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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