The Form of U.S. In-Kind Assistance

by
Brendan O'Flaherty, Columbia University

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Brendan O'Flaherty
Department of Economics, 3308
Columbia University
New York, NY 10027
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Abstract

Child care and housing programs in the U.S. are marked by quality homogeneity, restricted eligibility, rationing, and co-payments that increase as recipients' income rises. Why? I show that these programs can best be explained as attempts to reduce the child care or housing "poverty gaps," subject to constraints that require that recipients be treated quite well. Such constraints are justified when the public is really not sure whether the government is acting generously.

I. Introduction

Child care, housing, and employment training programs for poor people in the United States take a peculiar form. Only certain people are eligible, but most eligible people are never served; richer poor people pay more; and everyone receives the same quality of service (or more precisely the distribution of service quality is independent of recipient income or wealth). Reform of these programs is continually being discussed, but these core characteristics are only rarely questioned; debates are about who provides the services (vouchers versus government or nonprofit provision), what groups have priority in the implicit queue (homeless people in housing programs, for instance, and AFDC recipients in child care), and how many people to serve.

Economists seldom contribute much to these discussions, and the reason is simple: there is no known economic rationale for the three core characteristics (see, for instance, Olsen [1982]). Deck-chair-on-the-Titanic jokes to the contrary notwithstanding, advice on how to play baseball is not often taken seriously by people who are trying to play football; and so by insisting that programs with the three core characteristics make no sense economists preclude saying things that people who want to reform programs with the three characteristics have interest in.

Of course, such a state of affairs is not undesirable if the three core characteristics are in fact silly. Opting out of schemes to manufacture phlogiston is not irresponsible. But if one wishes to maintain -- in the manner of Olsen, for instance -- that programs with the three core characteristics are mistakes, the obvious question is why these mistakes have been made repeatedly. What thoughts could have gone through the heads of intelligent policy-makers? What coordinating or negotiating traps could have caught the people establishing these programs?

In this paper, I will concentrate on the first question -- why would intelligent policy-makers ever design a program with the three characteristics? In doing so, I am assuming that these programs arose from some variety of rational planning, not a coordination failure. This approach is appealing for two reasons. First is its humility: it does not presume that disagreement with economists is necessarily pathological. The second appeal is practicality: to be usable, criticism of these programs has to be based on some understanding of what they are actually trying to accomplish, not what some Bergson-Samuelson planner thinks they should be accomplishing.

The next section of the paper will show that most standard economic approaches will not work. Even if externalities or asymmetric information are important, planners wanting to maximize some measure of shortfall would not design programs with all three characteristics. This section, then, reinforces the conclusion that on standard criteria these programs are mistakes.

The third section is constructive: it answers the paper's central question by showing the problem that programs with the three characteristics solve. The problem is this: to maximize reduction of the "child care poverty gap" (or housing or training poverty gap), subject to a budget constraint and what I will call a "super-Hippocratic" constraint. The super-Hippocratic constraint is that no one who receives government child care assistance ends up with less than the minimally acceptable level of child care. Like stray cats who are yours totally if you give them only a single bowl of milk, poor people become totally the government's responsibility once they receive a dime of child care (or housing or training) assistance.

The obvious question then is whether the super-Hippocratic constraint is justified. The fourth section examines this issue by drawing on tort law and the philosophical literature on

negative liberty. The final section concludes by examining the design of child care and housing programs in light of section 4.

II. Standard Criteria

A. Certainty and No Externalities

What's wrong with the three core characteristics? The answer from basic microeconomics is easy: if the government's goal is to increase the utility of recipients (subject to a budget constraint), then cash transfers to that same set of recipients would be better. Any program with the three characteristics is dominated by some set of cash transfers.

What if the government's goal is something other than utility maximization? For most plausible candidate objective functions, the answer remains the same: programs with the three core characteristics are not optimal.

Suppose we say that a household is in "child care poverty" if c, the amount (or quality) of child care it obtains is less than $\bar{c}$, the "poverty level." If the program's goal is to minimize the headcount (the number of families in child care poverty) subject to a binding budget constraint, then only the households in poverty who would otherwise be consuming the most child care should be served. If child care is a normal good, this means that income eligibility should include a minimum as well as a maximum, and that all households at one income level should be served before any poorer households. Clearly, the three characteristics do not minimize headcount.

Alternatively, suppose the goal is to minimize the poverty gap

$$G = \Sigma_i \max[0, \bar{c} - c_i]$$

where i runs over households and c_i is the amount of child care consumed by household i. Then,

for non-pathological utility functions, every household below the poverty level should receive some assistance, not just a selected group.

To see why this is so, consider any household. Let $u(c,x)$ be its standard neoclassical utility function, where x is the amount of other goods it consumes. We suppress the subscript i in this paragraph to save notation. Let y denote the household's income, and (c^*,x^*) the consumption basket it would choose in the absence of government assistance. We normalize the price of both goods to one, and assume an interior solution in the absence of government intervention. So

(1) $$u_c(c^*,x^*) = u_x(c^*,x^*)$$

where subscripts denote partial derivatives.

We can divide the program design problem into two stages: first, decide how much money to spend on each household, and second, decide how to spend that money.

Begin at the second stage. Let m be the amount to be spent on this household. The design problem is to pick a consumption bundle (c,x) for the household, subject to several constraints. (The programs we are interested in only offer one pair to each household, but some programs -- subsidies, for instance -- offer a household many pairs to choose among. But since the household will always choose only the best of these many pairs, we lose no generality by assuming that the government offers only one pair.) The first constraint is a budget constraint: the amount that the government spends on child care minus the payments it receives from the household cannot exceed its budget for the household. Since the payments it receives from the household are $(y\text{-}x)$, the budget constraint is

$$c-(y-x) \le m,$$

or

(2) $$c + x \leq m + y$$

The second constraint is voluntary participation: the household must do at least as well in the program as it would do outside it:

(3) $$u(c,x) \geq u(c^*,x^*).$$

Since the government's goal is to minimize the poverty gap, its objective function is

$$\min[c,\bar{c}] - c^*$$

which it maximizes subject to (1) and (3). We assume $\bar{c} > c^*$: the household would be in child care poverty without the program.

Define $\bar{x}$ and $\bar{m}$ implicitly by

$$u(\bar{c},\bar{x}) = u(c^*,x^*)$$

$$\bar{c} + \bar{x} = \bar{m} + y.$$

From duality, $\bar{m} > 0$. I will be concerned with small m; that is $m < \bar{m}$.

I claim that for $m < \bar{m}$, both (1) and (3) are binding at the maximum. Note first that if $m < \bar{m}$, $c < \bar{c}$. (For suppose $c = \bar{c}$. Then $x < \bar{x}$ and so $u(c,x) < u(\bar{c},\bar{x}) = u(c^*,x^*)$ and (3) is violated.) Obviously either (2) or (3) then will be binding at the maximum. Suppose (2) is binding but (3) is not. Then a sufficiently small increase Δc in c and a decrease of the same size in x will keep (2) binding and will not violate (3). So (c,x) is not a maximum if (2) is binding and (3) is not. Suppose (3) is binding and (2) is not. Then a sufficiently small increase Δc in c and a decrease of size

$$\frac{u_c}{u_x}\Delta c$$

in x will keep (3) binding and will not violate (2). So if $m < \bar{m}$, both (2) and (3) are binding at the maximum.

Now consider a small increase dm in the amount of money allotted to this household.

How much does this increase raise its child care consumption? From the envelope theorem (or from differentiating (1) and (2) totally):

(4) $$\frac{dc}{dm} = \frac{u_x(c,x)}{u_x(c,x) - u_c(c,x)}.$$

Suppose m approaches zero. Then (2) approaches the budget constraint for which (c^*,x^*) is optimal for the household, so the only way to meet the voluntary participation constraint is for (c,x) to approach (c^*,x^*). From (1), however, as this happens the denominator in (4) approaches zero. Since the numerator is always positive, we have

(5) $$\lim_{m \to 0} \frac{dc}{dm} = +\infty$$

Now consider the first stage problem, allocating funds among households, subject to a constraint on the total amount available for all households. Suppose some household has no funds, while another household has a positive amount. From (5), shifting funding to the fundless household must increase total child care consumption and so reduce the poverty gap.

Thus a program that did not serve all households could not be optimal. Poverty gap reduction cannot explain the three characteristics. (From (5), neither can any other objective seeking to reduce any of the Atkinson poverty measures.)

B. Screening

Another possibility is that the three characteristics serve some sort of screening purpose. Crews [1995], for instance, has shown that housing subsidies are effectively targeted at people who have very strong tastes for housing (so the deadweight loss is small); perhaps this is deliberate. In this section I will argue that screening considerations cannot explain the three characteristics either.

Note first that the poverty gap reduction argument is independent of any informational

assumptions. It doesn't matter if different households have different utility functions, or if the government is unaware of what those utility functions are, as long as they are well-behaved. Similarly, if the government's objective is raising poor people's utility, cash transfers are still better than in-kind, and if the government's objective is minimizing the poverty headcount, some sort of income minimum for eligibility is still optimal.

So suppose that instead of caring about an objective function that includes one of these components (any one of which would lead away from the three core characteristics), the government wants to maximize the proportion of the people it serves who are "deserving." By "deserving," I mean the following. Let a household's utility function be $u(c,x|\alpha)$ where α is an unobservable taste parameter that increases the marginal utility of child care consumption

$$\frac{\partial u^2}{\partial c \partial \alpha} > 0.$$

The government looks more favorably on households with higher α: for instance, in the child care context, it reflects a greater taste for market work; in the housing context, it reflects a greater taste for quality and cleanliness; in both contexts, it reflects a lesser taste for drugs and alcohol. Set $\bar{\alpha}$ and define a household i as deserving if and only if $\alpha_i \geq \bar{\alpha}$. Deserving households are those that have sufficiently meritorious utility functions.

This formulation is my attempt at making the strongest possible case for screening, in order to see whether screening considerations lead to the three core characteristics. Do they? My answer is no: screening means that higher income households will either pay the same as lower income households, or they will receive higher quality services.

To see why, we can think of the government's problem as either minimizing cost subject to a constraint on the proportion of recipients who are deserving or maximizing the proportion of

recipients who are deserving subject to a budget constraint. It does not matter because the unconstrained optimum can be achieved: it is possible to design a program where all recipients are deserving and the cost is nothing.

It is easiest to show this in the Cobb-Douglas case. Let

$$u(c,x|\alpha) = \alpha \ln c + (1-\alpha)\ln x$$

and consider a program that offers the bundle $(\alpha y, (1-\alpha)y)$ to households with income y. Only households with taste parameter α will participate in this program (assume that indifferent households participate) and the cost is zero (if indifferent households don't participate, only households in an arbitrarily small neighborhood of α can be induced to participate at an arbitrarily small cost). For each y, let $\alpha(y)$ denote the chosen taste parameter of that income. If

(5) $\alpha(y) \geq \bar{\alpha}$ for all eligible y,

only deserving households participate.

Clearly, many different functions satisfy (5). But none leads to a program with the three characteristics. Notice that $\alpha(y)y$ represents both the quality of services and the household's payment. So these two quantities must vary together with income. If household payment increases with income, so must quality; if quality is the invariant with respect to income, payments must be, too.

C. Externalities

Another possibility is that the three characteristics are designed to meet externality problems. The other children in the same center are an important component of child care, and neighbors matter for housing; so child care and housing programs should be mindful of externalities. But once again, externalities fail to explain the three characteristics.

This is obvious if all that matters is the mix of unobserved attributes of the participating

households (if observable attributes are what matter, they could be explicitly written into eligibility standards); then the considerations of the previous section apply.

So suppose that both unobserved attributes and unverifiable actions matter. I will deal with a fairly specific example, but show once again that very good outcomes can be achieved in programs that do not have the three characteristics.

Suppose that a household can either make a serious effort to assist in child care (helping out in the classroom, teaching good manners at home) or not. Let e=1 if an effort is being made, e=0 if it is not. If an effort is being made, utility is

$$\gamma \bar{e} c + x \qquad \gamma > 1$$

where γ is an observable taste parameter that varies from household to household, and $\bar{e}$ is the proportion of households in the program who are making an effort. Thus effort produces externalities. If a household is not making an effort, its utility is

$$\bar{e} c + x.$$

The private cost of effort is always one, but the private benefits vary with the amount of child care, personal tastes, and the proportion of other households making an effort (I assume numbers are always large enough that individual households treat $\bar{e}$ parametrically). The cost of effort shows up as a reduction in income.

Consider first what happens in the market. Assume that in the event of ties households purchase no child care. Then since $\bar{e} \leq 1$ by construction, no one will purchase child care and make no effort. Hence $\bar{e} = 1$ and a household purchases child care and makes an effort if $\gamma \geq [y/y - 1]$; if not, it purchases no child care. Thus in the market, a household's utility is

$$v_p(y, \gamma) = \max[y, \gamma(y - 1)].$$

Now introduce a government program. To begin, consider only households with income

y. Let the program offer a package (c,uc) to these households, where $Y \leq y$ denotes their income after fees or rent. (Since income not spent on child care can be spent on other goods or on effort, we cannot portray the government as determining how much recipients spend on other goods.) If a household participates in the program and makes no effort, its utility is

$$uc + \bar{e}c$$

where $\bar{e}$ now designates the proportion of program recipients making an effort. If a household participates and makes an effort, its utility is

$$y - 1 + \gamma\bar{e}c.$$

Thus in the program, a household's utility is

(6) $$v_g(g,\gamma) = y + \max[\gamma\bar{e}c - 1, \bar{e}c]$$

and it participates if and only if $v_g(\cdot) \geq v_p(\cdot)$.

Notice that if

(7) $$y + c < y,$$

then

$$uc + \bar{e}c < y$$

and purchasing no child care in the private market dominates participating in the government program and making no effort. So everyone in the government program will make an effort, and $\bar{e} = 1$. People will participate in the government program and make an effort if

(8) $$y - Y > c > \tfrac{y-1}{y}[y - Y + 1],$$

and so a program that satisfies (8) ensures that all government program participants make an effort, and that some participants would not have purchased child care in the market otherwise. From (7), moreover, such a program costs the government no money (indeed, the

government makes money).

Thus if the government's objective is either to maximize $\bar{e}$ subject to a budget constraint or to minimize expenditure subject to a constraint on $\bar{e}$, its optimal policy is simple: design a program that satisfies (8) for every eligible income y. Such a program would not look like current child care and housing programs for two reasons. First, it would not lose money. Second, from (8), if child care quality c were constant with respect to income, sliding-scale payments (y-Y) would have to be roughly constant too.

What about more ambitious objectives? The results appear to be similar. Suppose the goal is to minimize the poverty headcount -- defined here as the number of households for whom $c\bar{e} < \bar{c}$, the poverty threshold. This could be done either with a program where everyone makes an effort, or a program where some participants do not.

Consider first a program where everyone makes an effort. By (7), it costs the government nothing to operate; in fact, the government makes money. Let $\underline{\gamma}$ denote the lowest γ for a participating household:

$$\underline{\gamma} = \tfrac{1}{c}\{y - Y + 1\}.$$

Households with lower γ buy no child care. Since in the absence of a program households with $\gamma > \frac{y-1}{y}$ will purchase child care in the market, the poverty headcount is minimized if $\underline{\gamma}$ is minimized subject to

$$c \geq \bar{c}$$

and (8). From (7) and the minimand

$$y - Y = c$$

and so as in the previous section quality and sliding scale payments have to move together. So

programs with the three characteristics are not optimal.

Next consider a program where not everyone makes an effort. It will cost more money, but since it encompasses everyone with $\gamma < \frac{y-1}{y}$, it is conceivable that it could improve some objective function. For each y, all households with $\gamma > \frac{y-1}{y}$ receives child care that would not otherwise be provided, and so its effect on the headcount is fixed. Suppose the optimal program has service homogeneity, one of the three core characteristics. Then for every y, $c\bar{e}$ is the same, and so

$$1 + \frac{1}{c\bar{e}}$$

is the same. Since those households with $\gamma < 1 + \frac{1}{c\bar{e}}$ are those who make no effort, this implies that if the set of incomes y that are eligible for the program is known, $\bar{e}$ is known. Total cost for households with income y is

$$(c + Y - y)F\left(\frac{Y-1}{y-c\bar{e}-1}\right)$$

where $F(\cdot)$ is the cdf of the taste parameter γ. So cost is minimized by decreasing Y. But

$$Y \geq y - \bar{e}c$$

and so minimal cost is achieved by equality. This means the sliding scale fee is a constant, contrary to the core characteristics. Moreover, the program makes money.

So once again we are unable to explain the three core characteristics.

D. Lumpiness

A final way of explaining the three core characteristics is to argue that service homogeneity arises from technological considerations: providing less child care or less housing than government programs do is physically impossible. If this were so, however, there would be no need for regulations or inspections to force a certain quality in these programs, and no debate

over what that quality should be. The regulations, inspection, and debate are serious empirical evidence against this attempted explanation; so too is the presence of houses and child care centers in the private market that do not meet government standards.

III. An Explanation

The last section demonstrated that the three characteristics do not solve any obvious standard economic optimization problem. I have not proved an impossibility theorem; nor have I exhausted every possibility. But I am reasonably certain that no standard formulation that produced the three characteristics as an answer would be robust.

This section, by contrast, will be constructive. I will show a robust set of problems for which the answers will have the three characteristics. The key to this demonstration is a new kind of constraint on program design -- what I call "super-Hippocratic" constraints. In this section I merely state two super-Hippocratic constraints and explore their consequences. The next section will ask whether imposing them is justified.

Assume no uncertainty and no externalities. Let N with generic element i denote the set of households in the population and let G denote the set of households who receive some government assistance. In this section it will be useful to use a subscript on household variables to identify which household they belong to. Let $(c(y_i), x(y_i))$ denote the package the government offers to any household with income y_i -- if it offers any package; and let (c_i^*, x_i^*) denote the package that household i would choose (or does choose) in the absence of a government program.

Most of the government's problem is standard. It wants to minimize the child care poverty gap

$$\sum_{i \varepsilon N} \max[0, \bar{c} - c_i]$$

subject to the budget constraint

$$\sum_{i \varepsilon G} \{c(y_i) + x(y_i) - y_i\} \leq M$$

where M is the government's budget for child care. The minimization is also subject to a voluntary participation constraint, and to two super-Hippocratic constraints.

The child care super-Hippocratic constraint is that no one whom the government helps ends up below child care poverty threshold:

$$c(y_i) \geq \bar{c} \text{ for all } i \varepsilon G.$$

Roughly, the government is responsible in a special way for those whom it helps, and this responsibility is lexicographically prior to other objectives.

The other super-Hippocratic constraint is affordability: no household whom the government helps should be forced to consume a quantity of other goods inappropriate to its income, and the quantity appropriate to its income is what it would have consumed in the absence of the government program:

$$x(y_i) \geq x_i^* \text{ for all } i \varepsilon G.$$

No household should consume less of other goods just because it is receiving child-care subsidies.

These two super-Hippocratic constraints imply that the package the government offers recipients is

$$(\bar{c}, x_i^*).$$

This implies two of the characteristics: constant child care quality and sliding scale fees rising with income. Since every household with $c_i^* < \bar{c}$ prefers $(\bar{c}, x_i^*)$ to its non-program (c_i^*, x_i^*),

getting into the program generates rent for these households, and so the voluntary participation constraint is otiose. Households with income so high that $c_i^* > \bar{c}$ don't want to get into the program, and don't envy those who get in. But then the government does not want these households in either.

Assume that the government program is small enough (or that supply elasticities are large enough) that its design does not alter either market equilibrium prices or incomes. Then non-participants' consumption will be unaffected by the program, and so we can rewrite the child care poverty gap as

$$\sum_{i \varepsilon N} \max[0, \bar{c} - c_i^*] - \sum_{i \varepsilon G} \max[0, c(y_i) - c_i^*].$$

Since the first term in this expression cannot be affected by government program design, the relevant problem for program design is to maximize the second term

$$\sum_{i \varepsilon G} \max[0, \bar{c} - c_i^*]$$

where I have used $\bar{c} = c(y_i)$, subject to the rewritten budget constraint

$$\sum_{i \varepsilon G} \{\bar{c} + x_i^* - y_i\} \leq M.$$

Thus the problem becomes selecting a set of recipients G: poorer households contribute more to the maximand, but cost more, too.

From the budget constraint without the program,

$$x_i^* = y_i - c_i^*.$$

Substituting this in the budget constraint yields

$$\sum_{i \varepsilon G} \{\bar{c} + x_i^* - y_i\} = \sum_{i \varepsilon G} \{\bar{c} + y_i - c_i^* - y_i\} = \sum_{i \varepsilon G} \{\bar{c} - c_i^*\} \leq M.$$

Since for all voluntary participants $\bar{c} - c_i^* > 0$, we see finally that it makes no difference which eligible households participate. Thus the other two characteristics: rationing, since entry implies

rent, and government indifference among eligible households. Many are eligible, but a lucky few are chosen.

IV. Justifying Super-Hippocratic Constraints

I am not sure whether the two super-Hippocratic constraints are justified, but in this section I will try to sketch an argument that might justify them.

Let me begin by describing two legal decisions (my discussion follows McIntyre [1994]). Anticipating his wife's return, Beardsley left his weekend paramour in a neighbor's apartment. She was drunk and had ingested morphine before he left; she died. The court acquitted Beardsley of manslaughter (*People v. Beardsley*, 150 Mich. 206, 113 N.W. 1128, 13 L.R.A. (n.S.) 1020, 121 Am St. Rep 617, 13 Ann. Cas. 39 [1907]). On the other hand, in Australia, Russell's wife wheeled a perambulator containing their two sons into a swimming pool; they all drowned. He dived in four times but failed to save them. He was convicted of three counts of manslaughter (*Rex v. Russell*, Supr. Ct. Victoria F.C. 1932, 1933 V.L.R. 59).

These cases are consistent with the Anglo-American legal tradition that there is no legal duty to help people with whom one does not have specific close ties: "In most jurisdictions in the United States, if you fail to assist or obtain assistance for a stranger when you could do so easily and without significant risk to yourself, your conduct does not constitute even a minor criminal offense. If the imperiled person dies and the death could have been prevented by a shouted warning, a phone call, or a tossed life preserver, and you failed to act out of callous indifference, or even malice, toward the victim, these facts are not sufficient to charge you with negligent homicide or any lesser offense, provided that the victim was a legal stranger, someone to whom you were not linked by any legal duty" (McIntyre, p. 157). The court in the Beardsley case remarked that if the weekend paramour had been Beardsley's wife the charges could have been

sustained. In the U.S. there is a legal obligation to pay child support, but no obligation to pay panhandlers.

Notice the analogy to the super-Hippocratic constraints: these constraints establish a class to whom the government has specific obligations of beneficence; it is nice to help those outside this class but not obligatory. This is the same thing that the Anglo-American bad-samaritan legal tradition does on the individual level. Understanding the tradition then may give us some insight into the super-Hippocratic constraints.

Consider a society where individuals randomly encounter opportunities to help one another. At each encounter, there is a cost to helping for the person who has the opportunity to help, and a benefit from being helped for the person who might be helped. Both cost and benefit are random and very imperfectly verifiable. I am thinking here of each helping decision as binary (yes or no). Following Landes and Posner [1978], we can easily derive the efficient rule, provided that the act of helping itself is both observable and verifiable: if on average the costs of helping are less than the benefits of being helped in those instances where help would not be offered voluntarily, the rule should require helping always; if not no legal obligation should be enforced. Whenever a special set of encounters can be identified where average benefits are likely to be high relative to average costs -- for example, instances of mortal danger in which a close family member would not voluntarily help -- helping should be required in that set, even if it is not required generally. This is one reason for specific obligations of beneficence.

Suppose, though, that instances of helping are not observable or verifiable. This is especially likely when lives are not at stake and when various different amounts of help are possible. Then even if the fruits of helping are observable, no one could tell who was abiding by a general obligation of beneficence and who was not; this is because individual acts of

beneficence would disappear in a sea of need. No one who wanted a reputation for generosity could acquire one (people might want such a reputation either to make others more willing to deal with them or just to feel good).

On the other hand, if each individual had an obligation only to a small number of others -- people whom the individual was especially likely to encounter -- then outsiders could judge, albeit imperfectly, how well the individual was fulfilling his or her obligations by seeing how well those to whom she or he had an obligation were doing. A general obligation to do good is meaningless, but a specific obligation to do good -- say, to family members -- can be monitored and can be used to build a reputation for generosity. The demeanor of panhandlers on the New York City subways tells no one how much I give to them, but if my wife and children are starving and dressed in rags while I am cruising around in a Maserati, people can easily draw inferences about my generosity.

Thus helping that cannot be observed directly is another reason for specific rather than general obligations of beneficence.

Next consider nonprofit corporations -- an organizational form that many people use for charitable purposes. (I am thinking here of eleemosynary nonprofits, not the Metropolitan Opera or the Chamber of Commerce). These corporations rely on their reputation for beneficence: donors will contribute only if they believe their donations will be used to help people in need, not to pad executives' expense accounts. Hansmann's [1980] famous paper describes the nondistribution constraint as a way to build this reputation, but nondistribution alone is not sufficient (as the recent United Way scandals attest). Donors want independent confirmation that the corporation is actually helping people (at least on average, if not at the margin).

In building reputations for beneficence, nonprofit corporations face the same problems

that individuals do. General beneficence is hard to identify; specific is not. An organization that claims to help the people of New York City can never have its claim tested; an organization that claims to help only the children in its orphanage can easily demonstrate that that is what it is doing -- no matter how many orphans are languishing in the streets outside.

Concomitant with the informational advantage of specific over general beneficence is an informational advantage for concentrating large assistance on a small number of people rather than spreading small assistance over a large number of people. Small numbers are easy for donors and potential donors to observe, for one thing, but the major advantage is in detecting any effect from the receipt of assistance. If I give a panhandler a quarter, I may be helping enormously per penny, but the donation will cause only the most minor perturbation in the flow of the panhandler's life. A year, or even 20 minutes later, there will be almost nothing to show, and if I bring you by to try to convince you to reimburse me for my donation, the panhandler is unlikely to remember me. If I gave a quarter each to 10,000 panhandlers none of them would remember. But if I gave $2500 to one, I would surely be remembered, and might even change his life in a way that would be discernible a year later.

Not all charitable nonprofits work on these principles, to be sure, but the exceptions are organizations that do not need the informational advantage of specificity and concentration. A church can run a soup kitchen because the main donors can watch their donation being eaten. But St. John's Church in downtown Newark cannot solicit nationwide for donations to its soup kitchen; nor has a national chain of soup kitchen emerged. Catholic Worker houses can help anyone who comes to the door with anything that is available because they have no hierarchy and no organization; most donors believe they are saints anyway. And missions whose goal is to save the souls of either donors or recipients or both do not need to develop a reputation for

beneficence.

The extension to governments is obvious. No one thinks of the federal government as a local soup kitchen, the Catholic Worker, or the Pacific Garden Mission. Thus donors -- taxpayers and voters -- will support its charitable efforts only if it maintains a reputation for beneficence. Convincing "donors" that it is not wasting money on bureaucrats' salaries and political payoffs is not easy, and so the government must use all the informational tricks in the nonprofits' bag. Put crudely, general beneficence provides no photo opportunities, and no photo opportunities means no program.

Each of the super-Hippocratic constraints can be derived from these considerations. The child-care constraint is easier to see; it is basically an application of the concentration principle. The higher the quality of child care the government provides, the more obvious it is that the government is actually doing something that reaches its intended beneficiaries, and the less likely it is that the money is being siphoned off in some nefarious way. If the government were to be involved in the provision of low quality housing or child care, the door would always be open to hints of scandal -- "look at how terrible that stuff is; somebody must be in cahoots with the owner." Sheppard [1976] is a case in point: the New York Times ran a front-page "exposé" of the horrible conditions in the Bowery lodginghouses where the city was sheltering homeless men; although the lodginghouses were paid only $2.62 a night (1982 - 84 dollars), the story was rife with innuendo about corruption.

Why doesn't the concentration principle imply that an infinitesimally small measure of consumers should get infinitely high quality services? Because donors sympathize with, or are concerned about negative externalities from, only those recipients whose level of consumption is

"too low." So the level at which the government provides services is the highest level consistent with this ongoing concern.

The affordability constraint is more difficult to justify. One possibility is that the government believes consumers have Leontief utility functions; in this case the affordability constraint is the same as a voluntary participation constraint. I doubt that this is the correct reason.

A more likely possibility is that the government wants to guarantee that most participants strongly support the program, but wants to do so without exciting the envy of those whom it does not want in the program -- households consuming at the poverty threshold or higher in the absence of assistance. The government wants strong support (that is, it wants participants to get rent) because donors also judge the success of a program on the expressed happiness of participants. A program that participants clamor to enter and tell everyone is wonderful is less likely to be wasting taxpayer money than one that participants are indifferent about. Participant rent indicates government generosity; participant indifference indicates niggardliness.

If the government is unsure of what participants' utility functions are, and knows only that they are monotonic, the affordability constraint is the cheapest way to guarantee strong support generically (that is, $(\bar{c}, x^*)$ is the cheapest market basket that includes $\bar{c}$ and is strictly better than (c^*, x^*) for all monotonic utility functions with positive elasticity of substitution).

V. Conclusion

Programs with the three core characteristics are not impossible to justify. They follow rather immediately from the two super-Hippocratic constraints, and these constraints arise from the difficulties of administering charitable activities. They are closely skin to the notions of limited benevolence that are found in common sense morality.

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