

The torn curtain of ignorance

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My understanding of Jacques Drèze (2009)'s paper is that redistribution in a Federation could be viewed as a mechanism of risk-sharing. This view is interesting for two reasons. First, the idea that there is an insurance device in federal institutions is too often forgotten. Second, it would be nice to see that those who want to secede from a federation because they feel that they have been for too long net donors could be convinced that one day the direction of transfers will change like in any insurance.

I however have two reservations towards this view. First I think that only a fraction of what is redistributed across regions in a federation such as Belgium pertains to risk-sharing. Second, even if all redistribution could be viewed as pertaining to risk-sharing, I am afraid that the impatience (a high discount rate) of current donors could prevent them from waiting for (or even conceiving) a fortune reversal and thus lead them to reject the current rules of the redistributive game.

To illustrate my point, I would like to make a comparison with the issue of optimal income taxation and more generally of redistribution across individuals. In designing an optimal tax schedule à la Mirrlees one generally uses a utilitarian or a Rawlsian objective. This is justified on the basis of a choice made behind the veil of ignorance, at a sort of constitutional stage. Rawls (1971) proposed a hypothetical thought-experiment on which he based his view of redistribution. He called this concept the original position and the veil of ignorance. His hypothetical original position is that everybody starts out not knowing their eventual position and status in society. Nobody knows how rich they will be, how smart, or what opportunities might prevail. From this original position, Rawls then introduced his veil of ignorance behind which everybody must decide on the principles and rules that will guide human action once the veil is lifted. As an analogy, one can think of an individual cutting and sharing a cake. He is required to select a cut piece only after all others have selected their piece. The inferred solution is the cutter will cut all pieces equally to ensure an equitable piece.

Rawls' approach or that of Harsanyi (1953) would be convincing as providing a *politically sustainable* foundation for redistribution if we were sure that there was perfect social mobility and equality of opportunities towards life time uninsurable risks, especially those that are revealed at birth. Persons may indeed be born with a disadvantage relative to others: they may be prone to serious handicaps or illnesses. Unfortunately individuals are becoming increasingly conscious that there is no such a thing as a veil of ignorance.²⁰ The chances of success for any individual and his descendants vary quite a lot. The prospect of genetic tests reinforces this view that even in a long run, dynastic, opportunities of success and failure are far from being equally distributed.

In that respect it would be interesting to distinguish in interpersonal redistribution what could be viewed as based on risk-sharing and what is due to other considerations such as solidarity, altruism,... In the same line, one sometime makes a distinction between redistributive transfers that concern consumption smoothing within everyone's lifetime and properly redistributive transfers²¹. The idea being that the first category that allegedly amounts to 2/3 of all transfers could be managed through non distortionary notional accounts.

²⁰ See Bukszar and Knetsch (1997)

²¹ Bovenberg and Sörensen (2004)

The limits of the veil of ignorance approach explain why one tries to find other foundations to the redistributive role of the government: ethical values, altruism, political economy or recently evolutionary biology (see Dixit, 2009).

To conclude and coming back to risk-taking in a federation, I am not sure that the current observation that longevity of the Walloons is two years lower than the Flemish one making their pension bill lighter than when both regions had the same life expectancy and the prospect that the same evolution could occur in the areas of employment, health and productivity are arguments that will stop those who want to dismantle the current interregional solidarity mechanisms.

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