes it difficult empirically to distinguish between those who are nondutiful and those who are ill-informed or skeptical. Indeed, I suspect we all know a few marginally dutiful sorts who are willfully ignorant of others’ plight and overly cynical about their own capacity to help. When one sees the poor as having brought their condition upon themselves, through drug abuse, failure in school, teen pregnancy, etc., one is effectively saying “they’ve drawn, by chance or choice, from the less pleasant tail of their opportunity distribution,” which absolves one from the moral obligation to tend to their needs. This is especially true if one believes that a transfer of resources will be ineffective in improving the lot of the vulnerable.11

This model suits several key empirical regularities regarding charity and social safety nets. First, patterns of charitable giving have much to do with a household’s prior giving patterns—which signals the household as an altruistic or dutiful type—and its familiarity with the beneficiary (Smith et al. 1995). Second, many households do not give to charities, either because they are unfamiliar with the beneficiary or because they do not subscribe to a deontological ethic in that particular context. Third, successful charities devote most of their communica-
tions to filling in information gaps, emphasizing not only the vulnerability and suffering of their clients but also the charity’s comparative advantage in effectively reaching the vulnerable. Such communications are calculated to activate prospective donors’ sense of duty and to convince them that their gift will indeed make a difference to intended beneficiaries.

Subsidiarity and Safety Nets in a Pluralistic World

If few people—policymakers in democratic societies, in particular—subscribe to a monist utilitarian ethic, perhaps we should be concerned about basing the design of public policy on purely utilitarian theory. The ethically pluralist model of compassion outlined above may be reasonable not only as a descriptive tool for understanding human behavior, but also as a prescriptive tool for designing public policy with respect to safety nets. In particular, this model provides an economic rationale for subsidiarity, the principle that a social safety net should be stitched together from the bottom up, with community and state-level assistance designed explicitly and solely to address specific inefficiencies and coverage gaps associated with individual-level provision of safety nets.

The ethically pluralist—“mixed motives”—approach leads naturally to a stricter standard than the Pareto criterion in evaluating policy alternatives. The variant introduced here imposes stronger distributional rules than does the Pareto principle, without indulging in inadmissible interpersonal comparisons of utility; the comparisons are solely intrapersonal. The basic policy thrust is that if there exist moral principles related to distributive justice that impose specific duties on individuals—and thereby on communities—then it will be essential to ensure the existence of redistribution mechanisms, both within and across generations, to provide effective social safety nets.

A familiar result in the public economics literature is that pure altruism—the valuation of another’s welfare—creates externalities that may be partly resolved through impure altruism—the valuation of giving. Pure altruism creates an efficiency rationale for public assistance to the vulnerable that may be partly or wholly erased by the “warm glow” benefit impure altruists derive from helping others. The coexistence of both forms of altruism thereby creates the potential for multi-layered social safety nets, as charitable acts by individuals will be rational and necessary to generate the welfare associated with impure altruism, but may not fully internalize altruistic externalities, leaving space for state-sponsored safety nets.

The present model strengthens the economic rationale for multi-layered safety nets by offering an additional explanation: the donor feels a moral duty to assist the vulnerable when her aid can make a difference. This leads to both direct and indirect channels of charitable assistance. Direct person-to-person assistance will be provided when social proximity endows the individual decision-maker with good information on and an efficient mechanism to deliver benefits to the prospective beneficiary. Families and communities imbued with a deontological ethic of distributive justice will provide a safety net for their vulnerable members (e.g., children).

Nonetheless, direct individual assistance will almost surely be suboptimal in this model. There are three factors that necessitate supra-individual layers of social safety net provision: incentives to free ride, social distance, and the absence of altruistic or dutiful persons. As the next several paragraphs detail, each of these provides a rationale for indirect provision of aid, either through private charitable organizations or through public assistance. Because there are deadweight costs associated with both the fundraising and administrative activities of private charities and with distortionary government taxation, there will be, ceteris paribus, an efficiency advantage to individual-level provision of safety nets. In other words, the principle of subsidiarity applies. But...institutionalized social safety nets become necessary in the absence of dutiful or altruistic donors.
differential information and quasi-fixed costs to the delivery of effective benefits underscore that all else is not always equal and there will be circumstances in which charities and governments will provide a second best solution despite the inefficiencies associated with their financing.

A binding deontological constraint that necessitates sacrificial giving generates a public good rather like that created by pure altruism. The benefits of improving the lot of the vulnerable—reflected in the Lagrangean multiplier associated with the distributive justice constraint—are both nonexcludable and nonrival. This yields the familiar result of incentives to free ride and, consequently, a prospective role for public provision of the good, in this case a social safety net.

Altruistic or dutiful individuals not only give directly to vulnerable persons whose circumstances they know well and who they can effectively benefit bilaterally, they frequently also give indirectly, through charities or governments, to those vulnerable who they know less precisely or to whom they have no effective means for direct distribution of benefits. Social distance creates space for a more aggregate layer of multilateral charity, in which multiple donors pool resources through an intermediary organization to benefit a subpopulation of disadvantaged persons.

Two factors drive multilateral charity. The first is the quasi-fixed cost of distant distribution, which is prohibitive for single donors but manageable for charitable institutions intermediating for many donors. For example, when the east African famine of 1984–85 hit, few (if any) individuals chartered airplanes to deliver food to the starving millions of Ethiopia, Somalia and Sudan, but unprecedented numbers of people gave generously to relief organizations that could then afford the quasi-fixed delivery costs involved in intercontinental distribution.

The second factor relates to information availability and covariate vulnerability. Where donors have limited information about prospective individual beneficiaries, patterns of direct giving tend to be relatively ineffective in reaching the truly needy. The paradigmatic case is the Northern tourist confronted by child beggars in a Southern capital. Since it is essentially impossible to distinguish the vulnerable from the shrewd, handouts only sporadically benefit the needy. But if a donor is aware that a particular subpopulation includes a high proportion of vulnerable persons, i.e., information at a more aggregate level is reasonably accurate, then effective redistribution can be affected by giving indirectly, through a charitable organization working among the target subpopulation that is better able to identify the most appropriate individual beneficiaries.

This relies on covariate vulnerability. In much of the world, including pockets within the rich world, the vulnerable know no one who is not likewise vulnerable. Their familial, neighborhood and social circles of prospective benefactors are limited. Assistance commonly flows among the socially proximate, but in volumes insufficient to improve their lot to the point of livelihood security. Consequently, in communities where there is considerable cross-sectional covariance in individuals’ vulnerability, few can achieve livelihood security without outside assistance. Covariate vulnerability enables a donor who is unable to identify the opportunity distribution facing any given individual to generate nonetheless, thanks to the law of large numbers, a reasonably accurate perception of the distribution facing a larger population of prospective beneficiaries. The donor can then identify a vulnerable cohort and an agency with superior capacity to screen and select deserving individual beneficiaries from within that cohort. Consequently, communication of both the broad-based vulnerability of a subpopulation and of the agency’s aptitude for effectively selecting appropriate individual beneficiaries becomes the key to mobilizing charitable assistance of this sort. These are the principles underlying the operation of agencies as diverse as Goodwill Industries, which benefits the disabled, soup kitchens...
serving the homeless, and overseas
development charities like CARE, Catholic
Relief Services, and Save The Children.
Multilateral assistance provided by private
charities funded by voluntary donations
are an efficient response to the obstacles to
one-to-one giving posed by insufficient
information and quasi-fixed factors, both
of which derive from social distance
between donor and recipient.16

An interesting, special case of indirect
assistance mediated by multilateral
charities relates to intragenerational
assistance extended in order to benefit
future generations. Consider an American
who feels either (pure or impure) altruism
or a moral duty towards his grandchil-
dren, whose future welfare depends on
their access to public goods, z, such as
tropical rain forest to absorb carbon
emissions or biodiversity to provide
recreational and other (e.g., pharmaceuti-
cal) services. In many such cases, the
public good stock of natural capital is
 spatially distant and threatened by the
actions of vulnerable populations strug-
gling to survive (Barrett and Arcese 1995,
1998; Barrett 1996; Barrett and Bergstrom
1998; Barrett 1999b). Under such circum-
stances, an effective form of (indirect)
transfer to the future generation may be to
assist the current generation in tropical
agrarian economies whose livelihood
insecurity engenders unsustainable
environmental degradation. Since the
donor’s capacity to benefit these popula-
tions is limited due to the two factors just
discussed—quasi-fixed costs and social
distance—it will be optimal to contribute
to international development organiza-
tions working to address problems of
environmentally sustainable development
in the tropics, whether of a commitment to
intergenerational justice or to intragener-
atational justice.

Finally, institutionalized social safety
nets become necessary in the absence of
dutiful or altruistic donors. Rather as legal
and public order institutions become
necessary to the efficient functioning of
markets in the absence of generalized
morality (Platteau 1994a,b), so too do state
social security institutions become
necessary when there is insufficient
moral commitment to distributive justice
within the community of the economi-
cally advantaged. In the contemporary
debate within the U.S. about welfare,
Medicaid, and other entitlement pro-
grams, many commentators have
deprecated the deterioration of support
from traditional family units, churches,
and neighbors and the additional stress
this places on public assistance pro-
grams. This concern is well placed.
Public leaders have an important role to
play in reinculturating the moral impera-
tive of distributive justice and thus of
deontologically constrained utility
maximization to reinforce teleological
altruism. Empirical evidence is growing
that failure to provide a safety net to the
poor or to future generations risks
economic and environmental decline.

If those socially proximate to the
vulnerable are neither altruistic nor
dutiful, persons at risk may suffer
unjustly. The larger institutions of a
democratic state, however, will need to
(partly) reflect the dutiful strictures of
other constituents and so step in to
mend the hole in the private safety net.
The problem, of course, is that state or
private charitable institutions’ assistance
is more costly, due to administrative
expenses and less effective targeting,
monitoring, and enforcement. Moreover,
public interventions necessarily rely on
taxation that imposes additional costs
due induced behavioral distortions. So
social norms that universalize percep-
tions of duty (what Platteau, 1994a,b
terms “generalized morality”) are a
crucial complement to collective action
in that they both help extend coverage
for any given level of expenditure and
enhance the efficiency of a given level of
safety net coverage (Barrett 1999a).

Concluding Thoughts
This paper offers an initial effort at
developing an ethically pluralist ap-
proach to modelling the economics of
compassion, both as a positive economic

The objective of central authorities should be to minimize their role in providing social safety nets without abandoning the moral duty of ensuring their provision.
tool for understanding individual behavior and as a normative approach for designing social safety nets related to equity both within and between generations. This formulation ties together related but distinct concerns for social justice and environmentally sustainable development.

On the positive side, casual observation suggests that most people at some time employ both consequentialist (utilitarian) and deontological ethics to motivate choice. Like Adam Smith in *The Theory of Moral Sentiments*, this paper emphasizes that within the constraints imposed by moral duty, self-interested behavior is worthwhile. But economics has largely ignored this line of modeling, attempting instead to explain apparently selfless behavior as utilitarian altruism. I demonstrate that a model of compassionate behavior founded on pluralistic ethics yields richer, more intuitively appealing and empirically defensible predictions than do mainstream models of altruism.

This model also strengthens the economic rationale for the principle of subsidiarity in the provision of social safety nets. The satisfaction of moral duties of community should be satisfied as much as possible at the most decentralized level before more centralized institutions take over these responsibilities. This leads to a layered pluralism of safety nets, in which community organizations (e.g., churches, foundations, businesses) and private charities, then local and national governments and international organizations successively sew up the holes left in the safety net by the subsidiary group(s). Moreover, when individuals routinely fail to honor moral duties toward the vulnerable, more centralized institutions—churches, schools, communities, governments—need to work to reinculcate individuals with deontological values. The objective of central authorities should be to minimize their role in providing social safety nets without abandoning the moral duty of ensuring their provision. A moral economy thereby combines the principles of solidarity and subsidiarity.

ENDNOTES

1 This applies equally to economists from other religions (e.g., Islam, Judaism), indeed from most major secular ethical traditions, espousing similar standards of behavior toward the poor.

2 I say “fundamentally utilitarian” because strictly positivist economists eschew the language of utilitarianism for one of “preferences” in purely descriptive models of human behavior. The core construct is, however, utilitarian, as becomes immediately apparent when the work turns prescriptive or normative.

3 One can distinguish further between welfarist, nonwelfarist, and mixed variants of pure altruism. In the welfarist version, one values others’ welfare. Valuing, instead, others’ activities (e.g., food consumption, use of a park) represents nonwelfarist altruism. Mixed altruism relates to valuation of others’ welfare derived from a particular activity (e.g., their joy in using a park or their pleasure in eating). For simplicity’s sake, I use a welfarist version in this paper.

4 She might alternatively value the social status or respect secured by her gift, or the reciprocity (insurance) arrangement it helps establish. The particular form of the benefit—insurance, psychic, social, material—is immaterial; the key is its link to the act of giving, not to others’ welfare.

5 The model does not, however, require that own consumption is greater than recipients’, i.e. it permits vows of poverty.

6 As Andy Yuengert has pointed out privately, the constraint as specified yields an abrupt behavioral change among dutiful persons when the effectiveness of giving goes to zero (and the cost of giving is therefore infinite). A useful refinement will yield a smoother price expansion path for giving.
7 The literature on the Samaritan’s dilemma uses partial uncertainty only (Coate 1995).
8 There may also be a Samaritan’s dilemma associated with charitable commitments in the face of uncertainty and asymmetric information if prospective beneficiaries fail to self-insure because they are aware that others will assist them if they suffer adverse shocks (Buchanan 1975). Coate (1995) shows how public provision of insurance can solve this social inefficiency.
9 This feature of the model captures the crucial role informational media play in eliciting private and public response to emergencies (Barrett forthcoming).
10 Since the preferences that determine the comparison are those held by prospective benefactor i, if she is risk averse, the relevant comparison method will be second-degree stochastic dominance, and if she is downside risk averse, it will be third-degree stochastic dominance.
11 Any prospective adverse, endogenous behavioral response—akin to Buchanan’s (1975) “Samaritan’s dilemma” or the contemporary claim of popular commentators like Charles Murray that treating poverty only worsens it—would be captured in the \( \beta(g_{ih},w) \) function reflecting how gifts translate into net benefits.
12 If moral hazard effects, like the Samaritan’s dilemma, are of concern, social proximity may also enable the donor to monitor and enforce beneficiary behavior.
13 Since individuals’ endowments and subjective assessment of what constitutes a minimally sufficient opportunity set, \( S_o \), will vary, the value of the public good will likewise differ among individuals. The Lindahl equilibrium concept therefore applies.
14 It may be worth pointing out that recent empirical research suggests that aggregate economic growth is inversely related to initial inequality and poverty (Alesina and Rodrik 1994, Persson and Tabellini 1994, Bruno et al. 1995, Clarke 1995, Bénabou 1996, Rodrik 1996). Such evidence is consistent with the notion that social safety nets are an important public good.
15 For this reason, early warning systems (for drought, disease, etc.) have become an important tool in preemptive mobilization of resources for local distribution (Barrett forthcoming).
16 Note that social distance may be unrelated to spatial distance, as in the case of wealthy urbanites in the U.S. and the homeless community in their midst.

REFERENCES


