HAROLD M. HOCHMAN: AN APPRECIATION

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Harold M. Hochman ("Hal") is his universally-used nickname) served as the editor of this Journal for most of the past decade. This tribute is written to express our appreciation for Hal’s excellent leadership of the Journal and for his scholarship. One of us (Pressman) is particularly familiar with Hal’s editorial leadership and general research program, while the other (Rodgers) was his coauthor on much of his research on income redistribution and interdependent preferences. We each provide our perspectives on Hal and in so doing provide coverage of his accomplishments in a way that neither of us could do alone. After providing a brief biographical sketch of Hal’s career, Rodgers describes Hal as a teacher and scholar, and describes their joint work on utility interdependence and income redistribution. Pressman describes Hal’s work as Eastern Economic Journal editor, and then summarizes Hal’s other scholarly research.

BIOPGRAPHICAL SKETCH

Hal was born in New Haven, Connecticut in 1936. He was educated at Yale University, receiving a B.A. in 1957, an M.A. in 1959, and a Ph.D. in Economics in 1965. After completing his doctorate, Hal took a position at the University of Virginia as Assistant Professor of Economics. He remained at Virginia for four years and then became a Senior Research Associate at the Urban Institute. In 1973 Hal took a position in the Department of Economics and Public Administration at Baruch College, CUNY. In 1981, he also became Director of the Center for the Study of Business and Government at Baruch. Since 1992, Hal has been the Herbert Simon Professor of Political Economics at Lafayette College in Easton, PA.

Over the course of his academic career Hal has published several dozen articles, many in top journals such as the American Economic Review and the Quarterly Journal of Economics. He has also edited or co-edited seven books. In addition to his serving as editor of the Eastern Economic Journal from 1991 to 1998, Hal has served on the Editorial Boards of the National Tax Journal and the Public Finance Quarterly for many years. A complete bibliography of his published work appears at the end of this article.

EDITORIAL POLICY STATEMENT

The Eastern Economic Journal is committed to free and open intellectual inquiry from diverse philosophical perspectives in all areas of theoretical and applied research related to economics.

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HAL AS TEACHER AND CO-AUTHOR (by James Rodgers)

I came to the University of Virginia as a beginning graduate student in economics in the Fall of 1966. Hal had been hired as assistant professor of economics the previous year. In the 1960s, the economics department at Virginia was the faculty home of a host of superb scholars, including James Buchanan and Gordon Tullock. The intellectual environment was vital, with many challenges to customary ways of thinking and a battle against, to use Buchanan's words, "being trapped by the orthodoxy.”

In the spring of 1967 I had my first class with Hal as my professor—the first-year graduate course in macroeconomics. Hal had a reading list of the classics in macroeconomic literature at the time, which I later learned reflected his own graduate school training at Yale and exposure to James Tobin and a lesser-known but brilliant scholar named Edward Budd, for whom Hal worked as a graduate research assistant and who, as fate would have it, was later to be instrumental in my being hired at Penn State in 1969.

In the Fall of 1967, I took my first graduate public finance course with Hal. Given Virginia's pre-eminence in public finance, it was a signal of the respect the faculty had for Hal that he was assigned to teach this course. As in the graduate course in macroeconomics, the reading list was again lengthy, and the core text was Richard Musgrave's classic text, The Theory of Public Finance (New York: McGraw-Hill, 1959). Hal liked lots of class discussion and this class had a number of good students, including Bob Tollison and Richard Higgins.

One day, fairly early in the semester, Hal was covering Musgrave's conceptual division of the function of government into three branches: the allocation branch, the distribution branch and the stabilization branch. Musgrave had an efficiency rationale for the activities of the allocation branch, the duties of which included fighting monopoly via anti-trust actions, correcting externalities via Pigovian taxes and subsidies, and providing for the financing of public goods through compulsory taxation. Musgrave seemed also to have what was at bottom an efficiency rationale for the actions of the distribution branch (controlling inflation, accelerating unemployment and promoting economic growth) because the policy actions can be interpreted as pushing the economy closer to its conceptual "production possibility boundary." However, when it came to the distribution branch, assigned the task of promoting a just distribution of income, the rationale was not efficiency but rather equity and fairness. There was apparently no place for efficiency in choosing or evaluating the distribution of income. My yellowed class notes chronicled Hal wondering why it would not be possible to have an efficiency rationale for Musgrave's distribution branch. Given Virginia's strong public goods orientation, as well as the emphasis on methodological individualism, it was very fertile ground for sprouting new ideas about public finance. It was natural in that intellectual climate to argue that some income redistribution, such as the voluntary transfers occurring via private charity, must necessarily benefit not only the recipients but also the givers. This thought was mixed with the theory of public goods by noting that one of the effects of giving to benefit the poor (that is, making the recipients better off) would be a public good to all potential donors who enjoyed seeing the lot of recipients improved. With charitable giving being a public good, and with a large number of donors, the free rider problem would cause voluntary action to supply too little income redistribution, yielding an "allocation branch"/efficiency-type rationale for a least some of the distributional adjustments promoted by Musgrave's distribution branch.

Thus was born the class discussion, that day, the idea that would eventually lead to the paper "Pareto Optimal Redistribution" (1969). Hal wondered if any student would like to work on a paper developing this idea. Since the discussion had stimulated me greatly, I went to see Hal at the end of the class and volunteered. This paper was written over the fall and spring of 1967-68 and submitted in the summer of 1968. I will never forget reading the letter from George Borts, then editor of the American Economic Review (AER), with the words "we think your paper is good for the AER..." followed by a discussion of matters the referee wanted handled in the final version. Needless to say, the arrival of this letter prompted profuse celebration.

At the time of its publication, most economists regarded Pareto optimal redistribution as an outright contradiction in terms. The prevailing view was that redistribution of income is a zero-sum game where those losing income were also losers of utility. This paper argued that redistribution is not a zero-sum game, as that would carry the unappealing implications that government redistribution to the poor is legalized Robin Hood activity brought about through the political power of indigent recipients, and voluntary redistribution via private institutions is irrational. An alternative interpretation of redistribution is that it is a reflection of the interdependent preferences of the persons who finance it. The paper describes such preferences and examines the pattern of income transfers such preferences would imply. It then examines the actual redistribution occurring through the fiscal structure and assesses whether such an overall pattern of transfers could be explained as a manifestation of such preferences.

Our joint work on "Pareto Optimal Redistribution" was the beginning of a 10-year research collaboration and a lifelong friendship. This collaboration resulted in seven additional co-authored publications. Some of these were further elaboration and extension of the "Pareto Optimal Redistribution" idea, and all related either to the question of the normative justification for redistributive transfer programs, or explaining observed redistribution.

Three publications (Hochman and Rodgers, 1970b; 1973; 1974) deal with comments on our 1969 paper. Some interpreted our paper as suggesting that all redistribution was Pareto optimal; some interpreted it as saying that the problem of finding a "just" distribution of income could be solved by reference only to the Pareto criterion; others did not like our specific analytical approach that focused on income differentials and "transfer elasticities." While an alternative analytical approach that did not focus on income differentials and transfer elasticities might have been better, the other criticisms were off the mark. We did not hold that all redistribution was Pareto optimal or that only Pareto optimal redistribution was socially desirable. Our main points were that utility interdependence existed, that this led to income redistribution, and that the market might fail to supply enough such redistribution. We worried what a fiscal structure that accommodated such redistribution would look like, and we called for more research on utility interdependence and public and pri-
vate choice patterns and processes resulting in income redistribution toward those with lower incomes.

In "Utility Interdependence and Income Transfers Through Charity" [1978], we try to ascertain whether private gifts and contributions are explained by some variables that would be expected to be important if charitable contributions are a reflection of the existence of interdependent preferences. Average charitable contributions are postulated, from a model of interdependent preferences, to vary directly with per capita income and the dispersion of the community's income distribution, and inversely with the population of the community (a proxy for the size of the relevant political community). The latter predication is based on the belief that the larger the group of relevant demanders of the goods and services financed by charitable contributions, the greater the possibility for free-rider behavior. Regression analysis found that per capita income and the dispersion of income were both statistically significant explanatory variables, whereas population and regional dummy variables were insignificant. We then discuss some of the premises and pitfalls to the measurement of "benevolence."

In "The Simple Politics of Distributional Preference" [1977], we attempt to explain the redistribution to the poor that is observed via public welfare programs. The theme of the paper is that the political support for redistribution extends beyond the direct recipients. We examine potential sources of non-recipient support for redistribution. We also examine direct and indirect democracy models to determine how much non-recipient support is necessary for the enactment of redistributive programs. We then use public opinion polls to determine the actual sources and magnitude of non-recipient support for redistribution. Finally, we examine whether this support is sufficient for the enactment of U.S. welfare programs when considered in the context of the democracy models presented. Our most significant conceptual finding is that widespread universal benevolence need not be postulated for its impact on distributional outcomes to be substantial. Within the limitations of the interpretation of opinion polls, we find considerable evidence for the existence of benevolence and a significant impact of benevolence on political outcomes.

In "The Optimal Tax Treatment of Charitable Contributions" [1977], we use the theory of public goods to develop an efficiency rationale for subsidies to charity via the tax system and discuss the appropriate structure of such subsidies. One of the purposes of the paper was to bring out the implications of the theory of public goods on the issue of whether and how charitable contributions should be subsidized. The rationale for any subsidy must be based on the existence of external benefits from activities financed with charitable contributions. The analytical analysis of the paper produces the conclusion that "the Lindahl condition requires a flat-rate subsidy, such as a tax credit, under which tax liabilities are reduced in a specified proportion of eligible contributions." In addition to a recommendation that a tax credit replace tax deductibility, we also recommended that the credit be made available to everyone, rather than having a subsidy available only for those who itemize deductions. And we found no reason for setting a quantitative limit on the amount of giving to which a credit would apply.

Hal and I have similar senses of humor, and we never took the work too seriously to have some fun. Using the comic strip character names "Mutt" and "Jeff" for the names of the two hypothetical individuals in "Pareto-Optimal Redistribution" is but one example. The bird in "Brennan and Walsh Reconsidered: Mutt and Jeff Ride Again," which flew in over-decreasing concentric circles until it disappeared [1978, footnote 7] is another. Resolving our sometimes spirited disagreements improved the quality and clarity of the finished product. Hal is inventive, irreverent, acerbic and a gentleman all at the same time. He is always on guard to make sure substance triumphs over technique: "...we feel that the proponents of economics to fuse with the pretenses of technique (like dowager aunts, more concerned with the etiquette of table settings that the quality of the fare) should not be permitted to redirect the discussion of Pareto-optimal transfers...from its philosophical and sociological frontiers, where it may offer hope of real progress, to its algebraic frontier..." [ibid., 359-60] Finally, Hal is not a "true believer" in any particular approach or position; rather, he is open to being influenced by evidence. All of these qualities made being taught by him and conducting research with him a rich and memorable experience.

HAL AS EDITOR OF THE EASTERN ECONOMIC JOURNAL (by Steven Pressman)

Hal became Editor of the Eastern Economic Journal in 1991 after a long and arduous search effort. He took over from Ingrid Rima, who had been Editor of the Journal since 1979. With all changes in journal editors, there come new ideas and new ways of doing things. Hal was no exception to this rule. One of the first things Hal did was to upgrade the cover of the Journal from its original bland mustard and brown color to a glossy black and white design that somewhat resembles a hardcover notebook. Hal was also able to streamline the operation of the Journal and cut the costs of publication. Part of this was due to Hal's efficiency; another part of this was due to his desire to be at the forefront of new technologies in journal publishing. The EJ is probably one of the first journals to publish by sending camera-ready copy to the printer.

Another thing that Hal did was to get Donald McCloskey (now Deirdre McCloskey and Vice President of the Eastern Economic Association) to write a regular feature in the Journal. This column, titled "Other Things Equal," has given McCloskey an outlet to reflect on the economics profession, the education of economists, professional behavior and attitudes, and other topics of general interest. It is typically the first thing people read when they open the pages of the EJ. It arrives. It was in this column that Donald McCloskey broke the news to the economics profession that he was going to become Deirdre McCloskey. Publishing this piece was something that Hal agonized about, but eventually he made the hard decision to publish McCloskey's column and take whatever criticism or mockery came his way. Many times Hal remarked (with both disdain and humor) that publishing this piece is probably what he is going to be most remembered for as Editor of the EJ.
Hal also has been responsible for several substantive changes in the Journal. These changes reflected Hal's view of economics and how it should be done. Great emphasis was placed on making sure that the articles published in the Journal were clearly written and accessible to a large audience. Hal always stressed that articles must try to say something new, rather than merely change some assumption and derive the same old results. As a result, fewer articles were published, and less emphasis was placed on research, that made minor changes to economic models and derived the same or similar results as someone else had done previously. More articles appeared that tried to make unique and new points, and more articles were published that tried to increase our understanding of the real economic world. This made the EEA a more interesting journal, as well as a journal that could be read by general economists.

While there were differences, there were also important continuities. Hal maintained the Journal as an open forum, a place where economists of any methodological or ideological perspective would be given a hearing and could publish—as stated in the Journal's Policy Statement, which appears at the bottom of the page. Contents page in every issue of the EEA. The Journal also maintained its interest in publishing articles that were empirical and had some policy relevance, and also in publishing articles that involved teaching economics to college students, which is what most professional economists do. Especially noteworthy in this regard are the symposium on Say's Law (Spring 1997), and the symposium on aggregate supply and aggregate demand (Fall 1997), which followed two stimulating articles on this topic by Robert Barro (Winter 1994) and Ingo Barro (Winter 1997). The Journal also maintained its interest in publishing methodological pieces and articles on the history of economic thought, two areas that very few journals care about at all. Rather than another article stressing the important contributions of some Nobel Laureate or other major figure, Hal stressed the "neglected prophets" who made many contributions but who have not received the acclaim that they deserved. Two standout pieces of this sort were the article on Leland Yeager by William Breit, Kenneth G. Elzinga and Thomas D. Willett (Spring 1996) and the article on Paul Davidson by Richard P.F. Holt, J. Barkley Rosser, Jr. and L. Randall Wray (Fall 1998). Finally, David J. Smyth's piece in the Fall of 1994, "How to Get Your Article Published", explained in a humorous and tongue-in-cheek fashion all the things young authors do wrong when trying to get published.

Hal understood that the job of journal editor makes one universally disliked. Authors dislike editors because they always think that their papers are perfect, and don't like being told that they have been rejected or that they have to revise their paper. Hal's demand that papers be well written certainly compounded this problem for him. Colleagues and friends dislike editors because editors always send them papers to referee, and editors frequently twist their arms to send them a paper for the Journal. Hal was doubly burdened by financial difficulties of the EEA, which meant that he had to continually run the journal more efficiently and with fewer resources to assist him. But Hal bore his burdens with good humor—at least most of the time. And when financial concerns were no longer pressing, with a great deal of joy as well as humor.

Risk, Redistribution, and Public Choice

Risk and distributional choice is an issue that lies at the foundations of economics and philosophy. One of the seminal works in this area is John Rawls' A Theory of Justice (Cambridge: Harvard University Press, 1971). Rawls, as is fairly well known, argued that when placed behind a veil of ignorance and asked to decide about distributive issues, most people will be quite risk averse. Therefore, they will prefer more equal distributions of income. Rawls took this to justify income redistributions from the well off to the not so well off.

The work of Hochman has argued that Rawls may have gone too far in claiming that people are risk averse in terms of income distribution. One piece of empirical evidence that he provides for this claim [Hochman, 1983] is the tendency for people to gamble and their preference for gambling. Second, Hochman [1994] has argued that the Rawlsian world is like a Cuisinart—everyone gets blended together and is exactly the same. In the real world, though, people are different. They have different ethical views about what a fair distribution looks like, different preferences about desirable degrees of inequality, and people will have different abilities to convert money income into utility. Under these circumstances, Rawls' argument for redistribution fails. Finally, Hochman has argued that Rawls ignored the economic fact that redistribution may affect production or the total economic pie available, thereby ignoring what Arthur Okun called "the big tradeoff." Here, equal distributions, achieved by government redistribution, may result in less output and therefore less for everyone, a situation that not everyone will agree to behind the "veil of ignorance".

When the government does redistribute income or wealth, there are always going to be losers. The losers can clearly be identified when redistribution is done directly. But losers also exist when government rules and regulations are changed. A typical example used in the literature is the taxicab medallion in New York City. Because the city limited the number of medallions, and has not increased the number since 1987 despite a rising population and demand, the economic value of a medallion is currently several hundred thousand dollars. But this system is inefficient in a number of ways. One important problem is that it is hard to get a taxicab in New York, especially at certain times and places. On rainy days and during rush hours you might as well not even waste your time. Any attempt to deal with this problem will have to

OTHER RESEARCH CONTRIBUTIONS OF HAROLD HOCHMAN (by Steven Pressman)

Hal's contributions to economics fall under four main headings. First, in a series of papers with James Rodgers, discussed above, he traced out the relationship between utility interdependence and redistribution. Second, he developed the empirical underpinnings of redistribution through public choice by looking at attitudes towards risk and distributional choices. Third, Hal has written about the "urban crisis" plaguing large cities such as New York. Finally, Hal has developed models of addictive behavior. This section examines the last three areas of Hal's scholarship.
increase the number of medallions and lower their value. Similar results are true whenever the government changes any rules, regulations or laws. Individuals, riders, employees, shareholders and business owners are all affected.

Hochman argued that compensation is ethically required in most situations like this. He wrote: "Current taxicab operators invested in existing franchises at the market price and did so with reason to believe that the licensing rules under which these franchises had been capitalized were permanent and legitimate"[1974]. This is not a universally held view. For example, making a case on purely economic grounds, Tullock has argued that compensation would not be efficient because the costs of compensation will outweigh the benefits. And Joseph Cordes and Robert Goldfarb "Alternate Rationales for Severance Compensation Under Airline Deregulation," Public Choice, 1983:31 have argued that compensation is not required on moral grounds because well-informed individuals should recognize that rules are likely to change in the future and so people make bets about future rules when the buy a taxicab medallion, invest, or decide to work in some particular job or industry. Unlike Cordes and Goldfarb, who view people as rational and knowledgeable, Hochman sees individuals as human beings who make decisions based on current institutional rules with a reasonable expectation that the rules of the game will remain the rules of the game. Fairness thus requires compensation.

Urban Economics and the Problems of Cities

Over the years, Hal published several papers on urban economics. More specifically, these papers dealt with the problems facing big cities. In 1971 he focused on the reasons for the "urban crisis" of the time. He tied the dissatisfaction experienced by the urban poor regarding government to special-interest politics (Hochman and Bateman, 1971). Both in cities and states a kind of "tragedy of the commons" led politicians and special interest lobbies to grab benefits for themselves and neglect the public good. Those without power and without access to power—primarily those with low incomes—were left out and suffered as a result.

A decade later, Hal carried out a detailed study of the results of special-interest politics in New York—the "over-regulated city" using Hall's terminology [Hochman, 1981]. He and his students examined the many categories of regulation, permits and licenses, restrictions on building, and price controls. Most of these regulations were difficult to rationalize in terms of externalities or natural monopoly. It seemed that physical proximity led people to act like busybodies, imposing many rules without clear rationales, until it was very difficult to carry out many business activities.

As Hal prepared to leave New York City for the greener pastures of Lafayette College, he returned once more to analyzing New York [Hochman, 1992]. He focused on the diseconomies of density, which impose many intangible lifestyle burdens on urbanites—the loss of civility, the fear of crime, as well as the cost of housing and the extreme tax burden. To explain this he returned to his earlier work, describing politics in New York as a perpetual and vicious struggle among many small groups. Again, no one had incentives to look out for the public good, and again the poor and powerless generally did worst of all.

Harold M. Hochman: An Appreciation

Addictive Behavior

In several papers, Hochman discusses the economics of addictive behavior. Most economic analysis follows Becker and Murphy ("A Theory of Rational Addiction," Journal of Political Economy, 1988) and treats addictive behavior as the result of rational calculation on the part of economic actors. Yet, such behavior does raise questions about rationality for a number of reasons. First, the addictive behavior does not seem rational; rather these appear to be cases of people losing personal control or losing their rational abilities. Second, the behavior does not seem to respond to economic incentives. No matter how severe the penalties for addictive behaviors, there are people who continue to engage in these activities and cannot control themselves. Finally, much psychological and sociological literature describes addictive personalities as being different from others in a systematic way. It is this real world behavior that Hochman has attempted to explain and understand.

Barthold and Hochman (1987) discuss addictive behavior in the context of the sociological and psychological literature on the subject. They note that to be consistent with social science knowledge about human behavior, a model is required that divides people into two different groups or categories. There are the normal rational economic maximizers who are led by their preferences and who continually adjust their behavior based on economic incentives and their environments. On the other hand there are what Barthold and Hochman call "extreme-seekers," whose behavior contradicts the assumptions of traditional demand theory. These are the addicts of one sort or another who lose control of their behavior. They are the compulsive gamblers, drug addicts, overeaters, smokers who cannot quit, and alcoholics. Normal maximizers have normally-shaped, convex-to-the-origin indifference curves. Extreme-seekers, on the other hand, have indifference curves that are concave to the origin and thus result in corner solutions (given individual budget constraints; all income tends to get spent on the one good to which the individual is addicted).

Averett and Hochman (1994) attempt to test the model using the National Longitudinal Survey of Youth (NLSY). They first use this dataset to identify extreme-seekers, and define extreme-seekers as those who have consumed more than 10 (or, alternatively, more than 12) drinks on a particular day. They then attempt to predict the drinking behavior of average drinkers and extreme-seekers. They find that the behavior of extreme-seekers is harder to explain or predict from other socio-demographic and economic variables, thus giving credence to the view that these people are different. From this empirical analysis the authors conclude that some people are more at risk of addictive behaviors that become self-destructive. One policy implication of this work is that economic incentives won't affect extreme behavior. The solution must be to instill self-control through education and through the substitution of less harmful addictive behavior. Paternalism is not entirely out of place in these circumstances.

Concluding Remarks

We hope that this survey and description of Hal's rich and varied contributions to scholarship and to the Eastern Economic Journal conveys to the reader an appreciation for the range of issues that Hal has tackled and the stimulation and advances his endeavors have produced.
PUBLICATIONS OF HAROLD M. HOCHMAN


1970. (with C. Tait Ratcliffe) A Dilemma of Military Assistance Planning: Grant Aid or Credit Sales. Journal of Developing Areas, July, 461-76.


IN DEFENSE OF IGNORANCE:
ON THE SIGNIFICANCE OF A NEGLECTED FORM
OF INCOMPLETE INFORMATION

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INTRODUCTION

The purpose of this paper is to compare and contrast two substantially different kinds of incomplete information. Both kinds of incomplete information imply that the world can potentially be better understood as additional information becomes available. Both allow the possibility that individuals may invest in new information and that behavior may be changed in light of the information acquired. Both imply that individuals can make mistakes. However, the two have significant differences. Incomplete information of the sort most widely studied by economists affects the precision of estimates over well-understood possibilities. Here, incomplete information is a consequence of unrestricted, but finite samples of the entire range of possibilities, as in Stigler’s [1961] original model of the economics of search. Incomplete information of the sort discussed in this paper, termed ignorance, is a consequence of samples that are restricted to a subset of the potentially available data.

Individual efforts to collect and process data, for many reasons, may be restricted to a subset of the potentially available data. For example, it is generally far less costly to sample or experiment locally than globally. As a consequence, even experienced individuals tend to know more about their own national cuisine than all others, and to have a broader knowledge of their “native” tongue than of other potentially more useful or richer languages. Moreover, and partly for similar reasons, it is often the case that individuals are simply unaware of potential data that might be acquired or the cost of acquiring it. We are all born into the world in an extremely ignorant state, that is, to say without a clear sense of the broad range of possibilities that we might poentially exploit.

In a statistical or mathematical sense, the data restrictions that generate ignorance involve restrictions on the domain of the information collected or analyzed. Such data limitations affect the precision of estimates in a manner analogous to that generated by finite but unrestricted samples, but also affect the assignment of probabilities to possibilities in a manner distinct from sample size.

The latter is an important distinction between the ignorance and finite sampling conceptions of incomplete information. Ignorance of relevant possibilities affects the domain over which an individual’s subjective probability function can be defined. In