

Constitutional Economics and Social Justice

John Rawls/James Buchanan

Utilitarianism

Jeremy Bentham “the greatest good for the greatest number of people”.
“Utiles”

Benthamite economics vs. Pareto Optimality

John Rawls “A theory of Justice (1971)”.

Process vs. Output – a concentration on the former

What is a just society?

Social Welfare Theorems (additive welfare)

Social welfare theorems are all about results

Rawls: Poker as a game of chance.

Imagine people who sit down together to design a game of chance

What kind of rules will they adopt?

Rules that apply equally to all, and that are clear

An incentive to do so quickly, to “get on with the game”

But note, at what point are the rules for the game established?

Rawls: Life as a game of chance.

Nature distributes a random set of attributes to each person

Looks, social status, talent, siblings, race, bequests, etc.

This random distribution is neither just nor unjust

But a social system that perpetuates some things is.....

So how to construct a just social system?

Rawls: The veil of ignorance

The problem is getting to an original position, one where

People did not know what cards they had when designing Poker games

But do know where they are when designing social systems

So to do so ethically, they must do so “as if” they were ignorant

“There but for the grace of God, go I”

So what is a just society?

A just society is a fair society.

People will choose rules that do two things:

Gives everybody an equal chance (level playing field)

And that none-the-less protects the disadvantaged

MaxiMin (maximize your minimum payoff) strategy

	W(P)	B(1-P)
S ₁	0	n
S ₂	1/n	1

S_1 and S_2 are strategies, W(hite) and B(lack) are two possible outcomes, and the others are payoffs. So long as $P > 0$, we will always choose S_2 , since it maximizes our minimum payoff. We fear being the Leper.

Usefulness of Rawls

To the extent that people act ethically, it seems they are Rawlsians

Example: Sequential Money splitting Games – many people give 50:50

Why? “Because it is fair”

Is Maximin the actual strategy most support?

Maximin (maximizing the floor), Maximizing Average, Maximizing the average with a floor, Maximizing the average with a range constraint. Testing multiple students, they never chose Maximin, instead usually Maximizing Average with a floor constraint (35 of 44 times)

A return to Utilitarianism

In practice, almost all of us are somewhat utilitarian in our judgments

Constitutional Economics

James Buchanan on what a Constitution should do

Rules of the Game

Limits of Power

Initial Side-Deals

Rules of the Game

Again, over time, we do not know where we will end up in society

So we do not treat our initial position as set for life

A constitution is not about the day to day, it is about the permanent

So a constitution is not about outcomes, it is about process

And what kind of process do we want?

A fair one.

Power should be limited

Not everything should be voted on.

The rules only apply if they can't be changed.

So rules should require super-majorities to be changed

And furthermore, some things should not be subject to change ever.

Initial Side Deals

Actual people, knowing where they are in the process, will still be biased

So some side deals are necessary, deviations from “fair” to accommodate groups

But the general principles need to remain

Fair vs. Certain outcomes

Means vs. Ends

Examples:
U.S. constitution

“You can’t take the politics out of politics”

In class example of politics in action: Gerrymandering