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Non-paternalistic altruism and welfare economics

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Abstract

Bergstrom showed that a necessary condition for a Pareto optimum with non-paternalistic altruism is classification as a selfish Pareto optimum. This paper shows that Bergstrom's result does not generalize to the benefit–cost analysis of generic changes in public goods. There may exist good projects that will be rejected by a selfish-benefit cost test, a selfish test error. Selfish test error is linked to preference interdependence between public goods and income distribution, the same condition Musgrave identified as problematic for optimal public goods provision without altruism. Transferable selfish utilities provide freedom from selfish test error. © 2002 Elsevier Science B.V. All rights reserved.

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1. Introduction

Non-paternalistic altruism refers to the situation where a given individual, the altruist, values the welfare of another, the beneficiary. In contrast, paternalistic altruism refers to the situation where the altruist values the beneficiary's consumption of a particular merit good, irrespective of the beneficiary's preferences. Non-paternalistic altruism is usually represented analytically by the entry of the beneficiary's utility function into an aggregation function that represents the altruist's preferences over own-good consumption and the beneficiary's utility.

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Bergstrom (1982) showed that a necessary condition for a Pareto optimum with non-paternalistic altruism is classification as a Pareto optimum based only on selfish considerations. Thus optimal provision of public goods ultimately depends upon selfish preferences.

As opposed to determining optimal provision, the goal in most benefit–cost analysis is to determine if a particular project could potentially improve welfare. The typical analysis considers the worth of a project independent of who will pay, providing the Hicks–Kaldor compensation principle as justification for avoiding the cost allocation issue. The resulting benchmark of a “good project” is any project for which there exists a cost allocation that would allow for a Pareto improvement. The impact of non-paternalistic altruism has been discussed at length in the benefit–cost literature, including applications in risk analysis¹ and environmental valuation.² Based on Bergstrom’s result, several studies³ have further concluded that non-paternalistic altruism can and should also be ignored for the generic, discrete changes encountered in benefit–cost analysis.

It has long been recognized that even in the absence of altruism, the optimal provision of public goods cannot always be determined independent of the distribution of income (Musgrave, 1969; Bergstrom and Cornes, 1983). As noted by Musgrave (1969), the optimal provision of public goods may depend upon the optimal distribution of income which in turn will depend upon the choice of social welfare function.⁴ At the micro level, non-paternalistic altruism can be viewed as a social planner problem where the altruist’s aggregation function is the social welfare function. By applying Musgrave’s reasoning to this social planner problem, one can conversely conclude that the optimal distribution of income may depend upon the provision level of public goods. Similarly for the generic changes in public goods provision considered in benefit–cost analysis, the desired distribution of income between the altruist and beneficiary may change with changes in public goods provision.

This paper provides an analysis of public goods provision that explicitly allows for preference interdependence between public goods and income distribution while considering cost allocation as well. Using an expenditure-type analysis it is shown that in some cases, the selfish benefit–cost test will reject a good project which is referred to as selfish test error. The general conclusion from this analysis is that passing a selfish benefit–cost test is only a sufficient condition for good projects. The same selfish transferable utilities (Bergstrom and Cornes, 1983;

¹See Jones-Lee et al. (1985); Viscusi et al. (1988); Jones-Lee (1991); Jones-Lee (1992); Johansson (1994); and Johannesson et al. (1996).

²See Johansson (1992); Milgrom (1993); Lazo et al. (1997); and McConnell (1997).

³See Jones-Lee (1991); Johansson (1992); Jones-Lee (1992); Johansson (1994); Johannesson et al. (1996); Lazo et al. (1997); and McConnell (1997).

⁴Bergstrom and Cornes (1983) identify necessary and sufficient conditions for the independence of allocative efficiency from the optimal provision of public goods.

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