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Terry L. Anderson and Peter J. Hill: Birth of a Transfer Society Study Guide, 2014

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**TERRY L. ANDERSON AND PETER J. HILL:
BIRTH OF A TRANSFER SOCIETY
STUDY GUIDE, 2014
Steven Alan Samson**

CHAPTER ONE: GAMES PEOPLE PLAY

Outline

- A. DETERMINING THE PROPER EXTENT OF FREEDOM (1-4)
 - 1. Premise: An Individual Attempts to Maximize His Own Well-Being
 - a. Collective choices concerning the proper extend of freedom
 - b. A taxonomy for making this choice
 - c. The authors begin with a series of scenarios
 - 2. Wheat Farmer, 1840
 - 3. Pit Bull Trainer, 1870
 - 4. Railroad Executive, 1892
 - 5. Painters Union Secretary, 1954
 - 6. Tax Lawyer, 1975
 - 7. Categorization of Actions as Either Productive or Transfer Activities
 - a. **“Productive activity** adds not only to the persona; wealth of individuals but also to the total wealth of the society”
 - b. **“Transfer activities** add to the wealth of specific individuals or groups of individuals but reduce the wealth of other individuals or groups in the society.”
 - 8. Measuring the Net Change in **Social Output**
 - a. **Positive-sum vs. negative-sum games** [a positive-sum game increases total wealth; a negative sum game decreases total wealth; a zero-sum game simply redistributes it and is also unproductive]
 - 9. Early American Experience: Limited Transfer Activity
 - a. The Constitution severely constrained transfers
 - b. [Two notable exceptions: slavery and tariffs]

Review

productive activity	transfer activity	social output
positive-sum game	negative-sum game	

CHAPTER TWO: ANALYTICAL FRAMEWORK

Outline

- A. LIKELY CONDITIONS UNDER WHICH PRODUCTIVE ACTIVITY DOMINATES TRANSFER ACTIVITY (4)
 - 1. Methodology: The Individual Is the Unit of Analysis [Methodological Individualism]
 - 2. James Buchanan [a Nobel Laureate]: This Suggests a Criterion for “Betterness”
 - a. A situation is judged “good” to the extent it allows individuals to get what they want
 - 1) It is limited only by the principle of mutual agreement
 - 3. **Positive-Sum Games: Two Senses of the Term**
 - a. Increased output

- b. Increased value
- B. PRODUCTIVE ACTIVITY (4-6)
 - 1. Individual Comparison of Marginal Benefits with Marginal Costs

Marginal utility or benefit is “the additional satisfaction or utility that a person receives from consuming an additional unit of a good or service. **Marginal cost** is the cost of producing a single unit of a good or the additional cost for producing an additional unit. Variables that either reduce or raise the cost include economies of scale, as in mass production; information asymmetries, where one party has more or better information than another; the presence of negative or positive externalities (benefits or costs that are not reflected in the price); transaction costs; price discrimination; *etc.*]
 - 2. An Individual Participates in a Voluntary Trade with the Expectation That It Is a Positive-Sum Game
 - 3. What about the Larger Society?
 - a. Standard view: Voluntary trades are positive sum for society as long as there are no externalities [such as pollution, criminal activity, social blight, *etc.*] [Consequently, some people wish to entrust regulatory power to an impartial or omniscient third party]
 - b. Alternative View: Accountability of the actors for their actions
 - 1) Responsibility is determined by ownership [liability]
 - 4. Ownership Must Be Exclusive
 - a. For it to be exclusive, it must be well-defined, enforced, and transferable
 - 1) Violation of any of these conditions generates inefficiency [cf. Garrett Hardin on “the tragedy of the commons,” where no one “takes ownership” over property that is common to all]
 - b. Consequences of non-exclusivity of ownership
 - 1) Either loss of productivity or overproduction
 - c. The **rights structure** must be an efficient one
 - 1) Individuals do good by doing well
- C. TRANSFER ACTIVITY (6-7)
 - 1. Alternative Routes to Wealth Maximization
 - a. Problems are created when property rights are not well-defined and enforced
 - 1) Wealth is determined in part by the ability of decision-makers to move inputs and outputs to higher-valued alternatives
 - 2) Wealth is also determined by who holds the exclusive property rights; thus, a decision maker may choose to devote resources and effort to obtaining these rights
 - 2. Non-Voluntary Transfers
 - a. **Theft**: A negative-sum game
 - 1) This is one reason the authors are unwilling to allow interpersonal utility comparisons on page 4
 - b. Deficiency of traditional analysis: It treats theft as a **zero-sum game** rather than a negative-sum game
 - 1) It ignores the consumption of additional resources [at the very least, it involves transaction costs, which would be very evident if the same thing were stolen repeatedly]
 - 2) Result: Net social waste
 - 3. The Coercive Power of Government Is Employed to Help Define and Enforce Private Rights
 - a. Rules against transfers can promote positive-sum games
 - 4. The Coercive Power of Government Also Opens Another Arena for Transfer Activity [e.g., legal plunder and rent-seeking operations that control entry into a market]
 - a. Legal processes that produce redefinition and redistribution reduce society’s maximum capacity by diverting resources
 - 5. Dilemma
 - a. Given the costs either way, would it be better not to regulate transfers?
- D. THE CONSTITUTIONAL CONTRACT (7-10)

1. The Basic Constitutional Contract Offers a Way for Reducing Such Resource Waste
 - a. It makes rules protecting basic rights more difficult to change
 - 1) This makes transfers less likely to occur
 2. Working Definition of a Constitutional Contract
 - a. Two specifications: Basic rights and the means of enforcing them
 - b. Goal: A protective state
 - 1) The individual surrenders some freedom of action for a mechanism that secures rights
 - 2) The state may claim only those resources needed for this purpose
 - c. Coercion may be necessary because of the potential **free-rider problem** [an unpaid benefit, which is an example of a negative externality]
 3. Reasons Why a State May Not Choose to Prohibit All Transfers: The “Legitimacy Issue” and the “Public Goods” Problem
 4. **Legitimacy Issue**
 - a. A redistribution of rights may be necessary where they were obtained through transfers [This might include various types of restitution or reparation, as may be seen in Mosaic law]
 5. **Public Goods Problem**
 - a. Cost of excluding nonparticipants [free-riders] from the benefits of an exchange may result in underproduction
 6. Incentive to Conceal True Preferences for Public Goods Also Results in Underproduction
 - a. **Collective action** provides a means of optimizing public goods production
 - b. Ground rules must be specified
 7. But Such Exceptions May Lead to a Society Dominated by Transfer Activity
 - a. How can government establish legitimate boundaries of self-interest?
 8. What Is to Prevent People from Arguing for a Transfer Based on Their Own Standard of Legitimacy?
 - a. 19C railroads gained the rights to profits but were also able to restrict competition [plus they were subsidized, enjoyed limited liability protection, retained control of rights-of-way for decades after the tracks were laid, and were taken over by the federal government during and following the First World War]
 - b. Much transfer activity occurs because of attempts to resolve legitimacy issues through taxation [the tax code reflects public policy priorities]
 - 1) Incentive for gaining wealth through nonproductive means
 9. Problem of Accurately Defining and Then Providing Public Goods through Non-voluntary Transfer
 - a. Need to specify and limit the definition
 - b. Otherwise, negative-sum games result
- E. THE MIX OF PRODUCTIVE AND TRANSFER ACTIVITY (10-12)
1. Reasons for the Existence of Transfer Activity within a Constitutional Contract
 - a. These reasons do not explain fluctuations in the mix of productive and transfer activity
 - b. Two additional factors
 2. **Demand Side:** Potential Method of Increasing Personal Wealth
 - a. Minimal protective state results in dynamic economy that increases aggregate wealth
 - b. Douglass North on the destabilizing consequences of such an economy [what Joseph Schumpeter called “creative destruction”]
 - c. The absolute wealth position of some and the relative wealth position of others may decline
 - d. There is an incentive to recover such (perceived) losses through transfer activity
 3. **Supply Side:** Bill of Rights Freedoms
 - a. Relatively unambiguous rights, such as free speech, are hard to redefine [but not impossible]
 4. Ambiguity Can Favor Transfer Activity Based on [Re]Interpretation
 - a. Ideology and social attitudes

- b. Transfer activity is more likely to prevail if all rights are held at the mercy of the state
 - c. These changes are part of the exogenous forces that have given birth to the transfer society
- 5. Historical Setting
 - a. America's historical experience
 - b. Today's transfer society

Review

positive-sum games
rights structure
free-rider problem
collective action

marginal utility
theft
legitimacy issue
demand side

marginal cost
zero-sum games
public goods problem
supply side